Company Registration No. SC367563

SMART METERING SYSTEMS LIMITED
(FORMERLY SMART METERING SYSTEMS PLC)

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2023

Corporate Information

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Secretary	C McGinn
Company number	SC367563
Registered office	Second Floor 48 St Vincent Street Glasgow G2 5TS
Auditors	Ernst & Young LLP G1 Building 5 George Square Glasgow G2 1DY

Strategic Report

The Directors present their Strategic Report on the affairs of Smart Metering Systems Limited (the 'parent company') and its subsidiaries (the 'Group' or 'SMS') for the year ended 31 December 2023.

Business developments

On 7 December 2023, the boards of directors of SMS and Sienna Bidco Limited ("Bidco"), a newly formed company wholly-owned by funds advised by Kohlberg Kravis Roberts & Co. L.P. and its affiliates ('KKR'), announced that they had reached agreement on the terms and conditions of a recommended cash acquisition by Bidco of the entire issued and to be issued share capital of SMS (the 'Acquisition'). To become effective, the Acquisition was required to be approved by a majority number of SMS shareholders representing at least 75% of the SMS shares held. The shareholder vote was initially scheduled for the general meeting in January 2024.

On 18 January 2024, prior to the shareholder vote, Bidco announced that it had determined, with the consent of SMS and the Takeover Panel, to implement the Acquisition by way of a recommended takeover offer (as defined in section 974 of the Companies Act 2006) offering SMS shareholders 955 pence in cash for each SMS share.

The offer became unconditional on 22 March 2024 when Bidco announced that they had acquired SMS shares carrying not less than 75% of the voting rights. As a result, SMS de-listed from the London Stock Exchange through cancellation of the SMS shares traded on AIM. It re-registered as a private limited company on 11 June 2024.

The Acquisition valued the entire issued and to be issued ordinary share capital of SMS at approximately £1.3bn on a fully diluted basis, implying an enterprise value of £1.4bn, at an EV / EBITDA multiple of 20.0x (calculated based on the last 12 months pre-exceptional EBITDA of £71m as of June 2023 financials). The offer price represented a significant premium to the share price of SMS prior to the transaction and allowed shareholders to realise immediate and attractive value for their shareholding.

The energy transition is driving substantial changes in underlying energy markets and there is a clear opportunity for SMS to invest at scale behind the low carbon revolution and further develop its platform and carbon reduction asset base. This strategy, however, is highly capital-intensive and the Group's financial structure as a public listed company placed limitations on its ability to invest at the level required to execute successfully and make the most of the growth opportunity. Private ownership can better facilitate this by enabling significantly greater access to long-term flexible capital, accelerating growth whilst avoiding the need for asset recycling to fund growth initiatives. KKR will also provide SMS and its management team with operational expertise and access to its full global platform and value creation resources.

As the Acquisition completed on 22 March 2024, there were no impacts on underlying business activities during the year ended 31 December 2023. The Acquisition has been disclosed as a post balance sheet event within the Group's consolidated financial statements, see pages 112 to 113 for further details. Business developments within the Group's divisions are detailed within the Operational performance section on pages 3 to 4 of this Strategic Report. Key performance indicators, both operational and financial have been amended from previous reporting periods to align with the interests of the Group's stakeholders as a result of the Acquisition.

Operational performance

i) Asset management

The Group's asset management division is focussed on growing the long-term, index linked, recurring revenues from smart meters and data assets.

Strategic Report (continued)

Operational performance (continued)

i) Asset management (continued)

In 2023, the Group delivered 17% growth in index-linked annualised recurring revenue (ILARR) from £97.1m in 2022 to £113.4m in 2023 through the Group's portfolio of owned smart meter assets of c.2.5 million and other managed assets. Ofgem's smart meter roll-out programme continues to progress and now aims to have at least 75% of all home meters exchanged to smart by the end of 2025.

ii) Asset installation

The asset installation division is focused on delivery of SMS's carbon reduction ('CaRe') asset pipeline, excellence in health and safety, customer service and operational efficiency.

Smart meter installations of c.450,000 were completed in the year (2022: c.480,000). Despite the decrease in number of smart meters installed, the Group's engineering capability delivered higher volumes of activity compared to the prior year, 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.

iii) *Energy management*

The energy management division is focused on the origination, operation and optimisation of commercial-scale CaRe products enabling a low-carbon, more flexible smart energy grid and reducing energy consumption and costs for end customers.

In 2023, the Group increased its operational portfolio of grid-scale battery storage assets by 100MW through the addition of two 50MW sites, Newtonwood and Brentwood, taking the Group's total operational portfolio to 240MW (2022: 140MW). 2023 was a transitional year in the short-term day ahead and intra-day markets as Europe started to exit the Ukraine instigated energy shock of 2022. The impacting factors resulted in a reduction in the value of gas on the day ahead and intra-day markets, which in turn made balancing actions from gas turbines drop in value and created volatility in battery revenues. The effects of a volatile market were felt throughout the year. Despite the volatile market conditions, the Group's operational portfolio generated an annualised equivalent EBITDA of c.£46,000/MW (2022: c.£123,000/MW) which is broadly in line with the wider market.

In the energy services space, the Group has continued to assist in delivery of critical national infrastructure projects, completing the installation of smart heating controls in over 400 hotels across the country and delivering heat decarbonisation services through the installation of air source heat pumps as part of a trial arrangement for customers in the hospitality industry.

The Group has also made significant progress in the development of new CaRe offerings in the year. Within behind-the-meter smart energy and storage, the Group acquired the domestic services division of Evergreen Energy - focused on heat pumps, solar panels and battery storage installation - and participated in a UK Government funded heat pump trial in partnership with Samsung.

Financial performance

i) Revenue

Overall Group revenue increased 24% on the prior year. The growth in asset management revenue reflects the flow-through effect of meters installed by the end of 2022, new assets installed in the year and the annual RPI uplift which took effect on 1 April 2023. Asset installation revenues increased as a result of a higher volume of transactional meter works, including emergency callout services. Energy management revenue includes £9.1m of revenue from the

Strategic Report (continued)
Financial performance (continued)

i) Revenue (continued)
Group's grid-scale battery sites (2022: £7.2m). Excluding grid-scale battery revenue, energy management revenue was £7.6m (2022: £5.0m), up 52% on the prior year as a result of sustained momentum on a key customer project in the hospitality sector.

ii) Gross margin

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

Depreciation-adjusted gross margin for the asset management segment is 93% excluding exceptional revenue and 94% including exceptional revenue, which is largely in line with prior year (2022: 92% including and excluding exceptional revenue).

The asset installation segment gross margin was 26% (2022: 23%). There has been a favourable weighting of transactional activity towards higher-margin jobs in the year, including out-of-hours emergency work. In addition, the 2022 margin was depressed by additional one-off costs incurred in the sizeable upscaling of the Group's engineering workforce in H1 2022, so a year-over-year margin recovery was expected. Investment in the Group's engineering capacity has continued in 2023, whilst ensuring efficient utilisation.

The energy management segment depreciation-adjusted gross margin has decreased to 43% (2022: 57%). This is due to the Group's grid-scale battery sites which generated a 62% depreciation-adjusted gross margin over the year (2022: 80%), underpinned by volatile market conditions and impacted by timings as additional sites ramped up revenue generating activity following completion of construction. The gross margin on the segment's other activities decreased to 19% (2022: 23%) due to the varying mix of project-related work.

Overall, the depreciation-adjusted gross margin at the Group level increased by 1% to 75% (2022 restated: 74%) due to the favourable mix of job types completed in our asset installation division offset by the decrease in margin on our grid-scale battery sites.

iii) Pre-exceptional EBITDA

Pre-exceptional EBITDA provides a measure of underlying performance that is comparable over time. Pre-exceptional EBITDA of £80.3m was 26% higher than in the prior year (2022 restated: £63.8m).

The £23.9m increase in depreciation-adjusted gross profit, excluding exceptional revenue, was partly offset by a £7.4m 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 year in recognition of the sustained inflationary pressures. IT costs have also increased on the prior year, driven by strategic investment in key technologies and platforms to support growth in both our existing and developing CaRe verticals.

iv) Exceptional items

Exceptional items of £6.5m (2022: £6.6m) mainly comprise £3.5m of legal and professional costs in relation to the acquisition of the Company by Bidco and a £7.1m loss on the traditional and first-generation smart meter ('SMETS1') portfolio (2022: £7.7m), offset by £4.1m of termination income received in relation to the traditional and SMETS1 portfolio (2022: £2.0m). In line with the Group's accounting policy, these amounts arising on the Group's traditional and SMETS1 portfolios are shown separately as exceptional items in order to enhance disclosure of underlying continuing profitability.

Strategic Report (continued)

Financial performance (continued)

v) Dividend

A 30.25p per share dividend in respect of FY 2022 was approved at the Group's Annual General Meeting in May 2023, and the fourth and final instalment of this was paid in July 2023.

In line with the Group's policy to grow dividends at 10% per annum until 2024, a 33.275p per share dividend was proposed in respect of FY 2023. This was expected to be settled in four equal quarterly instalments. Two instalments have been paid, in October 2023 and January 2024 respectively. Following completion of the Acquisition in March 2024, no further dividend payments in respect of FY 2023 will be made.

vi) Financial resources

Net debt at 31 December 2023 was £171.9m (31 December 2022: net debt £31.2m). This excludes restricted cash and lease liabilities accounted for under IFRS 16.

At 31 December 2023, the Group had in place a £420m debt facility due to mature in December 2025 and was fully compliant with all its bank covenants throughout the year. The Group had £26.5m available in cash, excluding restricted cash of £0.8m, and £225m in unutilised facilities (31 December 2022: £323m) and therefore, even without the effects of the Acquisition, had good financial flexibility to maximise growth potential in a capital-efficient way. The impact of the Acquisition on the Group's financial resources is detailed further within note 34.

The Group's leverage ratio, calculated as net debt over the 6-month annualised EBITDA as defined within the Group's facility arrangements, was c.2.0 at 31 December 2023. However, this includes c.£46m of net debt relating to 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 was closer to c.1.4.

vii) Going concern

Management prepares budgets and forecasts on a five-year forward-looking basis. These forecasts cover operational cash flows and investment capital expenditure and are prepared based on management's estimation of installation run rates through the UK smart meter rollout. The Directors have performed their assessment of the entity's ability to continue as a going concern, from the date of issue of these financial statements to 31 December 2025.

Management has modelled several different scenarios, including a downside scenario which assumed a reduced rollout of new meter installations, delayed the energisation of grid-scale battery storage sites and reduced grid-scale battery storage yield. The scenario demonstrated that the business is expected to 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.

Following completion of Bidco's takeover of SMS in March 2024, a new financing package for SMS came into effect comprising a £365m Term Facility, a £250m Refinancing Term Facility used to settle the Group's outstanding loan balance with existing lenders, a £450m Capex Facility to finance the Group's metering and battery businesses, and a £75m Revolving Facility to support the Group's working capital requirements and/or general corporate purposes. All facilities have a maturity date of 60 months after the first utilisation date.

Two covenants shall be in place under the new financing arrangements – interest coverage and leverage - tested on a half yearly rolling 12-month historical basis, with levels varying throughout the facility term. Conditions relating to the use of funding are applicable under the Capex Facility including restrictions on the maximum value of funding available for use for certain capex spend.

Management has overlaid the impact of the new financing arrangements, including quantum of borrowings as detailed above, new interest rates and capex restrictions, along with a no dividend assumption, onto its current "business as

Strategic Report (continued)

Financial performance (continued)

vii) Going concern (continued)

usual" base case corporate forecast model. This shows that the new capex restrictions do not slow or hinder the Group's growth, with the current committed meter pipeline and 860MW battery pipeline both being comfortably funded by the new facilities.

The Group balance sheet at 31 December 2023 shows consolidated net assets of £507.8m (31 December 2022: £533.5m), of which £529.6m (31 December 2022 restated: £466.8m) 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.

Based on the Group's current cash flow projections, including assessment of the impact of the new financing arrangements following the Acquisition, and having given consideration to various outcomes of future performance and forecast capital expenditure, including severe but plausible 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.

viii) Definitions of alternative performance measures

Alternative performance measure	*Definition*
Index-linked annualised recurring revenue ("ILARR")	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.
Net cash/debt	Total bank loans less cash and cash equivalents, excluding restricted cash. Excludes lease liabilities recognised under IFRS 16.

Strategic Report (continued)

Financial performance (continued)

ix) Reconciliation to statutory results

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

	Year ended 31 December 2023 £'000	Year ended 31 December 2022 Restated £'000	Percentage change
Index-linked annualised recurring revenue	**113.4**	97.1	17%
Group revenue	**172.7**	139.2	24%
Statutory profit from operations	**29.5**	20.1	47%
Amortisation of intangibles	**5.0**	4.2	19%
Depreciation	**39.3**	32.9	19%
Statutory EBITDA	**73.8**	57.2	29%
Exceptional items[1] (EBITDA-related)	**6.5**	6.6	-2%
Pre-exceptional EBITDA	**80.3**	63.8	26%

[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.

Environmental matters

The Group's positive impact on the wider environment continued to grow in 2023 with the ongoing deployment of smart meters, expansion of battery capacity enabling grid support and stability, and enhancement of green technology capabilities through development in new carbon reduction assets. The Group successfully completed the first of its office sustainability upgrades, mobilised 100 Mild Hybrid Electric Vehicles (MHEV) and enhanced its climate related risks and opportunities process.

As the Company's transferable securities were admitted to trading on the AIM market during the financial year to which this report relates, the Group is required to incorporate TCFD-aligned climate disclosures under The Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022 for the first time in 2023. Mandatory climate-related disclosures under these new regulations are disclosed within the Non-financial and sustainability information statement on pages 11 to 16.

The table below incorporates the Group's mandatory Streamlined Energy and Carbon Reporting (SECR) reporting, together with material voluntary disclosures. SMS utilises the internationally recognised GHG Protocol to ensure comprehensive and standardised data calculations. Reporting covers all emissions from the Group's business activities, and all sites and operations during the 2023 calendar year. Full methodology can be found on the Group's website at www.sms-plc.com/sustainability.

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

Strategic Report (continued)

Environmental matters (continued)

In 2023, material outputs were re-evaluated and a materiality threshold of 1% was set, which supports the disclosure of significant aspects aligned with areas of strategic focus. Full details can be found on the Group's website at www.sms-plc.com/sustainability/overview/.

	2023	2022 (restated)	2021 (restated)	Commentary
Total Scope 1 (TCO2e)	**3,388.1**	**3,140.6**	**2,122.0**	**Scope 1 comprises the direct emissions from our operations.**
Company-owned vehicles	3,283.2	3,054.9	1,988.0	Our owned and tracked fleet vehicles.
Gas	64.6	69.3	78.5	Gas heating serves six of our properties across the UK.
F-gas	40.3	16.4	55.5	F-gas is the refrigerant used in our air conditioning for cooling workspaces and server rooms.
Total Scope 2 Location-based (TCO2e)	**4,143.7**	**1,233.2**	**190.6**	**Scope 2 comprises the indirect emissions associated with our operations.**
Electricity (Buildings)	109.9	122.0	137.5	Electricity lights, heats, and powers our operations across warehouses, offices and training centres in the UK and Ireland.
Electricity (Battery sites)	4,032.1	1,111.2	53.1	Net electricity used to operate cooling and communication systems at our grid battery site.
UK electricity for EVs	1.7	-	-	1 electric van was added to the fleet and trialled during 2023
Total Scope 2 Market-based (TCO2e)[1] (including green energy contracts)	**7,201.4**	**2,100.5**	**173.4**	**We source green contracts for our electricity where possible.**
	2023	**2022**	**2021**	**Commentary**
Total Scope 3 (TCO_2e)	**19,897.8**	**4,224.7**	**996.5**	**Scope 3 comprises are emissions from up and down our value chain, including those of suppliers and service providers.**
Category 3: Fuel- and energy-related activities (not included in scope 1 or scope 2)				
Diesel upstream supply[2]	785.6	715.3	482.6	Upstream emissions for the production of diesel to supply company-owned fleet.
Petrol upstream supply[2]	14.8	15.5	0.0	Upstream emissions for the production of petrol to supply company-owned fleet.
Transport and distribution' electricity[2]	358.3	112.8	16.9	Upstream emissions of purchased electricity for battery operation and on our warehouses, offices and training centres.
Generation of purchased electricity that is sold to end users[1]	17,958.5	2,949.0	0.0	Upstream emissions of purchased electricity for our BESS which is sold back to the grid.
Category 6: Business travel				
Vehicle business travel	426.9	57.9	27.5	Business travel in employee-owned vehicles.
Category 7: Employee commuting				
Employee Teleworking[2]	353.6	374.2	469.5	The associated carbon emissions from energy used to power office equipment and for heating by employees working from home.
Total Scope 1, 2 & 3 (TCO_2e) (Scope 2 Location-based)	**27,429.5**	**8,598.5**	**3,309.1**	
Carbon intensity Scope 1, 2 (TCO_2e/£m)[3]	43.6	31.4	21.3	Shows the amount of emissions produced to achieve the revenue realised, per £m.
Carbon intensity Scope 1, 2 & 3 (TCO_2e/£m)[3]	159.5	62.0	30.8	Shows the amount of emissions produced to achieve the revenue realised, per £m.
Operational energy consumption (MWh)	34,109.8	19,446.5	9,728.9	This is the total energy consumption of our operations, spanning activities included in Scope 1 and 2 (excluding F-gas).

[1] Data disclosure is voluntary under SECR but included for completeness of Scope reporting under the GHG Protocol. See the Group's Sustainability Report for a full breakdown of all metrics.

[2] Following the re-evaluation of our material outputs, our previous years totals have subsequently changed. The original figures can be found in the data centre within the sustainability section of the SMS website

Strategic Report (continued)

Environmental matters (continued)

[3] Carbon intensity figures have been stated including the impact of the change in accounting policy for uninstalled meters as detailed in note 33. Carbon intensity figures are calculated based on the total emissions produced.

As reported in the prior year, the operation of the Group's grid-scale battery storage sites is significantly changing the landscape of its business emissions as a result of the high volume of energy required to operate these sites and, in 2023, a further three sites were energised representing a total capacity of 240MW. The related emissions from the Group's grid-scale business now represent the largest proportion of overall emissions, and SMS expects this to grow as the Group's battery estate continues to increase. However, as this service supports the UK-level decarbonisation of the grid, a sustained reduction in emissions intensity is expected, which is reflected in the Group's science-based target. By facilitating much higher levels of lower-cost solar and wind generation and helping to avoid the need for future costly investments to reinforce grid capacity, battery storage helps reduce the UK's carbon emissions and contribute to a more affordable energy system for consumers. Early indications project that battery storage could support an 82% reduction in the 'Global Warming Potential', also known as emissions intensity, of the UK electricity grid by 2040.

To support an ongoing increase in metering operations, the Group's average number of fleet vehicles increased to c.600 in 2023 and, with vehicle activity of c.1.5 million additional miles on 2022 operations, there has been an increase in year-on-year fleet emissions. However, there has also been a positive change in energy use per mile of -1.5% kWh/mile. This measurement removes the impact of changing numbers of vehicles to assess the efficiency of movement, made possible by increasing quality of data.

When looking at energy usage across the Group's buildings estate, consumption has reduced by 28% on the 2019 baseline. The Group's upgraded Cardiff office has completely moved away from gas use following the installation of air source heat pumps in Q3 2023 achieving a 14% year-on-year reduction in electricity and over 24% reduction on the 2019 baseline figure. Energy consumption has also been reduced through the transition of 100 of the Group's fleet vehicles to mild hybrid vehicles.

Looking forward the Group plans to continue sustainability upgrades across its core sites along with the transition and monitoring of fleet vehicles. The Group also plans to conduct energy saving audits on its grid-scale battery sites.

Employee matters

'Putting Our People First' is embedded within SMS's values and culture. Through inclusive practices and prioritising good health and wellbeing, SMS continually seek to improve employee engagement and organisational performance in all the Group's people offerings. A holistic approach to wellbeing is supported by a wide variety of health benefits including a bespoke internal wellbeing page for SMS employees, which provides access to resources on the Group's five wellbeing pillars including mental health, physical health, family focused, financial wellbeing, and life challenges.

During the year the Group's fourth external employee engagement survey was conducted through 'Best Companies', an independent workplace engagement specialist. SMS achieved the '1 Star' accredited rating for very good levels of employee engagement in recognition of an excellent employee response rate; a step up from the "One to Watch" accreditation achieved in 2021 and 2022.

Continued communication and engagement with staff along with talent management and succession planning is critical to the success of the business. New engagement channels with employees have therefore continued to be introduced in the year and targeted training programmes have been delivered across the business.

SMS continue to be an Accredited Real Living Wage employer and an Accredited 'Living Hours' employer, reflecting a commitment to providing employees with security of hours and fair pay. In response to the ongoing cost of living crisis, a one-off discretionary payment was made to all employees in the year to acknowledge the sustained inflationary pressures and demonstrate an ongoing commitment to the wellbeing of the workforce. Standard base salary increases were also applied to all employees within the Group's pay and reward framework from 1st April 2023.

Strategic Report (continued)

Non-financial and sustainability information statement

All information contained in this section is presented in relation to the year ended 31 December 2023, prior to the Acquisition of the Group by Bidco.

i) Our purpose and business model

The purpose and business model of the Group are applicable to the areas of disclosure required by s414CB(1).

Our purpose is to serve our customers and protect the environment. At our core we are an organisation that cares about people – committed to our employees, our customers and our communities. Our immediate goal is carbon reduction, with the ultimate target of net zero carbon emissions. We use our technology, data, finance and engineering skills and knowledge to provide innovative energy solutions for our customers. Through our services we are changing how businesses and consumers access and use energy thereby reducing carbon emissions.

Our strategy is the continuous delivery of long-term value for all stakeholders. Our strategic framework is structured into four key priorities:

1 Expanding long-term, resilient and recurring cash flows from carbon reduction assets
2 Customer excellence and efficient delivery
3 Efficient capital allocation to provide headroom for growth
4 Sustainable and socially responsible business

Our business model is designed to apply our inputs, assets, and strengths to deliver fully integrated smart energy solutions through our core business areas of asset management, asset installation and energy management.

Strategic Report (continued)

Non-financial and sustainability information statement (continued)

i) Our purpose and business model (continued)

Our inputs, assets and strengths include:

Our growing smart meter portfolio	Our portfolio of 2.5m smart meters generate highly sustainable, annuity-style cash flows and provide a secure foundation for the future growth of the business.
Our growing grid-scale energy storage portfolio	We have 240MW of grid-scale battery storage in operation with a further 620MW pipeline of sites either secured or under exclusivity.
Engaged people	Our nationwide in-house engineering and expert consultancy workforce have a strong track record of service delivery. We foster innovation and creativity in what we do so we can deliver new and exciting solutions.
Robust technology platforms	We have significant IT software and data security capabilities, and the ability to develop new applications and technologies for the ongoing benefit of our customers. Delivery of our integrated services is supported by our own central cloud-based IT and data platform.
Long-standing relationships with our customers	We enjoy multi-level relationships with our customer base. The enduring partnerships we maintain with our customers are testament to the unrivalled support we provide and our commitment to providing successful and innovative energy solutions.
Effective capital management	We continually review our funding position to ensure that we maintain an efficient capital structure, with sufficient capacity and flexibility to maximise growth. We maintain prudent but efficient leverage using internal cash generation, our available debt facility and other additional mechanisms as relevant.

We apply our inputs, assets, and strengths to deliver data driven smart energy solutions in the form of our Carbon Reduction (CaRe) verticals:

Smart meters	We install, manage and operate smart and advanced meters on behalf of energy suppliers across the Industrial & Commercial and Domestic markets.
Energy data	We provide energy suppliers and businesses with high quality utility data solutions that create enduring organisational value, improve efficiency and empower sustainable action.
Grid-scale battery storage	We independently develop, own and operate grid-scale battery storage sites that serve a greener, resilient and more flexible grid.
Energy services	We establish new energy systems and low-carbon strategies for organisations across the industrial, commercial and public sectors through our data-driven consultancy and technical energy expertise.

Strategic Report (continued)

Non-financial and sustainability information statement (continued)

i) Our purpose and business model (continued)

EV infrastructure	We are leveraging our engineering skills and electrical infrastructure expertise to support the scale-up of domestic and destination EV charging.
Behind-the-meter	We are developing behind-the-meter solutions operated through our in-house technology platforms, to maximise energy savings and carbon reduction for our customers.

ii) Risks, policies and procedures

The table below presents information relating to the non-financial reporting requirements of the Group as contained in sections 414CA and 414CB of the Companies Act 2006.

Further disclosure can be found throughout our Annual Report as referenced below and also within our Sustainability Report 2023 at www.sms-plc.com/sustainability/overview/.

	Relevant Group principal risk and risk management	Relevant Group policies	Policy embedding, due diligence, outcomes, and KPIs
Environmental matters	• Loss of environmental, social and governance (ESG)-related and regulatory accreditations, page 19 • Major incident risk, page 17	• Group integrated policy • Group energy management policy • Group climate and sustainability policy • Corporate social responsibility policy	• Implementation of ESG processes and disclosures, achieving industry leading results (see our Sustainability Report 2023) • Expansion of TCFD reporting and disclosure, pages 8 and 9 • Continued oversight and involvement of our Health, Safety and Sustainability Committee and ESG Working Group on key matters and monitoring of performance against objectives pages 14 and 15.
Employees	• Our people, page 19	• Code of conduct policy • Wellbeing policy • Equal opportunities, diversity and inclusion policy • Group integrated policy • Corporate social responsibility policy	• Continued commitment to employee engagement and prioritisation of talent management and development, pages 10 and 21. • Recognition through Best Companies external employee engagement survey as '1 Star' accredited for very good levels of employee engagement. • Implementation of EDI policies in practice through best practice training and recognition of employee achievements across the business.
Social matters	• Loss of environmental, social and governance (ESG)-related and regulatory accreditations, page 19 • Major incident risk, page 17	• Group integrated policy • Group energy management policy • Corporate social responsibility policy • Supplier code of conduct	• Supporting local communities through volunteering and fundraising commitments. • Engaging with suppliers on sustainable practices and completing critical due diligence work. • Involvement in regulatory forums and working groups aiming to provide advice to industry participants and contribute towards Government Net Zero targets, page 22.
Human rights, anti-corruption and anti-bribery	• Loss of environmental, social and governance (ESG)-related and regulatory accreditations, page 19 • Our people, page 19	• Anti-bribery and corruption policy • Code of conduct policy • Modern slavery policy • Whistleblowing policy • Group integrated policy • Corporate social responsibility policy	• Completion of critical due diligence processes through supplier onboarding. • Commitment to employee wellbeing and accreditation as a Real Living Wage and Living Hours employer. • Monitoring and taking appropriate action where necessary through our whistleblowing procedures.

Strategic Report (continued)

Non-financial and sustainability information statement (continued)

iii) Climate

Governance arrangements in relation to assessing and managing climate-related risks and opportunities

The Board has oversight of climate-related issues through three key channels within our overarching risk and opportunities framework detailed in the table below. Each of these channels enable oversight and the integration of climate issues into all business decisions from the top level.

All Board Committees were active throughout the year to which this report relates.

Climate-related risk and opportunity management framework		
Board of Directors is responsible for setting the tone at the top and monitoring business performance. Sets purpose, vision and strategy with oversight of SMS's most material impacts, risks and opportunities, including climate change.		
Health, Safety and Sustainability Committee provides oversight to ensure that the Group adopts a consistent and comprehensive approach to health and sustainability through promotion of transparent and responsible behaviours and practices and engagement with key stakeholders.	**Audit Committee,** which has specific delegated authority to review the effectiveness of the Group's internal control mechanisms, financial reporting, internal audit and risk management processes.	**Information Technology Committee** reviews and approves the information technology strategy and monitors priorities and structures implemented throughout the Group, including allocation of resources and the impact of emerging changes in technology.
ESG Working Group, comprising members of senior management across key supporting functions ensures appropriate oversight is embedded into decision making, strategic planning and everyday processes through regular review, evaluation and reporting on risk management processes.	**Safety, health, environment and quality (SHEQ) and compliance teams** are instrumental in setting the tone at the top in relation to safety matters and are responsible for obtaining and maintaining the Group's ISO certifications, which are supported by business assurance reviews.	**Executive leadership team** is responsible for reviewing and managing the strategic risks within the Group and for providing oversight on departmental operational risks. It provides leadership and direction to employees and has primary responsibility for driving the development and enhancement of the Group's risk management processes.
Departmental management Our top management team and executive leadership have assigned climate-related responsibilities relevant to their business areas. The management teams in each department within the Group are responsible for the day-to-day management of risks and opportunities ensuring that these are appropriately identified, prioritised, mitigated and communicated throughout the Group where necessary.		

Processes for identifying, assessing and managing climate-related risks and opportunities

Management is engaged on climate-related risks and opportunities through dedicated risk and opportunity workshops, spanning executive leadership team and departmental teams to support the continuous improvement of risk and opportunity identification and management processes. These workshops are used to identify new risks and opportunities, review and update existing risk ratings, identify appropriate new mitigating actions, and assess progress towards completion of identified mitigating actions.

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

Principal climate-related risks and opportunities

We utilise a quantified impact and likelihood approach, which incorporates financial considerations to establish a materiality across both the positive opportunities and potential risks related to climate change. As a result of this review, we have identified several risks and opportunities as detailed below, with an amber rating under our classification system which indicates that action is required to mitigate the risk. We have reviewed our risks and

Strategic Report (continued)

Non-financial and sustainability information statement (continued)

iii) Climate (continued)

Principal climate-related risks and opportunities (continued)

opportunities over short- (0-3yrs), medium- (4-10yrs) and long-term (11-20yrs) time horizons, in order to ensure an encompassing approach.

Risk area	Time horizon	Risk management approach
Extreme weather and climate events can lead to interruption of the operation of 'on the road' activities such as metering and engineering teams	Short-term	Incident response and communication plans are in place. SMS has established emergency weather procedures including employee alerts of poor or dangerous driving conditions or hazardous working conditions. Our in-house fleet and SHEQ (Safety, health, environment and quality) teams work together to evaluate all potential weather events and act accordingly. Should a weather event require mitigating action, our fleet and SHEQ teams have the delegated authority to reduce or stop operations and utilise emergency 4x4 vehicles. An example of these procedures being put into practice was in response to the 2018 'Beast from the East' which was a red weather event.
Extreme weather and climate events can damage assets leading to the interruption of critical IT systems	Short-term	Business continuity plans are in place across the SMS Group. These encompass a range of scenarios including disaster recovery plans for critical IT systems and failover facility availability for immediate redeployment of staff if required, thus enabling core operations to be serviced. External impacts are considered through activities such as monitoring of industry data flows and escalation of issues should they arise.
Policies on carbon pricing and emissions and the energy transition can result in higher operating costs	Medium to long-term	To mitigate the risk from rising energy costs the Group has highly ambitious net zero target covering our fleet and building emissions. Our 'net zero by 2030' target includes transition to electric vehicles, which will mitigate future increases in fossil fuels carbon taxation, road tax and availability of vehicles, and sustainability upgrades for our buildings to improve efficiency and reduce usage. The planned electrification of heat sources will further mitigate against future increases in fossil fuel carbon taxation. Leveraging our ISO50001 accredited Energy Management Systems (EnMS) ensures continual improvement in our energy efficiency across the wider business.

Opportunity	Time horizon
Smart meter rollout extensions and half hourly settlement demands can extend business opportunities in our existing customer base	Short to medium-term
Increasing demand for battery storage capacity can extend business opportunities in our existing customer base	Short to medium-term
Increasing demand for emerging CaRe services, data and technologies allows for expansion in the market	Medium to long-term

Climate-related risks and opportunities are continually managed through the risk management framework above to identify any potential impact on the Group's business model and strategy. This includes review of the Group's current strengths and abilities which can be utilised to mitigate emerging risks or realise opportunities, as well as identifying areas where the Group's strategy can evolve to meet changing market conditions.

Resilience of business model and strategy

Climate risks affect various aspects of our operations, particularly concerning our road-based employees and site-based IT systems. Extreme weather events pose acute physical risks to road-based employees, including metering and engineering teams, as operations may be interrupted due to inaccessible locations or damaged equipment. This can lead to service disruptions and cost overruns, necessitating additional resources to address these challenges and negatively impacting our ability to deliver services efficiently.

Similarly, our site-based IT systems face acute physical risks from extreme weather and climate events, which can damage critical assets and lead to interruptions in essential IT functions. These disruptions may result in physical damage, power outages, cybersecurity vulnerabilities, and operational continuity issues, necessitating increased investment in resilience measures to mitigate these impacts effectively.

Strategic Report (continued)

Non-financial and sustainability information statement (continued)

iii) Climate (continued)

Resilience of business model and strategy (continued)

Moreover, transitional risks stemming from changes in policies and regulations related to fossil fuel use pose additional challenges. Policies such as carbon pricing and emissions regulations contribute to higher operating costs, particularly concerning fossil fuel purchase across our fleet and buildings. As a result, we anticipate increasing costs should there be delays in transitioning to more sustainable energy sources, necessitating strategic planning and adaptation measures to manage these impacts effectively while maintaining operational efficiency.

We have completed an emission scenario analysis to evaluate the near-, medium- and long-term exposure to the physical risks of climate change. Utilising the IPCC SSP2-4.5 climate scenario for the core physical assets within our business, including our offices, warehouses and battery sites, this analysis considered the global temperature rise projected as a result of SSP2-4.5 in the near term (present to 2040) and mid-term (2041-2060) and impacts across a range of regionally likely weather events such as flooding and extreme heat and cold. The SSP2-4.5 is considered to be a middle of the road emissions scenario including a change of 2°C or lower. Findings from this analysis have been quantitatively evaluated, creating a complete overview of the physical risks to our business from weather events over the next 40 years. Through this exercise we have established our assets are at low risk from physical climate change considering mitigating controls. We are planning to review this exercise and expand our exposure analysis in future to continually improve our analysis. Both our ESG Working Group and HSS Committee are engaged within this process to ensure appropriate oversight is embedded into our decision making and embedded within strategic planning and everyday processes.

Furthermore, a qualitative assessment has been made on our transitional resilience by area leaders, and we are confident in the mitigations we have in place. We will continue to review and broaden our exposure analysis and the resilience provided by our mitigation strategies.

Targets and metrics used to assess and manage climate-related risks and realise opportunities

The Group's targets and metrics set by the Board prior to the Acquisition are set out within our Sustainability Report at www.sms-plc.com/sustainability/overview/. Following the change in ownership, as detailed in note 34, the Group's targets and associated climate key performance indicators are in the process of being reviewed and may be subject to revision, and therefore are not disclosed within this Annual Report.

Principal risks and uncertainties

The Board has overall responsibility for governance, risk management and internal control for the Group. This includes oversight of our risk management framework, which continues to adapt in line with our expanding business and the challenging macro-economic environment.

Group Internal Audit worked closely with the Audit Committee, and the executive and senior leadership team throughout 2023 to support the continuous improvement of risk management processes within the Group. This work included facilitating regular risk workshops, which were used to:

- identify new risks and review and update existing risk ratings;

Strategic Report (continued)

Principal risks and uncertainties (continued)

- identify appropriate new mitigating actions; and
- assess progress towards completion of identified mitigating actions.

The Group's organisational risk management framework comprises the recording and management of 'top-down' strategic risks, which are discussed by the Board and executive and senior leadership teams, as well as 'bottom-up' risks, which capture potential operational issues at a departmental level.

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

Risk rating	Definition
Low	Some action may be required, and risks are routinely monitored by management.
Medium	Further action is required to mitigate the risk through improved control with oversight from executive and senior leadership.
High	Further mitigating actions are required immediately. Oversight is provided by the Board, Audit Committee, and executive and senior leadership directly.

Risk	Risk rating	Potential impacts	Existing mitigating controls
1. Potential breach of cyber security Critical information technology systems could be subject to a major external or internal cyber-attack, causing a breach of information security regulations and/or service disruption.	High	• Financial penalties under information security regulations • Financial loss • Unauthorised access to systems and data • Service disruption • Loss of customer and/or supplier confidence • Loss of accreditations and certifications	• ISO 27001 accreditation • Formal cyber security policy, including phishing response procedure, communicated to all SMS staff • Mandatory security awareness training for all SMS staff • Physical controls in place including firewalls and encryption • A dedicated information security team • An independent Board-level Information Technology Committee • Managed Security Service Provider (MSSP) provides a dedicated Security Operations Centre (SOC)
2. Bargaining power of energy suppliers Consolidation of the energy supplier market could led to increased bargaining power and a risk to our competitive position within the market.	High	• Loss of contracted smart meter order pipeline and future revenue potential (MAM/MOP/DCDA) • Reduced bargaining power when negotiating new contracts • Sub-optimal financial performance •	• Monitoring of market developments, through formal and informal channels • Agile business model enabling SMS to meet evolving energy supplier requirements • Contracts in place with larger energy suppliers • Engagement with 'big 6' energy suppliers • Continued focus on remaining independent suppliers •
3. Major incident risk A major incident could occur, with severe consequences for people, the environment, revenue and company reputation.	Medium	• Injury or loss of life • Loss of business operations • Financial penalties or lost revenue • Environmental damage • Reputational damage • Breach of IT systems and loss of data • Regulatory scrutiny	• Incident response and communications plan • Dedicated incident management response team • The Board has overall accountability for compliance with health and safety standards and is provided with regular management reporting • Group wide ISO certifications • Independent regulatory reviews • Business continuity and disaster recovery plans • Maintenance of high-quality and mandatory training standards, driven by job roles • Rolling internal technical assurance audit programme • Penetration testing across the group's IT estate

Strategic Report (continued)

Principal risks and uncertainties (continued)

Risk (continued)	Risk rating	Potential impacts (continued)	Existing mitigating controls (continued)
4. Business continuity and disaster recovery – resilience of IT infrastructure and failure of critical business systems and processes Failure of core and/or critical information technology systems could result in operational interruption.	Medium	• Temporary loss of IT infrastructure/critical business systems and processes • Loss or corruption of data • Detrimental impact on customer service • Potential loss of revenue through inability to meet customer orders or issue invoices	• Business continuity plan in place across the Group • Monitoring of industry data flows and escalation of issues should they arise • Disaster recovery plans and testing schedules in place for critical IT systems • Failover facility available for immediate redeployment of staff, enabling key operations to be maintained • Alternative UK sites available to manage core business operations • Most of the workforce able to work from home to support the Group's customers • N+1 (parallel redundancy) backup to ensure an uninterruptible power supply and system availability • Current IT roadmap to 2025 • Key systems protected by immutable back up
5. Speed of organisational change Speed of organisational growth in the short term without sufficient and appropriate growth in infrastructure.	Medium	• Insufficient engineering capacity/resource available • Limitations on organisational back-office and support functions • Metering supply and warehousing operations cannot meet demand • IT infrastructure does not scale up quickly enough to meet business needs	• Capacity planning system to support the Group's engineering workforce • Robust forecasting processes closely aligned to with commercial and operational management teams • Well-established supplier onboarding processes • Strategic and targeted recruitment activity for engineers • Subcontractor call-off arrangements in place across UK • IT strategy closely aligned to organisational strategy for growth and future business modelling and includes regular needs assessment • Dedicated senior roles in place to lead growth in carbon reduction ('CaRe') verticals • Economies of scale from warehouse amalgamation
6. Metering and grid-scale batteries supply chain The Group relies on a limited number of critical suppliers for meters and grid-scale batteries, and failure of critical suppliers could have significant operational and financial implications.	Medium	• Delays in importing meters and grid-scale batteries • Stock shortages and inability to fulfil customer orders or projects on time • Business continuity issues • Increased commodity prices • Legal and financial exposure • Unenforceable contracts and financial penalties • ESG related issues leading to operational or reputational challenges	• Centralised in-house legal function protects commercial interests through robust contracting process • Enhanced stock control processes mitigate the risk of being unable to fulfil customer orders in the event of failure of a critical supplier • Monitoring of stock levels in warehouses to ensure sufficient meter stock is held to meet customer obligations • Dedicated senior roles with responsibility for stock and logistics and delivery of grid-scale battery storage projects • Enhanced due diligence on grid-scale battery suppliers •
7. Funding and working capital management Suitable funding arrangements are critical to enable the continued growth of our asset portfolio, particularly in relation to 'CaRe' assets. Poor management of core elements of working capital, particularly during peak activity periods, could lead to inability to meet creditor requirements and cause a negative financial impact.	Medium	• Default on debt obligations • Credit or debt facilities are withdrawn • Inability to meet existing customer or trade commitments • Increased supply chain costs • Lack of funding to take advantage of emerging business opportunities (including for CaRe assets)	• Credit control function and robust commercial billing arrangements • Regular and formal review of key management information on cash and debt positions • Revolving credit facility of £420m through to December 2025 (replaced with new facility arrangements post Acquisition in 2024) • Regular long-term forecasting of funding required • Board monitoring of the funding required to meet the Group's growth plans •

Strategic Report (continued)

Principal risks and uncertainties (continued)

Risk (continued)	Risk rating	Potential impacts (continued)	Existing mitigating controls (continued)
8. Potential breach of General Data Protection Regulation (GDPR) There could be a breach of GDPR through an internal failure to follow protocol and policy or as a result of data integrity and retention issues.	Medium	• Financial penalties under GDPR • External investigation(s) by the Information Commissioner's Office • Loss of customer and/or supplier confidence	• The General Counsel is an expert in data protection and is the appointed Data Protection Officer • The DPO monitors internal GDPR compliance and, through a series of internal and external communication platforms, informs and advises staff and third parties of our obligations and expectations under GDPR • Annual GDPR training for all SMS staff • IT security monitoring controls, including a SOC and Netskope monitoring of external communications
9. Our people An inability to attract, retain and motivate the right people could have a material adverse effect on the business and ultimately lead to a failure to deliver on its strategic objectives.	Medium	• High levels of employee turnover • Loss of employees with specialist skillsets to competitors • Low employee morale • Failure to take advantage of emerging business opportunities • Lack of business continuity	• Recruitment, due diligence and onboarding processes (contracts include probationary periods) • Succession planning for key leadership and business roles • Talent and performance management frameworks linked to our values and behaviours • Benchmarking of roles with the external market in terms of remuneration and reward • Harmonised terms of employment, ensuring fairness and consistency across the Group • Competitive rewards and employee benefits package aligned to pay and reward framework • Regular, supportive one-to-one meetings between people leaders and their direct reports • Regular employee satisfaction surveys, review of results by management and implementation of actions to address themes • Equal opportunities, diversity and inclusion policy • Gender pay gap reporting • Sponsorship approved for key roles • Proactive cost of living increases (particularly entry level roles)
10. Loss of ESG-related and regulatory accreditations Loss of accreditations or failure to comply with key regulatory requirements could lead to an inability to deliver our core services, leading to a loss of revenue or reduction in banking facilities.	Medium	• Not retaining/improving our ESG or regulatory accreditations • Inability to conduct business • Financial penalties • Reputational damage • Loss of trained and qualified engineers • External investigation(s) and/or audits	• The Board has overall accountability for compliance with safety, health and environmental standards and is provided with regular management reporting • Board-approved sustainability strategy with a clear roadmap to achieving 'net zero' status by 2030 • Dedicated Health, Safety and Sustainability Committee, supported by ESG Working Group • Regular sustainability reporting to relevant agencies and other external stakeholders including release of annual Sustainability Report • Well-established Group technical assurance team in place, including an experienced compliance function with deep industry insight and expertise • Dedicated training academy for field service engineers • Rolling training plan in place for all engineering staff to maintain and upgrade certifications • Extensive assurance activity performed across the Group, by specialist assurance teams • Regular external independent and routine audits performed by regulators • Effective HR onboarding process for new staff, including engineering team

There have been a few changes to the Group's principal risks during the year in response to the evolving macro-economic environment and specific strategic focus areas. The changes are as follows:

Risks removed:

- COVID-19, removed due to the significantly reduced impact of the pandemic on SMS and the external environment.

Strategic Report (continued)
Principal risks and uncertainties (continued)

Risks replaced:
- Bargaining power of energy suppliers, disclosed in the prior year as 'Stability of energy suppliers' but now presented as a competition risk due to the consolidation of the energy supplier market.

Stakeholder engagement

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

Section 172 statement

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

Stakeholder group	Why effective engagement is important	Form of engagement	Key topics of engagement during the year
Shareholders	During the financial year ended 31 December 2023, our shareholders provided funding for the growth and long-term success of the business. We endeavoured to foster open and transparent communications with our shareholders while the Group remained a publicly listed company through to March 2024 to enable them to make effective investment decisions.	• Discussions at the Annual General Meeting. • Investor roadshows conducted throughout the year. • Participation in investor conferences. • Continuous availability of the Chairman to meet with shareholders. • Capital Markets Day and site visits. • Ad-hoc meetings between institutional shareholders and the executive leadership team. • Addressing all incoming queries from investors.	Regular updates on development of existing CaRe assets, along with information on the scale of additional future opportunities and progress in development of new CaRe assets. Topics included the growing market for electric vehicle charging infrastructure, development of our Metis Charge and Metis Energy brands targeting destination EV and behind-the-meter service offerings, and initial pilots and installations carried out.
Customers	Serving our customers is a key part of our purpose and we aim to provide an exceptional customer experience. To deliver this, we listen and engage, and strive to become a trusted partner. As the energy and utilities industry continues to navigate the UK smart meter rollout, it is important that we work collaboratively with energy suppliers to ensure we are meeting their service needs in an efficient and effective way. Maintaining open and honest relationships with our customers allows us to remain commercially competitive and secure both new and recurring long-term contracts.	• Listening and responding to customer feedback. • Clear and structured lines of engagement for core customer groups. • All customers are assigned a strategic account director – a single point of contact with whom items can be discussed. • For larger customers, dedicated contact centres are used to co-ordinate with end consumers. • Separate specialist teams are allocated for planning and scheduling, commercial billing and general account management, ensuring regular communication is maintained. • Regular service reviews to ensure we are addressing feedback from customers in a timely manner.	Strategic account directors are allocated to each customer whom customer specific discussions are held with throughout the year. Key topics in the year have included monitoring of the impact of the rises in energy costs, inflation and interest rates on the Group's customers.

Strategic Report (continued)

Stakeholder engagement (continued)

Stakeholder group	Why effective engagement is important	Form of engagement	Key topics of engagement during the year
Employees	We believe that engaged, healthy and safe employees encourage creativity and productivity, and are critical in attracting, developing, and retaining valuable talent, fostering customer loyalty, and impacting positively on organisational performance and stakeholder value. We believe that supporting our people and their wellbeing is paramount in maintaining high engagement levels which enables us to deliver our strategy and achieve our mission, vision, and purpose. It is therefore crucial that we continue to build a positive culture, where employees are listened to, and are inspired to perform their best work, with our five core values and behaviours displayed by all.	• An open and collaborative management structure with direction set from the Executive. • Live question and answer sessions led by our Senior Leadership team throughout the year. • Townhall events led by our executive management team. • 'Employee Voice' a bi-monthly forum (with representation across the Group at all levels from different departments and locations including attendance from the Chair of the Board). • LOV (Living Our Values) Awards. • ESG monthly forum. • Seven Employee Resource Groups (dedicated online communities where employees can connect on shared interests) • Use of a bespoke SMS intranet site (with a dedicated Wellbeing page and resources). • Annual performance and development reviews for all. • Corporate induction for all new employees. • Annual employee engagement survey (Best Companies) and regular Pulse surveys.	Equality, diversity and inclusion (EDI) has been a key topic of engagement with employees in the year. Our EDI activities included an active campaign to collect vital anonymous data about our workforce to help identify and remove any barriers that might exist in our business relating to EDI and holding employee training sessions. Our Cardiff based employees have been consulted in the year on options for location and configuration of our Cardiff office to ensure engagement in the decision-making process.
Suppliers	Our wide range of partners provides us with the goods and services we rely on to deliver for our customers. This includes physical plant and equipment (most notably meter assets and battery assets), engineering services, and legal and professional consultancy, to name but a few. Reliable supplier relationships are thus crucial in delivering our business model and strategy. Maintaining positive and open engagement is a key priority. Health and safety is at the heart of everything we do and this extends to services provided to us by our third-party partners.	• Comprehensive onboarding process by skilled procurement and legal professionals, using Groupwide procurement procedures and policies. • Two-way communication process, developing a culture of openness and transparency. • Prompt payment practices. • For larger suppliers, ongoing engagement through regular meetings and feedback sessions. Performance may also be measured against key performance indicators with shared objectives. • Where relevant, thorough tender and bid processes are carried out.	Engagement this year has been heavily focussed on the set up of our renewables supply chain to support ongoing development in the areas of EV infrastructure and behind the meter solar, storage and heat solutions. Effective due diligence around product and vendor selection has been critical in ensuring we make sustainable choices. Other key themes include a focus on cybersecurity measures, supply chain resilience, sustainable practices and flexibility in adapting to changing market dynamics.
Regulatory bodies	The primary government regulator for the gas and electricity market in the UK is the Office of Gas and Electricity Markets ('Ofgem'). Ofgem is the regulatory body by which our key customers are governed.	• Attendance at regular meetings. • Active participation in consultations and workshops. • Representation on several boards and panels, including the Association of Meter Operators and the Smart Metering Operations Group. • Regular compliance reviews and audits, both internally and externally, in respect of the certifications and accreditations which we hold under MCoP and MOCOP, amongst others.	We continue to participate through forum and trials in an implementation working group set up by XoServe, which is focused on developing the role of hydrogen across the UK gas network. In time, SMS will be involved in developing the technical and training standards for this.

Strategic Report (continued)

Stakeholder engagement (continued)

Stakeholder group	Why effective engagement is important	Form of engagement	Key topics of engagement during the year
Regulatory bodies (continued)	In conjunction with other associations, groups and alliances, Ofgem provides comprehensive industry codes of practice that govern the operational, technical and health and safety issues associated with the installation and management of metering assets, to which both SMS and its customers must adhere. Maintaining regulatory compliance is crucial to our business success amongst customers who place substantial reliance on our reputation as a full-service provider.		We continue to sit on several panels of the Institute of Gas Engineers and Managers, participating in the review and enhancement of key technical standards. SMS continues to be a committee member of the Association of Meter Operators, with five representatives including the Vice Chair of the committee. Recurring annual audits across infrastructure and metering were carried out with successful outcomes and no identified material non-compliance issues.
Lenders/financiers	Our lenders are providers of critical funding, supporting the achievement of the Group's operational and strategic goals. An open and transparent dialogue is key to allow efficient responses to the business's changing needs.	• Provision of quarterly financial and management reporting. • Regular meetings. • Ad-hoc phone calls and emails as needed, ensuring proactive communication.	Meetings were held with the Group's syndicate of banks to provide an update on the 2023 budget and performance.
Government bodies	We engage with several government bodies including the Department for Energy Security and Net Zero (DESNZ) (formerly part of BEIS) and the Data Communications Company (DCC). These government bodies use our expertise and experience to assist in the formulation and delivery of key energy policies, which have a direct impact on our customers and our own business. We maintain an open and transparent dialogue and develop an awareness of the key decisions being made within the industry which are likely to impact our business. This engagement allows us to forward-plan and remain competitive.	• A regular meeting programme with DESNZ, including attendance at round tables and working groups. • Review and provision of formal responses on consultations issued by DESNZ and Smart DCC. • Extensive engagement with the DCC. • Representation on the Smart Energy Code (SEC) Operational Performance panel and Smart Meter Device Assurance scheme to help govern the activities of the DCC and hold programme suppliers to account.	We continued working with the Department for Energy Security and Net Zero (DESNZ) through their Independent Supplier forum, discussing industry wide updates, regulatory updates and customer experience, and sharing good practices. In the smart metering space, we were appointed as a member of the Communications Transition Group, established by the Smart Energy Code panel to assist industry members on the transition from 3G and 2G services to 4G communication services. We have reviewed and provided formal consultation responses on programmes established by DESNZ and Smart DCC which focus on 4G communication hubs. Our input in these consultations aims to help smooth the large-scale transition to 4G communication services.

Strategic Report (continued)

Stakeholder engagement (continued)

The Board duly considered the impact on stakeholders when making principal decisions during the year. Principal decisions are those operational and strategic decisions which are considered to be material to the SMS corporate group and the stakeholder groups defined above and have been included in the table below.

Principal decision	Stakeholder considerations
Strategic investment in the domestic services division of Evergreen Energy ("Evergreen")	In 2023 we acquired the domestic services division of Manchester-based Evergreen Energy, a solar and ASHP installer, to enhance and accelerate our capacity to deliver an extended range of low-carbon, behind-the-meter energy solutions to the UK's domestic and commercial marketplaces. Before approving the transaction, the Board reviewed papers and challenged management on the business cases and the risks and opportunities presented by the deal including those which could impact shareholder return. The Board took specific cognisance of alternative routes of entry into the business to customer marketspace including the potential timescale and cost of developing the capability internally. The deal expands our internal engineering capabilities, through the acquisition of a trained workforce, which will be used to roll out a training programme and upskill our existing engineer base through our own Bolton based training academy. Induction training has been provided to the acquired employees integrating them into the existing SMS workforce. The enhanced technical skillset acquired has already helped to earn our MCS accreditation this year. The expertise, existing business-to-customer marketing and customer contracts acquired through Evergreen Energy will be integrated into our developing solutions allowing us to expand our existing CaRe asset portfolio and offer a wider range of sustainable servicers to our existing customer base. Due diligence on any new suppliers related to Evergreen has been performed to ensure compliance with Group policies. No additional debt out-with the Group's existing loan facility was required to fund the acquisition.
Approval of the acquisition of the Company by Sienna Bidco Limited	The Board reviewed the cash acquisition offer received from Sienna Bidco Limited, a newly formed company wholly owned by funds advised by KKR & Co. L.P. and its affiliates, with due consideration of the impacts on key stakeholders. External advice was obtained on the financial terms of the offer. The Board concluded that the terms of the Acquisition recognised the strengths of SMS's business, and provided SMS shareholders with an immediate and attractive outcome, with certainty in cash. In considering the terms of the Acquisition, the Board took into account a number of factors including: • the significant premium that would be achieved for the Group's shareholders of approximately: - 40.4 per cent. to the Closing Price of 680 pence per SMS Share on 6 December 2023 (being the last Business Day before the commencement of the Offer Period); and - 50.7 per cent. to the volume-weighted average price of 634 pence per SMS Share for the three-month period ended 6 December 2023 (being the last Business Day before the commencement of the Offer Period). • that the Acquisition valued SMS at an EV / EBITDA multiple of 20.0x (calculated based on LTM Pre-exceptional EBITDA of £71 million as of June 2023);

Strategic Report (continued)

Stakeholder engagement (continued)

Approval of the acquisition of the Company by Sienna Bidco Limited	• that the certainty of the all-cash nature of the consideration payable pursuant to the Acquisition would provide SMS Shareholders with the opportunity to receive an immediate and attractive cash sum for all of their SMS shares. This was weighed against the risks associated with the delivery of future potential value in the business given the uncertainty and volatility in the broader capital markets and macroeconomic environment which are expected to persist for a period; • that the delivery of the existing meter and grid battery pipelines, along with growth in other CaRe asset classes, is subject to commercial and market risks and will require significant additional funding which, given an increasing cost of capital environment, may be challenging for SMS as a publicly listed business. The Board believed that, under private ownership, SMS could accelerate the delivery of its strategy and growth pipeline through access to significant flexible, long-term capital from KKR, a highly supportive investor which invests over the long-term and brings extensive operational expertise and resources from its global platform to accelerate the creation of value for the Group's customers; • that SMS's trading performance and growth potential have not, in the view of the Board, been appropriately reflected in the price and valuation of SMS's shares. In the current equity market environment, the Board believed that the terms of the Acquisition represented attractive value relative to the risk of ongoing volatility in capital markets; • that the risks and uncertainties of the current market environment, including the prevailing global economic and geopolitical uncertainty, may increase the execution risk associated with SMS's growth strategy. With the capital investment to grow the business the Acquisition offer could provide additional security to the Group's employees; • that the constraints imposed by the public capital markets place the Company at a competitive disadvantage when compared with comparable businesses; • that, in light of the valuation of SMS's listed shares, raising significant capital from the public market to enable the Group to fulfil its growth potential would likely be challenging and dilutive to shareholder value; • that, based on the statements and assurances made by Bidco regarding its intentions for the business, KKR fully supported SMS's current strategy and management; and • that the Acquisition will provide both access to capital for further growth and continuity for SMS's customers, employees and other stakeholders. Crucially this includes the protection of staff welfare both throughout the acquisition process and going forward. Accordingly, having taken into account all of the above factors, the Board unanimously recommended the Acquisition to shareholders on 7 December 2023.

Financial Reporting Council ("FRC") letter relating to the 2022 Annual Report and Accounts

In October 2023, the Company received a letter from the Corporate Reporting Review team of the FRC as part of its regular review and assessment of the quality of corporate reporting in the UK, requesting further information in relation to the Company's Annual Report and Accounts for the year ended 31 December 2022. The letter focused on the classification of uninstalled meter assets and the related presentation of operating and investing cash flows. The Company responded to the enquiries and agreed to make certain changes within its Annual Report and Accounts for the year ended 31 December 2023, which are detailed within note 33 to the consolidated financial statements on pages 108 to 112. Prior year comparative figures have been restated in the consolidated statement of financial position, consolidated income statement, consolidated statement of cash flows and the relevant notes. The FRC have confirmed that their enquiries have been closed.

The review conducted by the FRC was subject to the following inherent limitations as set out in its communication with SMS on 23 October 2023:

- The FRC review is based on its review of the Company's 2022 Annual Report and Accounts and does not benefit from detailed knowledge of the Group's business or an understanding of the underlying transactions entered into. The review was however conducted by staff of the FRC who have an understanding of the relevant legal and accounting framework.

Strategic Report (continued)

Stakeholder engagement (continued)

Financial Reporting Council ("FRC") letter relating to the 2022 Annual Report and Accounts (continued)

- Correspondence from the FRC with SMS provides no assurance that Company's Annual Report and Accounts are correct in all material aspects; the FRC's role is not to verify the information provided but to consider compliance with reporting requirements. Such letters are written on the basis that the FRC (which includes its officers, employees and agents) accepts no liability for reliance on them by the Company or any third party, including but not limited to investors and shareholders.

This report was approved by the Board of Directors and signed on its behalf

Gail Blain
Chief Financial Officer

Date: 25th September 2024

Directors' Report

The Directors submit their Annual Report on the affairs of the Group together with the audited consolidated and parent company financial statements for Smart Metering Systems ('SMS') Limited for the year ended 31 December 2023.

Principal activities

As at 31 December 2023, prior to the Acquisition of the Company by Bidco, SMS Limited was the ultimate parent company of the Group and traded principally through its subsidiary undertakings. Its principal activity was and remains that of a holding company.

The principal activities of the Group are: the installation, operation and management of meter and energy infrastructure assets and related data services; the construction and operation of grid-scale battery energy storage systems, the design, installation and management of utility connections and energy infrastructure; and the delivery of energy management and carbon reduction solutions, including the operation of carbon reduction ('CaRe') assets.

Subsidiaries of the Company are listed on pages 105 to 107.

Change in company name

On 11 June 2024 the Company, which was previously registered as a public company, re-registered under the Companies Act 2006 as a private company and is now incorporated under the name of Smart Metering Systems Limited.

Statutory information

In accordance with s414C(11) of the Companies Act 2006, the Company has included the following information which is considered of strategic importance within the Strategic Report found on pages 9 to 10, and 20 to 24:

- Streamlined Energy and Carbon Reporting
- Engagement with stakeholders

This Directors' report sets out all other information required to be disclosed by the Company in compliance with the Companies Act 2006.

Branches outside the UK

One subsidiary of the Group operates outside the UK in the Republic of Ireland.

Directors

The directors who served during the year and to the date of this report are as follows:

Miriam Greenwood OBE DL (resigned on 25 April 2024)
Tim Mortlock
Gail Blain
Graeme Bissett (resigned on 25 April 2024)
Ruth Leak (resigned on 22 March 2024)
Jamie Richards (resigned on 22 March 2024)
Mike Winkel (appointed on 6 June 2023 and resigned on 22 March 2024)
Yimei Lou (appointed on 22 March 2024)
Andrew Michael Furze (appointed on 22 March 2024)
Aadhaar Mehra (appointed on 23 May 2024)

Directors' Report (continued)

Directors (continued)

Following the acquisition of the Company by Sienna Bidco Limited on 22 March 2024, Ruth Leak, Jame Richards and Mike Winkel stepped down as non-executive directors of the Board and Yimei Lou and Andrew Michael Furze were appointed as directors, followed by Aadhaar Mehra on 23 May 2024, all representing Sienna Bidco Limited. Following the de-listing of the Company on 25 April 2024, the remaining non-executive directors Graeme Bissett and Miriam Greenwood stepped down from their positions on the Board.

Other than employment contracts and interests in shares and options, none of the Directors had a material interest in any contract with the Company or any of its subsidiary undertakings. Any related-party interests applicable to the Directors are shown in note 26 to the financial statements.

The Company's Articles of Association provide that all Directors will stand for re-election every three years.

Directors' qualifying indemnity provisions

As permitted by the Companies Act 2006, the Company purchases and maintains Directors' and officers' insurance cover against certain legal liabilities and costs which could be incurred by the Directors and officers of the Group companies, including subsidiary companies in the performance of their duties. The Company has also granted an indemnity to each of its Directors, and Directors of subsidiary companies, in relation to the Directors' exercise of their powers, duties and responsibilities as Directors of the Company, the terms of which are in accordance with the Companies Act 2006. This indemnity was in place during the year and as at the date of this report.

Dividends

In line with the Group's policy to grow dividends at 10% per annum until 2024, a 33.275p per share dividend was proposed in respect of FY 2023. This was expected to be settled in four equal quarterly instalments. Two instalments have been paid, in October 2023 and January 2024 respectively. Following the Acquisition, the third and fourth instalments have been cancelled and no further dividend payments in respect of FY 2023 will be made.

Employees

Employee engagement is paramount to the Company's success. The Group's policies around communication and sharing of information with employees on matters likely to affect their interests are key. In addition, the workforce is kept up to date on the various financial and economic factors affecting the performance of the Group. Periodic updates on Group performance are circulated, via video and email, typically following the announcement of both interim and annual financial results.

The marketing team manages internal communications, maintaining open communication channels throughout our national organisation which ensures our people remain up to date on all aspects of the SMS journey. Communication tools include quarterly newsletters, podcasts, employee resource groups, videos, emails and various forms of social media, providing employees with industry insights and key information on Group activity including diversity and inclusion, wellbeing initiatives, charitable donations and sponsorship opportunities, and progress towards our net zero target.

Business updates are currently delivered by the executive leadership team through a combination of townhall meetings, videos and emails.

The Group seeks to engage with employees on matters affecting them, through channels including employee surveys (internal and external), an employee forum, written feedback and face-to-face sessions. The Stakeholder engagement section on pages 20 to 24 provides examples of projects delivered during the year, where an open dialogue was facilitated with the workforce, and further details can also be found in the Employee matters section on page 10.

Directors' Report (continued)

Employees (continued)

The Group operates an equal opportunities, diversity, and inclusion policy, supported by face-to-face and eLearning. It is the policy of the Group to support the employment of people with protected characteristics and to ensure that attraction, recruitment, onboarding, training, career development and promotion opportunities are available to all. As such, SMS is a 'Disability-Confident', 'Mindful', 'Accredited Living Wage and Living Hours' and 'Young Person's Guarantee' employer and is also a proud signatory of the Race at Work Charter as well as the Pregnancy Loss Pledge via the Miscarriage Association.

External auditor

The Audit Committee recommended, and the Board approved, the proposal that the current auditor, Ernst & Young LLP, be reappointed as auditor of the Company at the AGM. Ernst & Young LLP has expressed its willingness to continue in office as auditor and a resolution to reappoint Ernst & Young LLP as the Company's auditor will therefore be considered by the Board.

Directors' statement as to disclosure of information to auditor

Each of the Directors at the date of approval of the Annual Report and Accounts 2023 confirms that:
- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- he or she has taken all the steps that ought to be taken by a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Financial instruments

Details of the use of financial instruments and financial risk management are included in note 23 to the financial statements contained in this Annual Report and Accounts 2023, which are incorporated by reference into this Directors' report.

Going concern

After making enquiries, we, the Directors, have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future (for the period from the balance sheet date to 31 December 2025). We therefore continue to adopt the going concern basis in preparing the financial statements. The basis on which this conclusion has been reached is set out on pages 7 and 8, which is incorporated by reference here.

Political contributions

No political contributions were made during the year (2022: £nil).

Post balance sheet events

On 7 December 2023, the boards of directors of SMS and Sienna Bidco Limited ("Bidco"), a newly formed company wholly-owned by funds advised by Kohlberg Kravis Roberts & Co. L.P. and its affiliates, announced that they had reached agreement on the terms and conditions of a recommended cash acquisition by Bidco of the entire issued and to be issued ordinary share capital of SMS (the "Acquisition"), to be effected by means of a Court-sanctioned scheme of arrangement under Part 26 of the Companies Act 2006. On 18 January 2024, Bidco announced that Bidco had determined, with the consent of SMS and the Takeover Panel, to implement the Acquisition by way of a recommended takeover offer (as defined in section 974 of the Companies Act) (a "Takeover Offer") rather than by way of the Scheme. Under the terms of the Takeover Offer, Bidco offered SMS Shareholders 955 pence in cash for each SMS Share.

Directors' Report (continued)

Post balance sheet events (continued)

The offer became unconditional on 22 March 2024 when Bidco announced that they had acquired SMS shares for 955 pence carrying not less than 75 percent of the voting rights. On completion of the transaction, SMS de-listed from the London Stock Exchange through cancellation of the SMS shares traded on AIM and re-registered as a private limited company on 25 April 2024.

The financial statements have been prepared on the basis that the acquisition was not considered more likely than not as at the year end. This is evidenced by the fact that the form of the acquisition was changed in January 2024 from a scheme of arrangement to an agreed takeover. Accordingly, the 2023 financial statements do not reflect any acceleration of share-based payment costs or issue costs on the outstanding revolving credit facility, or recognition of contingent fees that were due on the acquisition completing. The revolving credit facility continued to be classified as non-current given that, as at 31 December 2023, the scheme of arrangement to effect the acquisition was still required to be voted on in a general meeting by shareholders. Consequently, the Acquisition is a non-adjusting post balance sheet event and details of the financial impact are given in note 34.

£3.5m of legal and consultancy costs relating to the Acquisition have been recognised as exceptional in the consolidated financial statements for the year ended 31 December 2023 for services received in the period.

The completion of the transaction has several expected financial impacts on the Group for the year ended 31 December 2024. See note 34 to the consolidated financial statements for details.

Subsequent to the completion of the Acquisition, the managing and operational directors of the Solo business resigned from their positions in the business. The Board are assessing the strategic direction of the Solo Energy business. Demand Flexibility Services may continue to be provided through another subsidiary undertaking and a review is underway to assess the potential leveraging of the FlexigridTM platform in other areas of the Group. Given this decision was made post year-end, following the Acquisition, this is a non-adjusting post balance sheet event. In 2024, management will perform a detailed assessment over the intangible assets and goodwill associated with the Solo business to assess for any impairment required.

Research and development

The main research and development activities relate to IT systems development to support the metering and installations business. In addition, the Group continues to invest in future technologies related to decarbonisation and energy efficiency.

Share capital

The Company's issued share capital comprises ordinary shares of £0.01 each. As at 31 December 2023, the issued share capital of the Company was £1,336,069 comprising 133,606,918 ordinary shares of £0.01 each listed on AIM, a market operated by the London Stock Exchange (AIM: SMS.L). Following acquisition by Sienna Bidco Limited on 22 March 2024, the Company's shares were de-listed from AIM and 100% of shares are now held by the immediate parent company Sienna Bidco Limited.

Share Incentive Plan

During the year ended 31 December 2023, the Group's HMRC-approved Share Incentive Plan (SIP) was open to all qualifying employees, including Executive Directors.

The Partnership Share element provided that for every share a participant purchased in the Company, up to a maximum contribution of £1,800 per year, the Company would purchase one Matching Share. The Matching Shares purchased were held in trust in the name of the individual. Dividends received on shares held in the SIP were reinvested to acquire Matching Shares at their market value.

Directors' Report (continued)

Share Incentive Plan (continued)

There are various rules as to the period of time that the shares must be held in trust, but after five years the shares can be released tax-free to the participant.

Under the terms of this scheme, the Matching Shares will be forfeited if the participant leaves the employment of the Company within three years of the award (unless they are classed as a 'good leaver').

During the year, the Company purchased 72,232 of its own shares (2022: 48,900) from the market for the purpose of satisfying its Matching Share obligations under the SIP. The total nominal value of the shares purchased was £722 (2022: £489) and the aggregate amount of consideration paid was £0.5m (2022: £0.4m).

Approved by the Board of Directors on 25th September 2024 and signed on its behalf below.

On behalf of the Board

Gail Blain
Chief Financial Officer

Date:

Directors' Responsibilities Statement

The directors are responsible for preparing the Annual report and the Group and Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the Group financial statements in accordance with United Kingdom adopted international accounting standards. The directors have elected to prepare the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101, "Reduced Disclosure Framework". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of their profit or loss for that period.

In preparing each of the Group and Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- for the Group financial statements, state whether they have been prepared in accordance with UK-adopted international accounting standards and, for the Company financial statements, state whether applicable UK accounting standards including FRS 101 have been followed, subject to any material departures disclosed and explained in the Company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website at www.sms-plc.com. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

This responsibility statement was approved by the Board of Directors on 25th September 2024 and signed on its behalf below.

By order of the Board

Craig McGinn
Company Secretary and General Counsel

Date: 25th September 2024

Independent auditor's report to the members of Smart Metering Systems Limited (formerly Smart Metering Systems Plc)

Opinion

In our opinion:

- Smart Metering Systems Limited (formerly Smart Metering Systems plc)'s group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2023 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Smart Metering Systems Limited (formerly Smart Metering Systems plc) (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2023 which comprise:

Group	Parent company
Consolidated Statement of Financial Position as at 31 December 2023	Parent Company Balance Sheet as at 31 December 2023
Consolidated Income Statement for the year then ended 31 December 2023	Parent Company Statement of Changes in Equity for the year then ended 31 December 2023
Consolidated Statement of Comprehensive Income for the year then ended 31 December 2023	Related notes 1 to 9 to the financial statements including a summary of significant accounting policies
Consolidated Statement of Changes in Equity for the year then ended 31 December 2023	
Consolidated Statement of Cash Flows for the year then ended 31 December 2023	
Related notes 1 to 34 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and UK adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent auditor's report to the members of Smart Metering Systems Limited (formerly Smart Metering Systems Plc)

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the group and parent company's ability to continue to adopt the going concern basis of accounting included:

- In conjunction with our walkthrough of the group's financial close process, we confirmed our understanding of management's going concern assessment process and also engaged with management early to ensure all key factors were considered in their assessment.
- We obtained management's going concern assessment, including the cash forecasts and covenant calculations for the going concern period ending 31 December 2025. The group has modelled severe but plausible scenarios in their cash forecasts and covenant calculations in order to incorporate severe but plausible changes in key assumptions to the forecasted liquidity of the group.
- We have tested the factors and assumptions included in each modelled scenario for the cash forecast and covenant calculation. We have reviewed the facility agreements and confirmed compliance with covenants at the year end and that the model show no breach throughout the going concern period.
- At 31 December 2023 the group had £440m of facilities of which £195m were drawn down. Following the completion of the takeover of the group in March 2024, the funding facilities were refinanced. We verified credit facilities available to the group to signed agreements and confirmed the group had access to committed bank facilities of £1,140m, of which £633m were drawn down as at 1 April 2024. The full amount of these facilities mature in 2029.
- EY independently performed reverse stress testing which demonstrated significant headroom on facilities. It was determined that covenants which are based on a rolling 12 month basis would require an annual revenue reduction of c26% on the base case, before any controllable mitigations. This is not deemed a plausible scenario given the recurring contracted revenue and historical and current trends of the group.
- We read the group's going concern disclosures included in the annual report in order to assess that the disclosures were appropriate and in conformity with the reporting standards.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group and parent company's ability to continue as a going concern for a period to 31 December 2025.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

Overview of our audit approach

Audit scope	• We performed an audit of the complete financial information of four components and audit procedures on specific balances for a further twelve components. • The components where we performed full or specific audit procedures accounted for 99% of PBT before exceptional items (our audit testing covers 100% of exceptional items), 99% of revenue and 97% of total assets.
Key audit matters	• Appropriateness of capitalisation of overheads and other expenses within the total of costs capitalised within meter assets. • Appropriateness of classification of uninstalled meter assets
Materiality	• Overall group materiality of £1.2m which represents 5% of the group's profit before tax (PBT) before exceptional items

Independent auditor's report to the members of Smart Metering Systems Limited (formerly Smart Metering Systems Plc)

An overview of the scope of the parent company and group audits

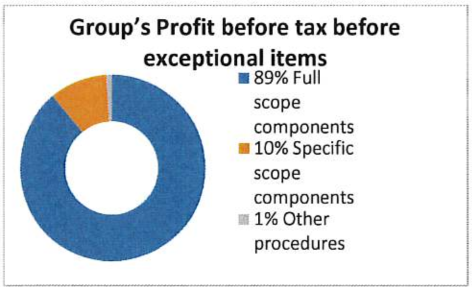
Tailoring the scope
Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each company within the group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the group and effectiveness of group-wide controls, the potential impact of climate change, changes in the business environment and other factors such as recent Internal audit results when assessing the level of work to be performed at each company.

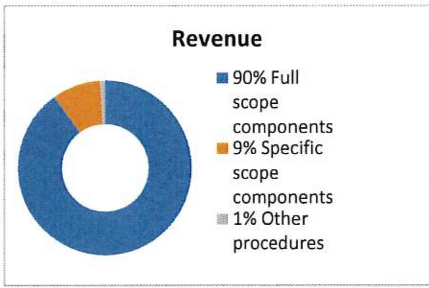
In assessing the risk of material misstatement to the group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 31 reporting components of the group, we selected 16 components covering entities within the UK and Ireland, which represent the principal business units within the group.

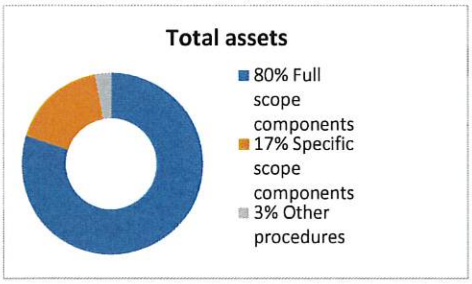
Of the 16 components selected, we performed an audit of the complete financial information of 4 components ("full scope components") which were selected based on their size or risk characteristics. For the remaining 12 components ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The reporting components where we performed audit procedures accounted for 99% (2022: 100%) of the group's PBT before exceptional items, 99% (2022: 99%) of the group's revenue and 97% (2022: 97%) of the group's total assets. For the current year, the full scope components contributed 89% (2022: 92%) of the group's PBT before exceptional items, 90% (2022: 89%) of the group's revenue and 80% (2022: 83%) of the group's total assets. The specific scope components contributed 10% (2022: 8%) of the group's PBT before exceptional items, 9% (2022: 10%) of the group's revenue and 17% (2022: 14%) of the group's total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the group.

The remaining 15 components that together represent 1% of the group's PBT before exceptional items. For these components, we performed other procedures, including analytical review, testing of consolidation journals and intercompany eliminations to respond to any potential risks of material misstatement to the group financial statements. The charts below illustrate the coverage obtained from the work performed by our audit teams.







Independent auditor's report to the members of Smart Metering Systems Limited (formerly Smart Metering Systems Plc)

Changes from the prior year

There were no changes in the scope from prior year.

Involvement with component teams

All audit work performed for the purposes of the audit was undertaken by the group audit team.

Climate change

There has been increasing interest from stakeholders as to how climate change will impact the group. Given the nature of the business management does not consider there to be a material impact from climate change. These considerations are explained on page 8 in the Strategic Report, which forms part of the "Other information," rather than the audited financial statements. Our procedures on these unaudited disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated, in line with our responsibilities on "Other information".

In planning and performing our audit we assessed the potential impacts of climate change on the group's business and any consequential material impact on its financial statements. As explained in the Basis of Preparation note, climate change risks are still developing, and are interdependent upon each other, and consequently financial statements cannot capture all possible future outcomes as these are not yet known. There are no significant judgements or estimates relating to climate change in the notes to the financial statements.

Our audit effort in considering the impact of climate change on the financial statements was focused on evaluating management's assessment of the impact of climate risk, physical and transition, their climate commitments, the effects of material climate risks disclosed on pages 14 and 15 and the significant judgements and estimates disclosed on pages 50 and 51 and whether these have been appropriately reflected. As part of this evaluation, we performed our own risk assessment to determine the risks of material misstatement in the financial statements from climate change which needed to be considered in our audit.

We also challenged the Directors' considerations of climate change risks in their assessment of going concern and associated disclosures.

Based on our work we have not identified the impact of climate change on the financial statements to be a key audit matter or to impact a key audit matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Independent auditor's report to the members of Smart Metering Systems Limited (formerly Smart Metering Systems Plc)

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Appropriateness of capitalisation of overheads and other expenses within the total of costs capitalised within meter assets (£530m value of total meter assets, PY comparative £467m) *Refer to Accounting policies (page 66) and note 11 in the Consolidated Financial Statements.* As at 31 December 2023, the group carried total meter assets amounting to £530m (2022: £467m). This includes internal operational costs that have been capitalised in the current year. A significant proportion of the group's smart meters are fitted by its in-house engineering team. The costs directly attributable to bringing the asset to the condition and location necessary for it to be capable of operating in the manner intended by management are capitalised in line with IAS 16. The significant risk relates to the judgements made by management when assessing the appropriate categories and proportion of direct costs of installation, overheads and other expenses directly attributable to the installation of each meter, which could have a material impact on the financial statements.	We identified controls designed by management to determine the categories and proportion of direct costs of installation, overheads and other expenses directly attributable to bringing the meter assets into use by the group's in-house engineering teams and evaluated the design effectiveness of these controls. We evaluated the judgement applied by management to assess the appropriate categories and proportion of direct costs of installation, overheads and other expenses directly attributable to installation of meter assets. This included: • Assessment of the capitalisation methodology applied, ensuring in accordance with IAS 16 and testing of the mathematical integrity of the model; • Testing of the time recording data utilised to determine the proportion of engineers' time spent installing; • Agreement of the costs to the audited trial balance; • Testing of the categorisation of costs capitalised to ensure they related to directly attributable costs of fitting the meter. Costs that did not relate to the meter fitting were excluded. The excluded costs included inefficiencies in meter fitting, time spent on training and time spent on transactional work; • Analytical procedures on the installation cost capitalised to assess the reasonableness of the amount capitalised; and • Reviewing the subsequent depreciation applied to the capitalised costs and their presentation within the financial statements. We performed full and specific scope audit procedures over this risk area, which covered 100% of the risk amount.	Based on the results of our audit procedures, we consider the amounts capitalised for meters installed by in-house engineers to be appropriate.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Appropriateness of classification of uninstalled meter assets £46.3m (2022: £37.1) *Refer to Accounting policies (page 66) and note 11 & 33 in the Consolidated Financial Statements.* As discussed in Note 33 the group has reassessed its accounting policy for accounting for uninstalled meters in the period. There are complexities and judgements related to interpretation and application of applicable accounting standards, as well as retrospective application of any related change in accounting policy which could have a material impact on the financial statements.	We evaluated the judgement applied by management in its reassessment of the accounting policy. This included: • Review of correspondence with the Financial Reporting Council (FRC) during the year to ensure all relevant facts and challenges were considered. • Assessed and challenged managements interpretation and application of IAS 16 and IAS 2, which included independently assessing the nature of uninstalled meters and requirements of IAS16 and IAS2. • Assessment of the methodology adopted by management to determine required adjustments in the current and prior period. We considered any judgements and assumptions applied. In addition, we tested the arithmetical integrity of the models used to calculate the retrospective impact of the change in accounting policy on the consolidated income statement, consolidated balance sheet, consolidated cashflow statement and associated notes. • Reviewed the disclosures in the financial statements related to this matter to ensure they are complete and appropriate. The group team performed full scope audit procedures over this risk area, which covered 100% of the risk amount.	Based on the results of our audit procedures, we consider the classification of uninstalled meters to be appropriate. In addition, we concluded that the restatement and the disclosures in relation to the change in accounting policy in the financial statements were appropriate and considered complete.

In the prior year, our auditor's report included a key audit matter in relation to Identification of indicators of impairment of the meter asset portfolio in accordance with IAS 36 and assumptions applied in determining the carrying value of the portfolio of meter assets- this was not considered a key audit matter in the year due to no impairment triggers being identified and therefore a reduced level of audit effort.

In the current year, we have included a new key audit matter related to the classification of uninstalled meter assets given the level of audit effort and focus required during the year ended 31 December 2023 audit.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the group to be £1.2 million (2022: £1.1 million), which is 5% (2021: 5%) of PBT before exceptional items. We believe that PBT before exceptional items provides us with an appropriate materiality threshold for the users of the financial statements as the exceptional costs are considered non-recurring costs in the normal course of business.

We determined materiality for the Parent Company to be £8.8million (2022: £8.6 million), which is 2% (2022: 2%) of equity. We have set materiality at the upper end of our normal range based on determination of what we believe is material to users of the parent company financial statements.

Performance materiality
The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the group's overall control environment, our judgement was that performance materiality was 75% (2022: 50%) of our planning materiality, namely £0.9m (2022: £0.6m). We have set performance materiality at this percentage due to our expectation of the likelihood of misstatements taking into account the internal control environment, accounting systems and level of estimation in the financial statements. Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £0.2 million to £0.8 million (2022: £0.1 million to £0.4 million).

Reporting threshold
An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.06m (2022: £0.06m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information
The other information comprises the information included in the annual report on pages 1 to 31, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Independent auditor's report to the members of Smart Metering Systems Limited (formerly Smart Metering Systems Plc)

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Responsibilities of directors
As explained more fully in the directors' responsibilities statement set out on page 118, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and parent company and determined that the most significant are those that relate to the reporting framework (IFRS, FRS 101, Companies Act 2006) and the relevant tax compliance regulations in the UK and Ireland. In addition, we concluded that there are certain significant laws and regulations that may have an effect on the determination of the amounts and disclosures in the financial statements and those laws and regulations relating to health and safety, employee matters, environmental and bribery and corruption practices;

- We understood how SMS is complying with those frameworks by making enquiries of directors, internal audit, those responsible for legal and compliance procedures and the Company Secretary. We corroborated our enquires through our review of the board minutes and papers provided to the Board, as well as consideration of the results of our audit procedures across the group to either corroborate or provide contrary evidence which was then followed up;

- We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur, by meeting with management within various parts of the business to understand where they considered there was susceptibility to fraud. We also considered performance targets and their influence on efforts made by management to manage earnings or influence the perceptions of analysts. Areas identified the greatest potential for fraud included revenue recognition and in common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. These procedures included specific procedures in relation to revenue recognition to ensure the occurrence and completeness of revenue and the testing of manual journals to provide reasonable assurance that the financial statements were free from fraud or error;

- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved enquiries of group management and those charged with governance, those responsible for legal and compliance procedures and internal audit; journal entry testing with a focus on manual consolidation journals and journals indicating large or unusual transactions based on our understanding of the business and a review of Board minutes to identify any non-compliance with laws and regulations.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

Paul Copland (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Edinburgh

26 *September 2024*

Consolidated Income Statement

For the year ended 31 December 2023

	Notes	2023 Before Exceptional items £'000	2023 Exceptional items[1] £'000	2023 Total £'000	Restated[1] 2022 Before exceptional items £'000	Restated[1] 2022 Exceptional Items[2] £'000	Restated[1] 2022 Total £'000
Revenue	2	168,612	4,144	172,756	137,181	2,019	139,200
Cost of sales	3	(80,109)	–	(80,109)	(65,498)	–	(65,498)
Gross profit		**88,503**	**4,144**	**92,647**	**71,683**	**2,019**	**73,702**
Administrative expenses	3	(56,396)	(10,625)	(67,021)	(46,320)	(8,665)	(54,985)
Net impairment gains/(losses) on financial assets	23	2,452	–	2,452	(563)	–	(563)
Other operating income	3	1,388	–	1,388	1,936	–	1,936
Profit from operations		**35,947**	**(6,481)**	**29,466**	**26,736**	**(6,646)**	**20,090**
Share of loss of associate	12	(822)	–	(822)	(186)	–	(186)
Finance costs	5	(12,592)	–	(12,592)	(4,273)	–	(4,273)
Finance income	5	1,065	–	1,065	324	–	324
Profit before taxation		**23,598**	**(6,481)**	**17,117**	**22,601**	**(6,646)**	**15,955**
Taxation	6	(5,525)	771	(4,754)	(2,557)	1,473	(1,084)
Profit for the year attributable to owners of the parent		**18,073**	**(5,710)**	**12,363**	**20,044**	**(5,173)**	**14,871**

[1] Refer to note 33 for details of restatement.

[2] Refer to note 3 for details of exceptional items.

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

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

	Notes	2023	2022
Basic earnings per share (pence)	7	**9.27**	**11.16**
Diluted earnings per share (pence)	7	**9.24**	**11.11**

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2023

	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 for the year	**18,073**	**(5,710)**	**12,363**	**20,044**	**(5,173)**	**14,871**
Other comprehensive income[1]						
Exchange differences on translation of foreign operations	(5)	–	(5)	9	–	9
Other comprehensive income for the year, net of tax	**(5)**	**–**	**(5)**	**9**	**–**	**9**
Total comprehensive income for the year attributable to owners of the parent	**18,068**	**(5,710)**	**12,358**	**20,053**	**(5,173)**	**14,880**

[1] May be reclassified to profit or loss.

Consolidated Statement of Financial Position

	Notes	31 December 2023 £'000	Restated[1] 31 December 2022 £'000	Restated[1] 1 January 2022 £'000
Assets				
Non-current assets				
Intangible assets	9, 10	25,866	25,832	25,463
Property, plant and equipment	11	686,673	570,320	438,444
Investments		40	40	75
Investment in associate	12	1,118	1,940	-
Other assets		-	-	1,651
Loan to associate	12	2,000	-	-
Trade and other receivables	14	2,773	12,347	-
Total non-current assets		**718,470**	**610,479**	**465,633**
Current assets				
Inventories	13	439	358	437
Other assets	-	-	-	550
Trade and other receivables	14	61,445	52,935	47,631
Cash and cash equivalents	15	26,538	32,770	117,687
Cash and cash equivalents – restricted	15	809	307	1,299
Total current assets		**89,231**	**86,370**	**167,604**
Assets held for sale	16	513	513	-
Total assets		**808,214**	**697,362**	**633,237**
Liabilities				
Current liabilities				
Trade and other payables	17	64,379	69,378	56,489
Bank loans and overdrafts	18	4,543	591	-
Lease liabilities	19	865	885	999
Other liabilities	21	325	1,388	638
Total current liabilities		**70,112**	**72,242**	**58,126**
Non-current liabilities				
Bank loans	18	193,899	63,349	-
Lease liabilities	19	14,980	11,476	7,574
Provisions	20	2,837	2,033	798
Other liabilities	21	1,386	1,280	750
Deferred tax liabilities	22	17,250	13,496	12,199
Total non-current liabilities		**230,352**	**91,634**	**21,321**
Total liabilities		**300,464**	**163,876**	**79,447**
Net assets		**507,750**	**533,486**	**553,790**

Consolidated Statement of Financial Position (continued)

		31 December 2023 £'000	Restated[1] 31 December 2022 £'000	Restated[1] 1 January 2022 £'000
Equity				
Share capital	27	1,336	1,334	1,333
Share premium		333,421	332,332	332,048
Other reserve	29	9,562	9,562	9,562
Own share reserve	27	(1,204)	(955)	(825)
Foreign currency translation reserve		(41)	(36)	(45)
Retained earnings		164,676	191,249	211,717
Total equity attributable to owners of the parent		**507,750**	**533,486**	**553,790**

[1] Refer to note 33 for details of restatement.

The financial statements on pages 48 to 113 were approved and authorised for issue by the Board of Directors and signed on its behalf by:

Gail Blain
Director

Date: 25th September 2024

Company registration number
SC367563

Consolidated Statement of Changes in Equity

For the year ended 31 December 2023

Attributable to the owners of the parent company:	Share capital £'000	Share premium £'000	Other reserve £'000	Own share reserve £'000	Foreign currency translation reserve £'000	Retained earnings £'000	Total £'000
As at 1 January 2022	**1,333**	**332,048**	**9,562**	**(825)**	**(45)**	**211,717**	**553,790**
Total profit for the year	–	–	–	–	–	14,871	14,871
Other comprehensive income	–	–	–	–	9	–	9
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**9**	**14,871**	**14,880**
Transactions with owners in their capacity as owners							
Dividends (note 8)	–	–	–	–	–	(37,592)	(37,592)
Shares issued (note 27)	1	284	–	–	–	–	285
Movement in own shares (note 27)	–	–	–	(130)	–	(265)	(395)
Share-based payments (note 28)	–	–	–	–	–	2,611	2,611
Income tax effect of share options	–	–	–	–	–	(93)	(93)
As at 31 December 2022	**1,334**	**332,332**	**9,562**	**(955)**	**(36)**	**191,249**	**533,486**
Total profit for the year	–	–	–	–	–	12,363	12,363
Other comprehensive loss	–	–	–	–	(5)	–	(5)
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(5)**	**12,363**	**12,358**
Transactions with owners in their capacity as owners							
Dividends (note 8)	–	–	–	–	–	(41,396)	(41,396)
Shares issued (note 27)	2	1,089	–	–	–	–	1,091
Movement in own shares (note 27)	–	–	–	(249)	–	(283)	(532)
Share-based payments (note 28)	–	–	–	–	–	1,757	1,757
Income tax effect of share options	–	–	–	–	–	986	986
As at 31 December 2023	**1,336**	**333,421**	**9,562**	**(1,204)**	**(41)**	**164,676**	**507,750**

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2023

	Notes	2023 £'000	Restated[1] 2022 £'000
Operating activities			
Profit before taxation		17,117	15,955
Share of loss of associate	12	822	186
Finance costs	5	12,592	4,273
Finance income	5	(1,065)	(324)
Exceptional items: other[2]		6,665	7,735
Depreciation	3	39,280	32,876
Amortisation of intangibles	3	5,049	4,152
Share-based payment expense	4	1,757	2,612
RDEC income	3	(117)	(280)
Loss on disposal of property, plant and equipment	3	4,863	3,715
Impairment of property, plant and equipment	3	2,340	1,032
Movement in inventories		(57)	78
Movement in trade and other receivables		(8,870)	(5,369)
Movement in trade and other payables		(4,027)	12,622
Movement in provisions		–	(5)
Cash generated from operations		**76,349**	**79,258**
Income tax received		227	568
Net cash generated from operations		**76,576**	**79,826**
Investing activities			
Payments for asset acquisitions[3]		(1,043)	(14,627)
Payment for acquisition of new business, net of cash acquired	24	(80)	(1,346)
Payment for acquisition of associate		-	(2,126)
Payment of convertible loan to associate	26	(2,000)	-
Payments to acquire property, plant and equipment		(153,106)	(156,544)
Payments on account to acquire grid-scale battery assets	14	(2,773)	(12,347)
Proceeds on disposal of property, plant and equipment		921	275
Payments to acquire intangible assets	9	(4,892)	(2,172)
Finance income received	5	1,065	324
Net cash used in investing activities		**(161,908)**	**(188,563)**
Financing activities			
New borrowings		335,000	90,000
Borrowings repaid		(205,000)	(25,000)
Lease payments[4]		(1,748)	(1,500)
Finance costs paid		(7,811)	(2,975)

Consolidated Statement of Cash Flows (continued)

	Notes	2023 £'000	Restated[1] 2022 £'000
Net proceeds from share issue	27	1,091	285
Purchase of own shares		(532)	(395)
Dividends paid	8	(41,396)	(37,592)
Net cash generated from financing activities		**79,604**	**22,823**
Net increase/(decrease) in cash and cash equivalents		(5,728)	(85,914)
Exchange (gain)/loss on cash and cash equivalents		(2)	5
Cash and cash equivalents at the beginning of the financial year		33,077	118,986
Cash and cash equivalents at the end of the financial year[5]	15	**27,347**	**33,077**

[1] Refer to note 33 for details of restatement.

[2] Other non-cash exceptional items comprise £7,103,000 for losses on the Group's traditional and SMETS1 meter portfolios and a £438,000 credit in relation to the release of deferred consideration on a prior period acquisition that is no longer payable. In 2022, non-cash exceptional items included £7,735,000 (restated) for losses on the Group's traditional and SMETS1 meter portfolios.

[3] Payments for asset acquisitions includes £1,043,000 of payments to settle deferred consideration on battery sites acquired in prior years (2022: £200,000).

[4] Lease payments comprise £1,638,000 (2022: £1,434,000) of principal payments and £110,000 (2022: £66,000) of deemed interest payments.

[5] Cash and cash equivalents includes restricted cash following an IFRIC agenda decision in March 2022.

Cash and cash equivalents comprise	2023 £'000	2022 £'000
Cash and cash equivalents	26,538	32,770
Cash and cash equivalents – restricted cash	809	307
Total cash and cash equivalents	**27,347**	**33,077**

Accounting Policies

The material accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The consolidated financial statements of the Group for the year ended 31 December 2023 were approved and authorised for issue in accordance with a resolution of the Directors on 19th September 2024. Smart Metering Systems Limited (SMS) is a private limited company limited by shares and incorporated in Scotland, with its registered office at 2nd Floor, 48 St. Vincent Street, Glasgow, G2 5TS. As at 31 December 2023, the Company's ordinary shares were traded on AIM. SMS de-listed from the London Stock Exchange through cancellation of the SMS shares traded on AIM and re-registered as a private limited company on 25 April 2024.

Basis of preparation

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

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

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

In preparing the consolidated financial statements management has considered the impact of climate change, particularly in the context of the disclosures included in the Strategic report and the Group's net-zero carbon target. Our net-zero plans are to electrify our vehicle fleet and carry out sustainability upgrades to our building estate. The fleet will be replaced at the end of its useful life. These considerations did not have a material impact on the financial reporting judgements and estimates, consistent with the assessment that climate change is not expected to have a significant impact on the Group's going concern assessment to December 2025. Qualitative explorations of potential areas of concern, including an evaluation of climate exposure on our physical assets such as offices, warehouses and vehicles, has been carried out and we have identified areas of potential climate-related risk, such as extreme weather events which could affect our physical locations and road-based employees. Overall, the risk of climate-related change on the Group is considered low.

Going concern

Management prepares budgets and forecasts on a five-year forward-looking basis. These forecasts cover operational cash flows and investment capital expenditure and are prepared based on management's estimation of installation run rates through the UK smart meter rollout. The Directors have performed their assessment of the entity's ability to continue as a going concern, from the date of issue of these financial statements to 31 December 2025.

Management has modelled several different scenarios, including a downside scenario which assumed a reduced rollout of new meter installations, delayed the energisation of grid-scale battery storage sites and reduced grid-scale battery storage yield. The scenario demonstrated that the business is expected to 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.

Following completion of Bidco's takeover of SMS in March 2024, a new financing package for SMS came into effect initially comprising a £365m Term Facility, a £250m Refinancing Term Facility used to settle the Group's outstanding loan balance with existing lenders, a £450m Capex Facility to finance the Group's metering and battery businesses, and a £75m Revolving Facility to support the Group's working capital requirements and/or general corporate purposes. All facilities have a maturity date of 60 months after the first utilisation date.

Two covenants shall be in place under the new financing arrangements – interest coverage and leverage - tested on a half yearly rolling 12-month historical basis, with levels varying throughout the facility term. Conditions relating to

Accounting Policies (continued)

Going concern (continued)

the use of funding are applicable under the Capex Facility including restrictions on the maximum value of funding available for use for certain capex spend.

Management has overlaid the impact of the new financing arrangements, including quantum of borrowings as detailed above, new interest rates and capex restrictions, along with a no dividend assumption, onto its current "business as usual" base case corporate forecast model. This shows that the new capex restrictions do not slow or hinder the Group's growth, with the current committed meter pipeline and 860MW battery pipeline both being comfortably funded by the new facilities.

The Group balance sheet at 31 December 2023 shows consolidated net assets of £507.8m (31 December 2022: £533.5m), of which £529.6m (31 December 2022 restated: £466.8m) 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.

Based on the Group's current cash flow projections, including assessment of the impact of the new financing arrangements following the Acquisition, and having given consideration to various outcomes of future performance and forecast capital expenditure, including severe but plausible downside scenarios, the Directors consider it appropriate to continue to prepare the financial statements on a going concern basis and are of the view that there are no material uncertainties regarding the Group's going concern status.

Basis of consolidation

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

The acquisition method of accounting is used to account for business combinations by the Group (refer to policy on page 62).

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

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

Foreign currency translation

Group companies

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

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

Accounting Policies (continued)

Foreign currency translation (continued)

Group companies (continued)

- all resulting exchange differences are recognised in Other comprehensive income and accumulated in a separate reserve within equity.

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

Transactions and balances

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

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

Use of estimates and judgements

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

Critical accounting judgements

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

- capitalisation of internal installation costs:
  - a significant level of in-house installation of meter assets is carried out by the Group, certain costs of which are capitalised in the year (2023: £54.5m, 2022: £51.8m) and depreciated as part of property, plant and equipment depreciation. Judgement is required by management to ascertain the appropriate categories and proportion of overheads and other expenses that are directly attributable to installation of meter assets. Typically, capitalised costs will include staff costs, and a systematic allocation of any production overheads deemed to be directly attributable to the process of installing a meter owned by the Group. Other general and administrative overheads, such as sales, marketing and training costs, are expensed directly to profit and loss;

- presentation of losses on certain meter assets as exceptional items:
  - as a result of the inherent volatility associated with the UK smart meter rollout, and removal of traditional meter assets as part of this, management has taken the decision to show losses arising on these meters – comprising the net book value of installation components on removal of a meter from the wall, impairment charges, and scrapped meter units – as exceptional administrative expenses. By disclosing these amounts separately, the traditional meter asset portfolio can be better tracked to assist users of the financial statements to better understand the premature retirement of these revenue-generating assets that is outside the Group's control. On removal of traditional meters from the wall, the receipt of termination income is recognised as revenue under IFRS 15 and, consistent with the treatment of related losses, is classified as exceptional; and
  - the Group has continued to see a small proportion of SMETS1 meters removed from the wall. As these removals are attributable to the temporary industry transition period, management has made the judgement to recognise losses arising on these meters, and termination income recognised within revenue, as exceptional until resolution by the Enrolment and Adoption programme is complete; and

Accounting Policies (continued)

Critical accounting judgements (continued)

- identification of indicators of impairment of the meter asset portfolio in accordance with IAS 36 and assumptions applied in determining the carrying value of the portfolio of meter assets:
  - as the UK smart meter rollout progresses, our portfolio of traditional meter assets is diminishing. It is therefore crucial that a review for indicators of impairment and, where indicators are identified, the recoverability of the carrying value of our meter assets, recognised in property, plant and equipment, be assessed. The two main drivers for assessing this recoverability are:

  1. the timing of the removals of these meters – this decision lies with the end consumer and removals are largely undertaken by third parties, which means we have little control over the timing and quantity of these removals; and
  2. the estimated future cash flows from termination income – these are derived using historical data and analysis around the risk of churn between contracted and non-contracted customers. The assessment includes consideration of the extent to which termination income and future rental income are received as traditional meters continue to be removed from the wall.

  In line with IAS 36, no impairment review was considered necessary at 31 December 2023 as the previous impairment review 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. There have also been no events during 2023 that would eliminate this excess or any new material indicators of impairment in the year.

  Therefore, no impairment charge has been recognised in the year ended 31 December 2023 (31 December 2022: £nil).

  - potential indicators of impairment have also been assessed in relation to our smart and I&C meters, including consideration of the temporary industry transitional issues experienced with some SMETS1 assets as detailed above. Management has concluded that there is no significant risk of impairment with regards to the Group's smart and I&C meters at 31 December 2023, consistent with the prior year.

- useful economic life of components within the "meter assets" asset class:
  - meter assets recorded within property, plant and equipment are comprised of multiple components including the meter unit, ancillary parts and an installation component. Judgement is required by management in defining the useful economic lives of these components. Meter units are depreciated on a straight-line basis over 20 years; ancillary parts and the installation cost are depreciated over the shorter of 20 years and the remaining useful life of the related meter unit to which these components are attached.

  - If a meter asset is removed from a wall, the meter unit has the potential to be re-used following triage and refurbishment whilst the ancillary parts and installation components are written off as these cannot be reused. Fundamentally, on installation, the ancillary parts and installation components have both the physical and technological abilities required to serve a new meter unit throughout its full 20-year estimated useful life cycle. The ancillary parts and installation components are expected to be available for use for the same duration of time as the meter unit to which they are attached. Therefore management have concluded that a useful economic life of the shorter of 20 years (if the meter unit to which the components are attached is new) or the remaining useful life of the related meter unit (if the meter unit to which the components are attached is refurbished) is appropriate. Instances of removal are typically the result of individual faults, changes to the energy supplier or commissioning updates, that are difficult to predict and not representative of the standard durability of the related component. The useful economic life of the lower of 20 years or the remaining useful life of the related meter is therefore considered appropriate to apply to the ancillary parts and installation components of meter assets.

Accounting Policies (continued)

Key sources of estimation uncertainty

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

Revenue recognition

i. Metering
Meter rental

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

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

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

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

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

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

Asset management services

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

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

Service charges are calculated based on the number of meters appointed and are accrued monthly. As revenue from service charges is attributed to services provided periodically, revenue is always based on the actual level of service provided and, therefore, there is no uncertainty at the end of each reporting period. For charges invoiced to customers monthly revenue is thus recognised over time based on our right to invoice and includes contract RPI uplifts. For charges invoiced to customers annually in advance, including contract RPI uplifts, a contract liability is recognised

Accounting Policies (continued)
Revenue recognition (continued)
i. Metering (continued)
Asset management services (continued)

and subsequently released to the income statement over the year on a straight-line basis. The Group uses the practical expedient under IFRS 15 from adjusting revenue for any significant financial components of one year or less.

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

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

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

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

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

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

Termination income

Under certain circumstances the Group's MAP contracts grant it rights to termination income when an individual meter asset is removed from a wall or the MAP contract is terminated early by other means as defined in the customer contract.

When a customer exercises their pre-existing contractual right to terminate a contract early, or an asset is removed from the wall, there are no changes in scope or price as originally set out in the contractual agreement that would change the enforceable rights and obligations of either party to the contract, and no prior approval is required from the Group in order for the customer to do so. An early termination does not, therefore, meet the definition of a contract modification and is accounted for as a change in transaction price.

Termination notifications are triggered by an industry data flow once an asset is removed from a wall. Typically the customer exercising their termination rights and the completion of the termination event occur simultaneously. Termination income is therefore recognised at a point in time when the removal is completed since there would be no material difference between recognition over time or at a point in time.

ii. Data services

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

Accounting Policies (continued)

Revenue recognition (continued)

ii. Data services (continued)

Service charges are calculated based on the number of meters/ADM™ units appointed and are accrued monthly. As revenue from service charges is attributed to services provided periodically, revenue is always based on the actual level of service provided and, therefore, there is no uncertainty at the end of each reporting period. Service charges,

including contract RPI uplifts, are billed to clients annually in advance and therefore a contract liability is recognised and subsequently released to the income statement over the year on a straight-line basis. The Group uses the practical expedient under IFRS 15 from adjusting revenue for any significant financial components of one year or less.

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

iii. Utility connections services (gas and electricity)

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

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

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

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

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

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

Accounting Policies (continued)

Revenue recognition (continued)

iv. Transactional meter works

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

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

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

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

v. Grid-scale batteries

Grid-scale battery assets generate revenue by providing several services.

Capacity market

SMS enters into longer term contracts with the National Grid. During the contract period, which may last from one to 15 years, SMS's only obligation is to make itself available to provide the capacity agreed in the contract when notification is received from National Grid. Pricing is fixed at an auction. SMS are subject to non-delivery penalties and termination fees should the battery storage asset be unavailable to provide the agreed capacity.

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

Wholesale market

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

There is a single performance obligation for SMS to buy or sell power on the exchange. Revenue is recognised for each transaction at a point in time and is recognised net of costs from trading activities.

Balancing mechanism

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

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

Ancillary services market

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

Accounting Policies (continued)

Revenue recognition (continued)
v. Grid-scale batteries (continued)
Ancillary services market (continued)

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

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

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

Imbalance
Elexon BSC is obliged to purchase or sell electricity generated or sold in any half-hour period which is not otherwise contracted for. SMS buys or sells power to meet its requirements for the other revenue streams. The purchase and selling prices are at a spot price set by a formula.
There is a single performance obligation for SMS to export or import power. Revenue is recognised for each transaction at a point in time and is recognised net of costs from trading activities.

vi. Energy management services

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

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

Contracts for specialist consultancy services may include multiple projects. Where these projects are separately identifiable within the contract and are not interrelated, they are accounted for as separate performance obligations. The transaction price is allocated based on the stand-alone selling price for each project and revenue is recognised over time in line with project completion milestones.

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

vii. Assets and liabilities arising from contracts with customers

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

Accounting Policies (continued)

vii. Assets and liabilities arising from contracts with customers (continued)

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

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

For project-based services, work in progress is billed in accordance with the agreed-upon contractual terms with the customer. We typically receive interim payments as work progresses, which can give rise to a billed or unbilled accounts receivable, where our right to payment is unconditional, or a contract asset, where revenue has been recognised based on progress completed but our right to payment is still conditional on future performance. For some contracts, we may be entitled to receive advance payments. We recognise a contract liability for these advance payments in excess of revenue recognised. Contract assets are disclosed within accrued income in Note 14 and contract liabilities within deferred income and advanced payments in Note 17.

Cancellation terms can vary but typically include provisions that allow the customer to terminate the contract at their discretion subject to a penalty or settlement of amounts for work completed prior to termination. For contracts where revenue is recognised over time, the Group generally has an enforceable right to payment for costs for work completed to date plus margin. Contracts allow both parties to cancel without penalty in the case of a material breach of contract.

Exceptional items and separately disclosed items

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

Government grants

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

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

Financial assets

The Group's financial assets include cash and cash equivalents, trade and other receivables and for the parent company, amounts owed by Group undertakings. Investments consist of an immaterial debt investment held at amortised cost.

Accounting Policies (continued)

Financial assets (continued)

Classification

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

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

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

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

Recognition and derecognition

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

Measurement

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

Trade and other receivables

Trade and other receivables are recognised initially at the IFRS 15 transaction price and subsequently measured at amortised cost. Other than payments on account to acquire grid-scale battery assets, trade and other receivables are generally due for settlement within 30 days and are therefore all classified as current. Due to their short-term nature, carrying value is considered to approximate fair value.

Payments on account to acquire grid-scale battery assets are realised over the course of construction of the battery asset and therefore are not due to be realised within 12 months of the reporting date. These receivables are classified as non-current. Carrying value is considered to approximate fair value.

Loans to related parties comprise of an amount owed by the Group's associate. It is initially recognised at fair value and subsequently measured at fair value through profit and loss. The loan was issued under normal market conditions, and therefore the principal amount is considered to approximate fair value.

Cash and cash equivalents

Refer to accounting policy on Cash and cash equivalents.

Impairment

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

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

Accounting Policies (continued)

Financial assets (continued)

Impairment (continued)

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

Financial liabilities

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

Classification

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

Recognition

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

Measurement

Trade and other payables and bank overdrafts

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

Bank loans

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

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

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

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

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

Accounting Policies (continued)

Offsetting of financial instruments

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

Leases

Group as lessor

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

Group as lessee

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

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

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

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

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

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

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. The weighted average lessee's incremental borrowing rate applied to the lease liabilities at 31 December 2023 was 6.6% (31 December 2022: 5.0%).

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

Accounting Policies (continued)

Leases (continued)

Group as lessee (continued)

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

Right-of-use assets are measured at cost comprising the following:
- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

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

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

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

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

Provisions

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

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

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

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

Decommissioning and restoration provisions

Provisions for decommissioning and restoration costs arise in connection with the Group's grid-scale battery storage business, and with certain leased warehouses. The Group is required to restore the land leased as part of its grid-scale battery storage sites, and certain leased warehouses, to the condition required by the terms and conditions of the lease at the end of the respective lease terms (which range between three to ten years for warehouses, and 20 to 50 years for land). The amount recognised is the present value of the estimated future expenditure determined in accordance with current conditions, requirements, and price levels, discounted over the useful economic life of the asset where appropriate. The effects of changes resulting from revisions to the timing

Accounting Policies (continued)

Decommissioning and restoration provisions (continued)

or amount of the original estimate of the provision are reflected on a prospective basis, generally by adjustment to the carrying amount of the related right-of-use asset recorded within property, plant and equipment.

An amount equivalent to the decommissioning provision is recognised as part of the corresponding right-of-use asset, which is subsequently depreciated at the same rate as the rest of the asset. Other than the unwinding of discount on or utilisation of the provision, any change in present value of the estimated expenditure is reflected as an adjustment to the provision and the corresponding asset.

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

Business combinations

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

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

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

Acquisition-related costs are expensed as incurred.
The excess of the:

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

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

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

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

Investments in associates

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

Accounting Policies (continued)

Asset acquisitions

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

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

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

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

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

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

Research and development

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

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

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

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

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

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

Capitalised IT development expenditure is disclosed within Intangible assets as part of IT development and software. All costs capitalised within this category relate to information technology and, in general, are amortised over an economic life of five years..

Intangible assets

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

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

Accounting Policies (continued)

Intangible assets (continued)

Intangible assets acquired as part of a business combination are recognised outside goodwill if the asset is separable or arises from contractual or other legal rights. They are recognised at their fair value at the date of acquisition and are subsequently amortised on a straight line basis over their estimated useful lives.

Following initial recognition, intangible assets are measured at cost at the date of acquisition less any amortisation and any impairment losses. Amortisation costs are included within Administrative expenses disclosed in the consolidated statement of comprehensive income.

Intangible assets are amortised over their useful lives as follows:

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

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

Software as a service ("SaaS") arrangements

SaaS arrangements are arrangements in which the Group does not currently control the underlying software used in the arrangement. These arrangements are accounted for as a service contract over the contract period. The Group's policy in relation to costs incurred to configure or customise the software to specific requirements is as follows:

- Where costs incurred to configure or customise SaaS arrangements result in the creation of a resource which is identifiable, and where the Group has the power to obtain the future economic benefit flowing from the underlying resource and to restrict the access of others to those benefits, such costs are capitalised as separate intangible assets and amortised over the useful life of the software on a straight-line basis.
- Where costs incurred to configure or customise do not result in the recognition of an intangible asset then those costs that provide the Group with a distinct service (in addition to the SaaS access) are recognised as expenses as incurred. When such costs incurred do not provide a distinct service, the costs are expensed over the life of the contract on a straight-line basis.

Goodwill

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

Goodwill is allocated to cash-generating units (CGUs) for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the synergies of the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes and are no larger than an operating segment.

The recoverable amount of a CGU or group of CGUs is measured at the higher of its value in use and fair value less costs of disposal. If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

Adjustments to provisional fair values of identifiable assets and liabilities (and to estimates of contingent consideration) arising from additional information, obtained within the measurement period (no more than one year from the acquisition date), about facts and circumstances existing at the acquisition date, are adjusted against

Accounting Policies (continued)

Goodwill (continued)

goodwill. Other adjustments to provisional fair values or changes in contingent consideration are recognised through profit or loss.

Impairment of tangible and intangible assets other than goodwill

At each reporting date, the Group reviews the carrying amounts of its property, plant and equipment and intangibles to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the CGU to which the asset belongs.

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

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

Property, plant and equipment

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

Property, plant and equipment is initially recorded at cost. Such cost includes the cost of replacing part of the property, plant and equipment. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

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

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

• Freehold property	-	2%
• Short-leasehold property	-	Shorter of the lease term or 15% to 20%
• Meter assets	-	Smart and Industrial & Commercial meter units 5%
	-	ADM™ units 10%
	-	Ancillary and installation components lower of 5% or remaining useful economic life of the related meter/ADM™ unit
	-	Traditional meters (all components) to 1 July 2025
• Plant and machinery	-	33%
• Fixtures, fittings and equipment	-	20% and 33%
• Motor vehicles	-	25%
• Right-of-use assets	-	Shorter of the asset's useful life and the lease term
• Grid-scale assets	-	Battery energy storage system - Shorter of the lease term or 2.5% to 10%
	-	Battery assets - 10%

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

Accounting Policies (continued)

Property, plant and equipment (continued)

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

(i) Meter assets

The Group's meter asset portfolio recorded within property, plant and equipment comprises both installed and uninstalled meter assets.

Initial recognition

Newly purchased meter units and other significant ancillary parts which are critical for the meter unit to operate upon installation (such as regulators) are initially recognised within property, plant and equipment at cost.

Upon installation, an installed meter asset comprises three key components including the meter unit, the significant ancillary parts and the cost of installation (comprising labour and consumables). Pursuant to the acquisition of the meter installation businesses on 18 March 2016 certain internal costs to the Group are capitalised as part of the installation component where they are demonstrated as being directly attributable to bringing the meter assets into their usable condition.

Depreciation

Newly purchased uninstalled meter units and ancillary parts are not subject to depreciation as they are not yet available for use in the location and condition necessary to be capable of operating in the manner intended by management. Depreciation on newly purchased meter units and ancillary parts commences once the asset has been fully installed.

The estimated useful economic lives of the relevant components are defined above.

Removals

Upon removal of an installed meter asset, each component is accounted for as follows:

- The meter unit is subject to a triage process whereby the condition of the meter unit is assessed to identify whether it can be re-used. If the uninstalled meter unit is deemed to be re-usable following triage, then the meter unit is classified as temporarily idle and continues to be depreciated. Meter units which do not have the ability to be reused are scrapped and disposed of from property, plant and equipment. Depreciation does not cease, therefore, until a meter unit is either scrapped or fully impaired.
- Regardless of the physical and operational condition of the meter unit, the ancillary parts and installation cost are scrapped on removal of a meter asset as they have no ability to generate future economic benefit once removed. These are derecognised, giving rise to a loss on disposal.

Refurbishment costs are expensed through Administrative expenses within the consolidated income statement.

Reinstallation

When a refurbished meter unit is reinstalled, new ancillary parts and installation costs are capitalised at cost. The meter unit component continues to depreciate over its remaining useful economic life. The newly-capitalised ancillary parts and installation components begin depreciating on installation and are depreciated over the lower of 20 years and the remaining useful economic life of the meter unit to which they are attached. See the critical accounting judgements accounting policy for further details.

(ii) Grid-scale assets

Acquired development and construction rights together with directly attributable costs incurred in relation to the construction of the grid-scale battery storage sites are accounted for under IAS 16: Property, plant and equipment. These are recorded at cost and classified as part of Assets under construction within Property, plant and equipment. Construction costs are capitalised from the point at which it is probable that the construction of the assets will generate future economic benefit. This is defined by the Group as the point at which the Group has control over the build out of

Accounting Policies (continued)

Property, plant and equipment (continued)

(ii) Grid-scale assets (continued)

the assets via the secured land, planning permission, and grid connection. Whilst under construction no depreciation is recorded.

Assets held for sale

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

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

Inventories

Inventories comprise parts intended for consumption through the Group's transactional activities, including the maintenance of meter assets. Inventories are stated at the lower of cost and net realisable value. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value represents the estimated selling price for inventories in the ordinary course of business less the estimated costs necessary to make the sale.

Cash and cash equivalents

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

Restricted cash

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

Pension costs

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

Share-based payments

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

Share capital

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

Own share reserve

The Group offers a Share Incentive Plan for all employees and has established a trust to facilitate the delivery of SMS shares under this plan. The holdings of this trust include shares that have not vested unconditionally to employees of

Accounting Policies (continued)

Own share reserve (continued)

the Group. These shares are recorded at cost and are classified as own shares. The cost to the Company of acquiring these own shares held in trust is shown as a deduction from shareholders' equity.

Dividends

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

Taxation

Tax currently payable is based on the taxable profit for the year and any adjustment to tax payable in respect of prior years. Taxable profit differs from accounting profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is measured using tax rates that have been enacted or substantively enacted by the reporting date. Current tax is recognised in the income statement except when it relates to items recognised in other comprehensive income or directly in equity, such as share based payments).

Deferred tax is the tax expected to be payable or recoverable on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax is recognised in respect of all temporary differences that have originated from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences.

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

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

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

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

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

Accounting Policies (continued)

Standards and interpretations

New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for its annual reporting period commencing 1 January 2023:

Standard or interpretation		Effective date
IAS 1 (amendment)	Disclosure of Accounting Policies	1 January 2023
IAS 8 (amendment)	Definition of Accounting Estimates	1 January 2023
IAS 12 (amendment)	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
IFRS 17	Insurance contracts	1 January 2023

An amendment to IAS 12 Income Taxes was published in May 2021 and became effective for the Group from 1 January 2023. The amendment narrowed the scope of the deferred tax initial recognition exemption so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

The Group has considered the impact of this amendment, notably in relation to the accounting for deferred taxes on leases and restoration provisions, and do not consider there to be any material impact on the financial statements of the Group as a result of the amendment.

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

New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2023 reporting periods and have not been early-adopted by the Group. The amendments to IAS 1 Presentation of Financial Statements, in regard to the classification of liabilities as current or non-current and non-current liabilities with covenants, will apply to the Group's borrowings. These amendments are effective for periods beginning on or after 1 January 2024. Their potential effects are under consideration and will be applied from 1 January 2024. All other standards are not expected to have a material impact on the entity in the current or future reporting periods, or on foreseeable future transactions.

Notes to the Financial Statements
For the year ended 31 December 2023

1 Segmental reporting

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

- Asset management, which comprises regulated management of gas and electric meters, ADM™ units and energy data assets within the UK;
- Asset installation, which comprises installation of domestic and I&C gas meters and electricity meters throughout the UK; and
- Energy management, which comprises the building and operation of grid-scale batteries, the provision of energy consultancy services and the management of distributed energy resources (DER). Other developing carbon reduction (CaRe) verticals are also managed through this division.

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. There is no aggregation of operating segments.

Segment performance is mainly evaluated based on gross profit.

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

31 December 2023	Asset management £'000	Asset installation £'000	Energy management £'000	Unallocated £'000	Total operations £'000
Segment revenue (pre-exceptional)	**116,000**	**92,941**	**16,696**	**–**	**225,637**
Inter-segment revenue	–	(57,025)	–	–	(57,025)
Revenue from external customers	**116,000**	**35,916**	**16,696**	**–**	**168,612**
Cost of sales (excluding depreciation)	(7,626)	(26,534)	(9,537)	–	(43,697)
Depreciation	(32,786)	–	(3,626)	–	(36,412)
Segment gross profit	**75,588**	**9,382**	**3,533**	**–**	**88,503**
Other operating costs/income	229	133	903	(45,903)	(44,638)
Depreciation	–	(45)	(152)	(2,671)	(2,868)
Amortisation of intangibles	(2,445)	–	(301)	(2,304)	(5,050)
Profit/(loss) from operations – pre-exceptional operating items	**73,372**	**9,470**	**3,983**	**(50,878)**	**35,947**
Exceptional items (operating)	(2,861)	–	438	(4,058)	(6,481)
Profit/(loss) from operations	**70,511**	**9,470**	**4,421**	**(54,936)**	**29,466**
Share of loss of associate					(822)
Net finance costs: other					(11,527)
Profit/(loss) before tax					**17,117**
Tax expense					(4,754)
Profit for year					**12,363**

Notes to the Financial Statements (continued)

1 Segmental reporting (continued)

31 December 2022	Asset management (restated)[1] £'000	Asset installation £'000	Energy management £'000	Unallocated (restated)[1] £'000	Total Operations (restated)[1] £'000
Segment revenue (pre-exceptional)	94,476	83,752	12,213	–	190,441
Inter-segment revenue	–	(53,260)	–	–	(53,260)
Revenue from external customers	94,476	30,492	12,213	–	137,181
Cost of sales (excluding depreciation)	(7,357)	(23,530)	(5,276)	–	(36,163)
Depreciation	(28,341)	–	(994)	–	(29,335)
Segment gross profit	58,778	6,962	5,943	–	71,683
Other operating costs/income	–	–	611	(37,865)	(37,254)
Depreciation	–	(69)	(240)	(3,232)	(3,541)
Amortisation of intangibles	(1,828)	–	(20)	(2,304)	(4,152)
Profit/(loss) from operations – pre-exceptional operating items	56,950	6,893	6,294	(43,401)	26,736
Exceptional items (operating)	(5,790)	(30)	–	(826)	(6,646)
Profit/(loss) from operations	51,161	6,863	6,294	(44,228)	20,090
Share of loss of associate					(186)
Net finance costs: other					(3,949)
Profit/(loss) before tax					15,955
Tax expense					(1,084)
Profit for year					14,871

[1] Comparative amounts for the year ended 31 December 2022 have been restated as a result of a prior period error in relation to the accounting for meter assets. Details included in note 33.

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

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

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

The Group had two major customers in 2022 and two major customers in 2023 that each generated 10% or more of total Group turnover each year, as listed below by segment:

	2023 £'000	2022 £'000
Customer 1 – Asset management	–	17,574
Customer 1 – Asset installation	–	5,052
Customer 2 – Asset management	8,720	8,056
Customer 2 – Asset installation	13,029	8,784
Customer 3 – Asset management	39,146	–
Customer 3 – Asset installation	6,855	–
	67,750	39,466

Notes to the Financial Statements (continued)

1 Segmental reporting (continued)

Segment assets and liabilities

31 December 2023	Asset management £'000	Asset installation £'000	Energy management £'000	Unallocated £'000	Total operations £'000
Assets reported by segment					
Intangible assets	16,687	3,497	2,360	3,322	25,866
Property, plant and equipment	529,573	91	145,320	11,689	686,673
Investment in associate	–	–	1,118	–	1,118
Investment in associate	–	–	2,000	–	2,000
Trade and other receivables – non-current	–	–	2,773	–	2,773
Inventories	58	370	11	–	439
Contract assets	–	1	64	–	65
	546,318	3,959	153,646	15,011	718,934
Assets not by segment					89,280
Total assets					808,214
Liabilities by segment					
Contract liabilities	3,162	1,349	60	–	4,571
Lease liabilities	–	–	10,303	5,542	15,845
Provisions	–	–	2,767	70	2,837
Other liabilities	645	–	1,066	–	1,711
	3,807	1,349	14,196	5,612	24,964
Liabilities not by segment					275,500
Total liabilities					300,464

31 December 2022	Asset management (restated) £'000	Asset installation £'000	Energy management £'000	Unallocated £'000	Total operations (restated) £'000
Assets reported by segment					
Intangible assets	13,550	3,497	3,161	5,624	25,832
Property, plant and equipment	466,789	71	95,225	8,235	570,320
Investment in associate	–	–	1,940	–	1,940
Trade and other receivables – non-current	–	–	12,347	–	12,347
Inventories	56	302	–	–	358
Contract assets	–	10	277	–	287
	480,395	3,880	112,950	13,859	611,084
Assets not by segment					86,278
Total assets					697,362
Liabilities by segment					
Contract liabilities	1,518	1,805	80	–	3,403
Lease liabilities	–	–	8,405	3,956	12,361
Provisions	–	–	1,963	70	2,033
Other liabilities	606	–	2,062	–	2,668
	2,124	1,805	12,510	4,026	20,465
Liabilities not by segment					143,411
Total liabilities					163,876

Notes to the Financial Statements (continued)
1 Segmental reporting (continued)
Segment assets and liabilities (continued)

Assets not by segment include cash and cash equivalents, current trade and other receivables (except for contract assets), investments and assets held for sale.

Liabilities not by segment include trade and other payables (except for contract liabilities), deferred tax liabilities and bank loans. Additions to non-current assets within each segment are listed below:

2023	Asset Management £'000	Asset installation £'000	Energy management £'000	Unallocated £'000	Total operations £'000
Additions to non-current assets					
Intangible assets	4,503	–	622	–	5,125
Property, plant and equipment	110,766	65	54,039	6,554	171,424
Trade and other receivables – non-current	–	–	2,773	–	2,773
	115,269	65	57,434	6,554	179,322

2022	Asset Management (restated)[1] £'000	Asset installation £'000	Energy Management (restated)[2] £'000	Unallocated £'000	Total Operations (restated) £'000
Additions to non-current assets					
Intangible assets	3,837	–	601	–	4,438
Property, plant and equipment	118,199	14	57,593	2,264	178,070
Trade and other receivables – non-current	–	–	12,347	–	12,347
	122,036	14	70,541	2,264	194,855

[1] Additions to property, plant and equipment in 2022 have been restated as a result of a prior period error in relation to the accounting for meter assets. Details included in note 33. As a result, the total non-current asset additions previously presented as £106,626,000 have been restated to £122,036,000.

[2] Disclosure of additions to non-current assets by segment has been updated to include additions to non-current trade and other receivables in the year ended 31 December 2023. The comparative disclosure for the year ended 31 December 2022 has therefore also been updated for consistency.

Within additions to property, plant and equipment in 2023 of £54,039,000 is £12,347,000 relating to payments on account to acquire grid-scale battery assets which were previously recognised as additions to non-current other receivables in the year ended 31 December 2022 whilst pending delivery of the batteries.

Notes to the Financial Statements (continued)
2 Revenue from contracts with customers
(a) Disaggregation of revenue from contracts with customers

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

Year ended 31 December 2023	Asset management £'000	Asset installation £'000	Energy management £'000	Total operations £'000
Major service lines				
Metering[1]	106,068	–	–	106,068
Data management	14,076	–	–	14,076
Utility connections	–	7,148	–	7,148
Transactional meter works	–	28,747	–	28,747
Grid-scale batteries[3]	–	–	9,102	9,102
Energy management	–	21	7,122	7,143
Other	–	–	472	472
	120,144	35,916	16,696	172,756

Year ended 31 December 2023	Asset management £'000	Asset installation £'000	Energy management £'000	Total operations £'000
Timing of revenue recognition				
Services transferred at a point in time	8,096	28,747	3,342	40,185
Services transferred over time	112,048	7,169	13,354	132,571
	120,144	35,916	16,696	172,756

Year ended 31 December 2022	Asset management (restated)[1] £'000	Asset installation £'000	Energy management £'000	Total operations (restated)[1] £'000
Major service lines				
Metering[2]	84,314	–	–	84,314
Data management	12,181	–	–	12,181
Utility connections	–	7,129	–	7,129
Transactional meter works	–	23,059	–	23,059
Grid-scale batteries[3]	–	–	7,211	7,211
Energy management	–	304	5,002	5,306
	96,495	30,492	12,213	139,200
Timing of revenue recognition				
Services transferred at a point in time	3,681	23,059	1,533	28,273
Services transferred over time	92,814	7,433	10,680	110,928
	96,495	30,492	12,213	139,200

[1] Within metering revenue is £8,096,000 (2022: £3,581,000) relating to termination income, £4,144,000 of which is classified as exceptional (2022: £2,019,000).

[2] Comparative amounts for the year ended 31 December 2022 have been restated as a result of a prior period error in relation to the accounting for meter assets. Details included in note 33.

[3] Of £9,102,000 grid-scale batteries revenue £4,242,000 (2022: £1,776,000) relates to trading income which is recognised net of trading costs.

Notes to the Financial Statements (continued)

2 Revenue from contracts with customers

(b) Assets and liabilities related to contracts with customers

The Group has recognised the following assets and liabilities related to contracts with customers:

	31 December 2023 £'003	31 December 2022 £'000	1 January 2022 £'000
Current contract assets	**65**	287	46
Total contract assets	**65**	**287**	**46**
Current contract liabilities	**4,571**	3,403	3,732
Total contract liabilities	**4,571**	**3,403**	**3,732**

Trade receivables and unbilled receivables are disclosed in note 14 and all related to contracts with customers.

Significant changes in contract assets and liabilities

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

Revenue recognised in relation to contract liabilities

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

	2023 £'000	2022 £'000
Revenue recognised that was included in the contract liability balance at the beginning of the period	**2,102**	3,107

No revenue was recognised in 2023 and 2022 in relation to performance obligations satisfied in previous periods.

Transaction price for which performance obligations not satisfied

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

3 Profit from operations

	2023 £'000	2022 (restated) £'000
Profit from operations is stated after charging/(crediting):		
Cost of sales:		
Direct staff and subcontractor costs	**38,009**	**31,207**
Depreciation of meter assets	**32,786**	**28,340**
Depreciation of grid-scale assets	**3,626**	**994**
Inventory costs	**3,698**	**3,316**
Short-term lease expense	**1,990**	**1,641**
Total cost of sales (before exceptional items)	**80,109**	**65,498**
Administrative expenses:		
Staff costs	**22,307**	**20,924**
Depreciation:		
– owned assets	**1,769**	**2,477**
– leased assets	**1,099**	**1,064**
Amortisation of intangibles	**5,049**	**4,152**

Notes to the Financial Statements (continued)
3 Profit from operations (continued)

	2023 (continued) £'000	2022 restated (restated) £'000
Auditor's remuneration (note 3a)	445	405
Loss on disposal[2]	4,863	3,715
Impairment of property, plant and equipment	2,340	1,032
Low-value lease expense	23	37
Research and development costs	527	55
Other operating charges	17,974	12,460
Total administrative expenses (before exceptional items)	**56,396**	**46,321**
Exceptional costs (note 3b)	10,625	8,665
Net impairment (gains)/losses on financial assets	(2,452)	563
Other operating income (note 3c)	(1,388)	(1,936)
Total operating costs	**143,290**	**119,111**

[1] Comparative amounts for the year ended 31 December 2022 have been restated as a result of a prior period error in relation to the accounting for meter assets. Details included in note 33.

[2] Loss on disposal comprises £4,195,000 (2022: £3,551,000) relating to losses on disposal of meter assets, comprising of derecognition of meter units that cannot be re-used and de-recognition of other components consistent with the Group's accounting policy, and £668,000 (2022: £164,000) of losses primarily on disposal of motor vehicles.

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

	2023 £'000	2022 £'000
Audit of the parent company and consolidated financial statements	155	141
Audit of the financial statements of the Company's subsidiaries	257	234
Other assurance services	33	30
	445	405

(b) Exceptional items

	2023 £'000	2022 restated £'000
Exceptional operating items		
Losses on the traditional and SMETS1 meter portfolio	7,102	7,735
Acquisition-related costs	–	205
Other non-recurring professional fees	3,960	725
Other	(437)	-
Exceptional costs	10,625	8,665
Termination income on the traditional and SMETS1 meter portfolio	(4,144)	(2,019)
Total exceptional items	**6,481**	**6,646**

Other non-recurring professional fees comprise £3,475,000 of legal costs relating to Bidco's acquisition of SMS shares and £485,000 relating to other non-recurring legal and consultancy fees. Other exceptionals consist of a £438,000 credit relating to the release of deferred consideration on battery sites acquired in prior years that is no longer payable.

The tax effect of exceptional items charged in 2023 is a credit of £771,000 (2022: credit of £1,473,000).

Notes to the Financial Statements (continued)
3 Profit from operations (continued)

(c) Other operating income

	2023 £'000	2022 £'000
Government grant income	760	891
Other income	628	1,045
	1,388	1,936

Of the government grant income of £760,000 (2022: £891,000) recognised in the year ended 31 December 2023, £117,000 relates to RDECs (2022: £280,000) which are detailed in the Accounting policies. A further £643,000 (2022: £611,000) relates primarily to grant income received on government-funded energy efficiency projects within the energy management business.

4 Particulars of employees

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

	2023 Number	2022 Number
Administrative staff	446	539
Operational staff	838	729
Sales staff	13	6
IT staff	103	85
Directors (excluding 5 (2022: 4) Non-executive Directors)	2	2
	1,402	1,361

The aggregate payroll costs of the employees were:

	2023 £'000	2022 £'000
Wages and salaries	66,306	58,823
Social security costs	5,578	5,050
Staff pension costs	1,622	1,426
Share-based payment (note 28)	1,757	2,612
Director pension costs	37	24
	75,300	67,935

5 Finance costs and finance income

	2023 £'000	2022 £'000
Finance costs		
Bank loans and overdrafts	11,711	3,833
Lease liabilities	724	552
Unwind of discount on provisions	99	19
Foreign exchange loss/(gain) on intra-group borrowings	58	(131)
Total pre-exceptional finance costs	12,592	4,273
Exceptional finance costs	–	—
Total finance costs	12,592	4,273

Notes to the Financial Statements (continued)
5 Finance costs and finance income (continued)

	2023 £'000	2022 £'000
Finance income		
Bank interest receivable	1,065	324
Total finance income	1,065	324

Finance costs incurred in relation to bank loans and overdrafts include interest and facility fees.

6 Taxation

	2023 £'000	2022 £'000
Analysis of charge in the year		
Current tax:		
Current income tax expense	–	53
Adjustment to tax charge in respect of previous periods	22	2
Total current income tax	22	55
Deferred tax:		
Origination and reversal of temporary differences	5,299	1,322
Adjustment to tax charge in respect of prior periods	(567)	(293)
Tax on profit	4,754	1,084

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

	2023 £'000	2022 £'000
Profit before tax	17,117	15,955
Tax at the UK corporation tax rate of 23.52% (2022: 19.00%)	4,026	3,031
Expenses not deductible for tax purposes	1,031	277
Income not taxable	(406)	(28)
Impact of super-deduction permanent benefit	–	(2,294)
Adjustments to tax charge in respect of previous periods	(545)	(291)
Impact of deferred tax not recognised	78	47
Impact of overseas tax rates	69	25
Share of loss of associate	193	–
Change in tax rate[1]	308	317
Tax expense in the income statement	4,754	1,084

1 See note 22 for further details.

Current tax credit through equity in the year was £nil (2022: £nil).

Notes to the Financial Statements (continued)

7 Earnings per share

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

	2023 £'000	2022 £'000
Profit for the year used for calculation of basic EPS	12,364	14,871

Number of shares	2023	2022
Weighted average number of ordinary shares for the purposes of basic EPS	133,391,975	133,241,113
Effect of potentially dilutive ordinary shares:		
– share options	352,524	615,969
Weighted average number of ordinary shares for the purposes of diluted EPS	133,744,499	133,857,082
EPS:		
– basic (pence)	9.27	11.16
– diluted (pence)	9.24	11.11

8 Dividends

	Year ended 31 December 2023 £'000	Year ended 31 December 2023 Per share (pence)	Year ended 31 December 2022 £'000	Year ended 31 December 2022 Per share (pence)
FY 2021 second interim dividend paid	—	—	9,166	6.8750
FY 2021 third interim dividend paid	—	—	9,169	6.8750
FY 2021 final dividend paid	—	—	9,170	6.8750
FY 2022 first interim dividend paid	—	—	10,087	7.5625
FY 2022 second interim dividend paid	10,088	7.5625	—	—
FY 2022 third interim dividend paid	10,090	7.5625	—	—
FY 2022 final dividend paid	10,104	7.5625	—	—
FY 2023 first interim dividend paid	11,114	8.3188	—	—
Total dividends	41,396	31.0063	37,592	28.1875

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 to shareholders in four cash instalments.

A 33.275p per share dividend was initially proposed in respect of FY 2023 payable in four equal instalments. Two instalments have been paid, in October 2023 and January 2024. Following the acquisition by Bidco in March 2024, no further dividend payments in respect of FY 2023 will be made.

Under the dividend policy, the second interim dividend is paid out of profits recognised in the year prior to the year in which the dividends are declared and reported. As at 31 December 2023, the distributable profits in the parent company were adequate to cover the proposed second interim dividend of c. £11.1m.

Notes to the Financial Statements (continued)
9 Intangible assets

	Goodwill £'000	Customer contracts £'000	IT development and software £'000	Total £'000
Cost				
As at 1 January 2022	9,400	3,268	31,318	43,986
Additions	–	–	2,222	2,222
Acquisitions (note 24)	737	–	1,479	2,216
Exchange adjustments	51	–	32	83
As at 31 December 2022	**10,188**	**3,268**	**35,051**	**48,507**
Additions	–	–	**4,892**	**4,892**
Acquisitions (note 24)	**208**	**25**	–	**233**
Exchange adjustments	**(20)**	–	**(22)**	**(42)**
As at 31 December 2023	10,376	3,293	39,921	53,590
Amortisation				
As at 1 January 2022	–	2,382	16,141	18,523
Charge for year	–	223	3,929	4,152
As at 31 December 2022	–	**2,605**	**20,070**	**22,675**
Charge for year	–	**209**	**4,840**	**5,049**
As at 31 December 2023	–	**2,814**	**24,910**	**27,724**
Net book value				
As at 31 December 2023	**10,376**	**479**	**15,011**	**25,866**
As at 31 December 2022	**10,188**	**663**	**14,981**	**25,832**
As at 1 January 2022	9,400	886	15,177	25,463

10 Impairment of goodwill

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

	Asset management £'000	Asset installation £'000	Solo Energy £'000	Behind-the-meter £'000	Total £'000
Cost					
As at 1 January 2023	**5,708**	**3,497**	**983**	–	**10,188**
Acquisitions (note 24)	–	–	–	**208**	**208**
Exchange adjustments	–	–	**(20)**	–	**(20)**
As at 31 December 2023	**5,708**	**3,497**	**963**	**208**	**10,376**

Additional goodwill of £208,000 has been recognised in the year on the acquisition of the Home Services division of Evergreen Energy Limited and is recognised in the behind-the-meter CGU, see note 24.

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

Notes to the Financial Statements (continued)

10 Impairment of goodwill (continued)

together with the Group's views on the future achievable growth and the impact of committed cash flows. Cash flows beyond this are extrapolated using the estimated growth rates stated below.

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

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

- **Perpetual growth rate** – the terminal cash flows are extrapolated in perpetuity using a growth rate of 2.25% for asset management (2022: 2.25%) and 1.0% for asset installation, Solo Energy and Behind-the-meter (2022: 1.0% for asset installation and Solo Energy). The rate of 2.25% applied to asset management is derived from historical Retail Price Index increases applied to the segment's index-linked meter rentals. This is not considered to be higher than the average long-term industry growth rate. The rate of 1.0% applied to asset installation,Solo Energy and Behind-the-meter is aligned to the Group's corporate forecast model and is lower than the rate applied to asset management as revenues in these CGUs are not always index-linked.
- **Discount rate** – the discount rate is initially based on the weighted average cost of capital (WACC) which would be anticipated for a market participant investing in the Group. A specific discount rate is then calculated for each CGU taking into account the time value of money, the CGU's risk profile and the impact of the current economic climate. The pre-tax discount rates applied are 8.0%, 10.0%, 19.4% and 11.3% for asset management, asset installation, Solo Energy and Behind-the-meter respectively (2022: 8.0% for asset management, 10.0% for asset installation and 19.4% for Solo Energy) and the post-tax discount rates applied are 6.0%, 7.5%, 15.0% and 9.0% for asset management, asset installation, Solo Energy and Behind-the-meter respectively (2022: 6.0% for asset management, 7.5% for asset installation and 15.0% for Solo Energy). The risk premium assigned to the asset installation CGU reflects the shorter-term nature of the underlying revenues within this segment, as compared to the annually recurring revenue generated by an installed asset. The risk premium assigned to the Solo Energy CGU reflects the current trading status of this part of the business in which revenue generation has recently begun. The risk premium assigned to the behind-the-meter CGU reflects the pre-revenue status of this part of the business, in which the full-scale commercial model remains under development and contracted pipelines continue to be established.

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

Notes to the Financial Statements (continued)

11 Property, plant and equipment

	Land and buildings £'000	Meter assets £'000	Plant and machinery £'000	Fixtures, fittings and equipment £'000	Motor vehicles £'000	Right-of-use assets £'000	Grid-scale assets £'000	Assets under construction £'000	Total £'000
Cost									
As at 1 January 2022 (restated)[1]	2,805	483,887	1,170	8,207	5,131	12,273	–	33,990	547,463
Reclassification	–	–	–	1	–	–	54,048	(54,049)	–
Reclassified as held for sale	(688)	–	–	–	–	–	–	–	(688)
Additions (restated)[1]	1,105	118,199	18	994	719	5,509	84	36,251	162,879
Acquisitions	–	–	–	1	–	–	–	15,190	15,191
Disposals (restated)[1]	(4)	(15,954)	(2)	(8)	(494)	(785)	–	–	(17,247)
Exchange adjustments	–	–	–	3	–	3	–	–	6
As at 31 December 2022 (restated)[1]	**3,218**	**586,132**	**1,186**	**9,198**	**5,356**	**17,000**	**54,132**	**31,382**	**707,604**
Reclassification	–	–	**(29)**	**29**	–	–	**40,019**	**(40,019)**	–
Additions	–	**110,766**	**182**	**919**	**2,818**	**5,015**	**278**	**51,446**	**171,424**
Disposals	**(177)**	**(16,546)**	**(24)**	**(67)**	**(1,724)**	**(54)**	–	–	**(18,592)**
Exchange adjustments	–	–	–	**(1)**	–	**(1)**	–	–	**(2)**
As at 31 December 2023	**3,041**	**680,352**	**1,315**	**10,078**	**6,450**	**21,960**	**94,429**	**42,809**	**860,434**
Depreciation									
As at 1 January 2022 (restated)[1]	851	94,639	994	6,232	3,410	2,893	–	–	109,019
Reclassified as held for sale	(174)	–	–	–	–	–	–	–	(174)
Charge for year	172	28,340	91	1,176	1,038	1,264	994	–	33,075
Disposals (restated)[1]	(3)	(5,752)	–	(7)	(391)	(599)	–	–	(6,752)
Impairment (restated)[1]	–	2,113	–	–	–	–	–	–	2,113
Exchange adjustments	–	–	–	2	–	1	–	–	3
As at 31 December 2022 (restated)[1]	**846**	**119,340**	**1,085**	**7,403**	**4,057**	**3,559**	**994**	–	**137,284**
Charge for year	**143**	**32,786**	**67**	**885**	**674**	**1,266**	**3,626**	–	**39,447**
Disposals	–	**(5,508)**	**(24)**	**(67)**	**(1,471)**	**(54)**	–	–	**(7,124)**
Impairment	–	**4,156**	–	–	–	–	–	–	**4,156**
Exchange adjustments	–	–	–	**(1)**	–	**(1)**	–	–	**(2)**
As at 31 December 2023	**989**	**150,774**	**1,128**	**8,220**	**3,260**	**4,770**	**4,620**	–	**173,761**
Net book value									
As at 31 December 2023	**2,052**	**529,578**	**187**	**1,858**	**3,190**	**17,190**	**89,809**	**42,809**	**686,673**
As at 31 December 2022 (restated)[1]	**2,372**	**466,792**	**101**	**1,795**	**1,299**	**13,441**	**53,138**	**31,382**	**570,320**
As at 1 January 2022	1,954	389,248	176	1,975	1,721	9,380	–	33,990	438,444

[1] Comparative amounts for the year ended 31 December 2022 have been restated as a result of a prior period error in relation to the accounting for meter assets. Details included in note 33.

Meter assets

Included within the closing Meter assets net book value of £529,578,000 (2022 restated: £466,792,000) is £483,309,000 (2022: £429,709,000) relating to installed meter assets in use and £46,268,000 (2022: £37,083,000) relating to uninstalled meter assets not in use.

Notes to the Financial Statements (continued)
11 Property, plant and equipment (continued)
Meter assets (continued)

Also included within the closing Meter assets net book value is £6,991,000 (2022: £11,173,000) relating to the traditional meter portfolio. In accordance with our accounting policy these assets will be written down to zero by 1 July 2025. In the 2023 consolidated financial statements the traditional meter portfolio generated £11,836,000 (2022: £10,198,000) of revenue with a corresponding £4,739,000 (2022: £4,699,000) depreciation charge. As at 31 December 2023, £11,658,000 (2022: £11,168,000) of annualised recurring revenue arises from the owned traditional meter portfolio.

The assets are secured by a bond and floating charge.

As detailed in the accounting policy, property, plant and equipment are reviewed for impairment at each reporting date. As a result individual meter units of £4,156,000 (2022: £2,113,000) with a recoverable amount of nil have been identified and therefore have been impaired. These assets relate to meter units which have been removed from the wall and cannot be re-installed. £2,340,000 (2022: £1,032,000) of the impairment charge is recognised through exceptional items within the Consolidated Income Statement and £1,816,000 (2022: £1,081,000) through underlying administrative expenses. All meter assets are categorised within the Asset Management segment.

In addition, consistent with prior years, the traditional meter asset portfolio recognised within Meter assets is assessed as a stand-alone cash-generating unit (CGU) and its carrying amount is compared with the recoverable amount. In line with IAS 36, no impairment review was considered necessary at 31 December 2023 as the previous impairment review 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. There have also been no events during 2023 that would eliminate this excess or any new material indicators of impairment in the year. Therefore, no further impairment has been recognised in the period ended 31 December 2023 (31 December 2022: £nil).

Right-of-use assets

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

Carrying value	2023 £'000	2022 £'000
Properties[1]	5,415	3,840
Land	11,775	9,601
	17,190	13,441

[1] Properties include office and warehouse space.

The consolidated income statement shows the following amounts relating to leases:

Depreciation charge on right-of-use assets	2023 £'000	2022 £'000
Properties	948	1,024
Land	151	240
	1,099	1,264

Notes to the Financial Statements (continued)

12 Investment in associate

	2023 £'000	2022 £'000
At 1 January	1,940	–
Additions	–	2,126
Share of loss for the year/period	(822)	(186)
Dividends received	–	–
At 31 December	**1,118**	**1,940**

On 15 June 2022, the Group acquired a 25% shareholding in Clenergy EV Ltd, a software business with a chargepoint operator (CPO) platform focused on electric vehicle charging infrastructure. Clenergy EV Ltd's principal place of business is The Mill House Erw Hir, Llantrisant, Pontyclun, Wales, CF72 8BY. The Group's percentage ownership as at 31 December 2023 and 31 December 2022 was 25%.

In August 2023 the Group issued a loan of £2.0m to Clenergy EV Ltd, which includes the option to convert to equity one year after issuance for an additional 26% interest. See note 26 (c) for further details. The loan receivable has been recorded within non-current assets.

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

	2023 £'000	2022 £'000
Revenue	645	723
Operating loss excluding depreciation and amortisation (EBITDA)	(1,839)	(88)
Depreciation and amortisation	(1,880)	(868)
Taxation	430	214
Loss after taxation	(3,289)	(742)
Group's share of associate's loss for the period	(822)	(186)

	2023 £'000	2022 £'000
Non-current assets	7,127	8,627
Current assets	1,686	1,609
Current liabilities	(2,799)	(482)
Non-current liabilities	(1,544)	(1,996)
Net assets	4,470	7,758
Group's share of associate's net assets	1,118	1,940

Included within current assets is cash and cash equivalents of £1,484,000 (2022: £1,394,000). The results for Clenergy EV Ltd all relate to continuing operations.

There are no differences in accounting policies between Clenergy EV Ltd and the Group.

13 Inventories

	2023 £'000	2022 (restated)[1] £'000
Consumables	439	358

[1] Comparative amounts for the year ended 31 December 2022 have been restated as a result of a prior period error in relation to the accounting for meter assets. Details included in note 33.

Notes to the Financial Statements (continued)
14 Trade and other receivables

	2023 £'000	2022 £'000
Current		
Trade receivables	34,014	25,297
Prepayments and deferred costs	4,678	3,112
Accrued income	18,544	19,385
Other receivables	4,209	4,517
VAT recoverable	–	624
	61,445	52,935

Amounts falling due after more than one year:

	2023 £'000	2022 £'000
Payments on account to acquire grid-scale battery assets	2,773	12,347
	2,773	12,347

Accrued income is made up of the following balances:

	2023 £'000	2022 £'000
Unbilled receivables	18,203	18,714
Contract assets	65	287
Other accrued income	276	384
	18,544	19,385

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

The Group's credit risk is primarily attributable to trade receivables and accrued income. The amounts presented in the consolidated statement of financial position are net of any loss allowance. The total loss allowance for trade receivables and accrued income at 31 December 2023 was £2,275,000 (2022: £4,182,000). See note 23 for further details. The ageing profile of trade receivables is shown below:

	2023 £'000	2022 £'000
Current	23,695	15,894
1-30 days	7,006	7,069
31-60 days	895	1,128
61-90 days	830	639
91-120 days	1,539	597
Over 120 days	3,762	4,782
	37,727	30,109
Loss allowance	(1,939)	(3,026)
Amounts offset (see note 23)	(1,774)	(1,786)
	34,014	25,297

Trade receivables are non-interest-bearing and are generally on 30 to 90-day terms. Trade receivables due from related parties at 31 December 2023 amounted to £nil (2022: £nil).

Substantially all trade receivables are denominated in Sterling.

Notes to the Financial Statements (continued)

14 Trade and other receivables (continued)

The Group's largest outstanding trade receivables balances are associated primarily with large energy supplier customers for which the credit risk is considered low.

Accrued income, which is made up of unbilled receivables and contract assets, is presented net of any loss allowance and impairment, with amounts being invoiced periodically and customers being the same as those within trade receivables. Accrued income primarily relates to unbilled metering income which is billed monthly in arrears. The loss allowance for accrued income at 31 December 2023 was £336,000 (2022: £1,156,000) and the gain recognised in profit or loss during the year was £820,000 (2022: loss of £755,000).

15 Cash and cash equivalents

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

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

	2023 £'000	2022 £'000
Cash at bank	26,538	32,770
Cash and cash equivalents	26,538	32,770
Cash and cash equivalents – restricted	809	307
Total cash and cash equivalents	27,347	33,077

16 Assets held for sale

	2023 £'000	2022 £'000
Property awaiting disposal	513	513

A warehouse, which is no longer required following the consolidation of the Group's warehouse operations, was classified as held for sale during 2022 and remains classified as held for sale at 31 December 2023. The warehouse was subsequently sold in February 2024.

17 Trade and other payables

	2023 £'000	2022 £'000
Current		
Trade payables	23,407	28,447
Other payables	2,822	5,350
Other taxes	1,948	1,725
Deferred income	4,152	2,806
Advance payments	1,020	995
Accruals	29,138	30,055
VAT Payable	1,892	–
	64,379	69,378

Notes to the Financial Statements (continued)

17 Trade and other payables (continued)

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

	2023 £'000	2022 £'000
Contract liabilities	4,571	3,403
Other deferred income (grants)	601	398
	5,172	3,801

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

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

Substantially all trade liabilities are denominated in Sterling.

18 Bank loans

	2023 £'000	2022 £'000
Current	4,543	591
Non-current	193,899	63,349
	198,442	63,940

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

The loans drawn under the facility are all denominated in Pounds Sterling. The balance as at 31 December 2023 is stated net of £1,101,000 of unamortised transaction costs (2022: £1,651,000).

The movement in bank loans is:

	2023 £'000	2022 £'000
As at 1 January	63,940	(2,201)
Cash flows – proceeds of net new borrowings	130,000	65,000
Cash flows – payments of interest	(5,633)	(212)
Cash flows – payments of arrangement fees	(27)	(227)
Non-cash changes – accrual of interest	9,585	803
Non-cash changes – amortisation of arrangement fees	577	777
As at 31 December	198,442	63,940

The Group has the following committed facility:

	2023 £'000	2022 £'000
Undrawn committed borrowing facility	224,600	323,450
Bank loans drawn	195,000	65,000
Utilised in respect of guarantees	400	31,550
Total facility	420,000	420,000

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

Notes to the Financial Statements (continued)
18 Bank loans (continued)

The Group receives financial guarantees under the borrowing facility agreement. In the current year, the financial guarantee was utilised in relation to a lease agreement for one of the Group's grid-scale battery storage sites. In the prior year, the financial guarantee was utilised in relation to the same lease agreement as well as outstanding letters of credit.

SMS has the right to repay the whole or any part of the loan (subject to a minimum of £1,000,000) at any time provided it gives the agent not less than five banking days prior written notice.

In the event a change of control takes place, SMS are obliged to notify the agent of the loan facility upon becoming aware of the event. The lender then has the contractual right to cancel the commitment and declare any outstanding amounts together with accrued interest and all other amounts accrued under the facility agreement as immediately due and payable by SMS. Change of control occurred on 22 March 2024 at which point SMS fulfilled its legal obligations to notify the agent and lender.

19 Lease liabilities

	2023 £'000	2022 £'000
Current	**865**	**885**
Non-current	**14,980**	**11,476**
	15,845	**12,361**

The movement in lease liabilities accounted for under IFRS 16 is:

	2023 £'000	2022 £'000
As at 1 January	**12,361**	**8,573**
Cash flows – lease payments	**(1,748)**	**(1,500)**
Non-cash changes – accrued lease payments	**–**	**(22)**
Non-cash changes – new leases	**1,456**	**3,654**
Non-cash changes – changes in lease terms and foreign exchange impact	**3,052**	**1,107**
Non-cash changes – interest charge	**724**	**549**
As at 31 December	**15,845**	**12,361**

The Group had total cash outflows for leases of £3,761,000 in 2023 (2022: £3,093,000). £1,748,000 (2022: £1,500,000) of cash outflows for leases accounted for under IFRS 16 is included within financing cashflows in the consolidated statement of cashflows and £2,013,000 (2022: £1,593,000) is included within operating cashflows.

Details of the Group's right-of-use assets, including the additions and depreciation charge in the year, are disclosed within Note 11.

Short-term and low-value leases are expensed as disclosed in Note 3.

Notes to the Financial Statements (continued)
20 Provisions

Provisions comprise:

	2023 £'000	2022 £'000
Non-current		
Provision for restoration costs	1,888	1,363
Provision for decommissioning costs	949	670
	2,837	2,033

The movement in provisions is:

	2023 £'000	2022 £'000
As at 1 January	2,033	798
Provisions recognised	804	1,240
Utilised in the year	–	(5)
As at 31 December	2,837	2,033

The Group is required to restore the land leased as part of its grid-scale battery storage business, and certain leased warehouses, to the condition required by the terms and conditions of the lease at the end of the respective lease terms (which range between 20 to 50 years for land and three to ten years for warehouses). A provision has been recognised for the present value of the estimated expenditure required to carry out this restoration. These costs have been capitalised as part of the cost of right-of-use assets and are depreciated over the shorter of the term of the lease and the useful life of the assets. Provisions also include the estimated cost to decommission grid-scale batteries at the end of their life.

21 Other liabilities

Other liabilities comprise:

	2023 £'000	2022 £'000
Current		
Deferred consideration on acquisitions	325	1,388
	325	1,388
Non-current		
Deferred consideration on acquisitions	382	674
Contingent consideration on acquisitions	645	606
Other non-current liabilities	359	–
	1,386	1,280

Deferred consideration of £438,000 relating to battery sites acquired in prior years that is no longer payable was released in the year and classified as an exceptional item. Refer to note 3(b) for further details.

The fair value of contingent consideration represents the estimated most likely pay-out based on management's forecast of future trading (level 3) discounted at the Group's incremental borrowing rate. A reconciliation of fair value measurement of the contingent consideration liability is provided below:

Notes to the Financial Statements (continued)

21 Other liabilities (continued)

	Total £'000
At 1 January 2023	**606**
Unrealised fair value changes recognised in profit or loss	**39**
At 31 December 2023	**645**

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

22 Deferred taxation

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

	2023 £'000	2022 £'000
Opening deferred tax liability	**13,496**	**12,199**
Increase in provision through consolidated statement of comprehensive income	**4,733**	**1,029**
(Decrease)/increase in provision through equity	**(985)**	**93**
Deferred tax in respect of acquisitions and disposals	**6**	**175**
Closing deferred tax liability	**17,250**	**13,496**

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

	2023 £'000	2022 £'000
Excess of taxation allowances over depreciation on property, plant and equipment	**25,996**	**13,527**
Tax losses available	**(5,544)**	**(115)**
Deferred tax asset on share options	**(2,775)**	**(1,519)**
Deferred tax on intangibles acquired	**872**	**1,240**
Other temporary differences[1]	**(1,299)**	**363**
	17,250	**13,496**

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

	2023 £'000	2022 £'000
Accelerated capital allowances	**12,469**	**2,491**
Tax losses	**(5,430)**	**(9)**
Deferred tax asset on share options	**(270)**	**(175)**
Movement in fair value of intangibles	**(374)**	**(157)**
Other temporary differences[1]	**(1,662)**	**(1,121)**
	4,733	**1,029**

[1] Other temporary differences predominantly relate to deferred tax on provisions and accruals.

At 31 December 2023, the main rate of corporate tax applying to the profits of the Group was 23.52% (2022: 19%). In the spring Budget 2021, the UK Government announced that from 1 April 2023 the corporation tax rate would increase to 25% (rather than remaining at 19%, as previously enacted). This new law was substantively enacted on 24 May 2021. Therefore, the corporation tax rate applied to profits of the Group is a blended rate of the 19% to 31 March 2023 and 25% from 1 April 2023. Deferred taxes at the balance sheet date have been measured using the enacted tax rate of 25% and reflected in these financial statements.

Notes to the Financial Statements (continued)

22 Deferred taxation (continued)

The Group had unrecognised trading losses of £2,444,000 in subsidiary undertakings at 31 December 2023 (2022: £1,762,000). The Group also had unrecognised capital losses of £729,000 in subsidiary undertakings at 31 December 2023 (2022: £729,000).

23 Financial risk management

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

(a) Interest rate risk

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

There were no overdrafts at 31 December 2023 (2022: none) and the interest charge arising on lease liabilities does not represent a significant interest rate risk for the Group as interest rates are fixed based on the rate associated with the lease.

The Group's financial assets at 31 December 2023 comprise cash and trade receivables. The cash balance of £26,538,000 (2022: £32,770,000) is a floating rate financial asset, but interest income is not typically material.

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on the portion of loans and borrowings affected. With all other variables held contract, the Group's profit before tax is affected through the interest cost on borrowings, as follows:

	Increase/(decrease) in interest rate in basis points	(Decrease) in profit before tax £'000
2023	**+100bps**	**(1,465)**
2022	**+100bps**	**(198)**

(b) Fair values of financial liabilities and financial assets

The Group's bank loan is measured at amortised cost. For fair value disclosure purposes, the bank loan is considered to be a level 2 financial instrument on the basis that it is not traded in an active market. The loan to associate is considered to be a level 3 asset. The fair values, based upon the market value or discounted cash flows of financial liabilities and financial assets held in the Group, were not materially different from their book values. For short-term assets and liabilities, the Group takes the exemption from disclosing the fair values.

(c) Foreign currency risk

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

(d) Liquidity risk

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

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

Notes to the Financial Statements (continued)
23 Financial risk management (continued)
(d) Liquidity risk (continued)

31 December 2023	Less than one year £'000	Between two and five years £'000	Over five years £'000	Total contractual cash flows £'000
Contractual maturities of financial liabilities				
Trade payables	23,407	–	–	23,407
Bank loan	4,543	195,000	–	199,543
Other liabilities	325	1,540	–	1,865
Lease liabilities	1,459	6,346	23,290	31,095
	29,734	202,886	23,290	255,910

31 December 2022 (restated)	Less than one year £'000	Between two and five years £'000	Over five years £'000	Total contractual cash flows £'000
Contractual maturities of financial liabilities				
Trade payables	28,447	–	–	28,447
Bank loan[1]	591	65,000	–	65,591
Other liabilities	1,388	1,280	–	2,668
Lease liabilities[2]	1,488	4,589	17,221	23,298
	31,914	70,869	17,221	120,004

[1]The comparative disclosures of bank loans as at 31 December 2022 have been restated to include the principal value of amounts drawn down under the Group's revolving credit facility of £65,000,000 at the balance sheet date, which had previously been omitted. These amounts have been disclosed as maturing between two to five years in line with the end date of the facility. The balance maturing between two and five years relates to the principal value and excludes potential future interest.

[2] Cashflows relating to lease liabilities for the year ended 31 December 2022 have also been restated to include previously omitted cash outflows from the disclosure. This restatement relates to the disclosure note only with no impact on the underlying consolidated financial statements for the year ended 31 December 2022.

As part of the post year-end Acquisition of the Group, as detailed in note 34, a change of control occurred, and a new financing package was implemented. Accounting for the new facilities and any associated financing fees, will be reflected in the year ending 31 December 2024, consistent with the signing date of those facilities.

Within trade and other receivables disclosed in note 14, the Group has £2.6m (2022: £2.6m) of cash collateral relating to grid-scale battery trading. The collateral is utilised to complete trading transactions throughout the year and is immediately recycled upon each transaction to meet ongoing collateral requirements.

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

Credit risk is managed on a Group basis. For banks and financial institutions, only independently rated parties with a minimum rating of AA– are accepted. The Group does not expect cash and cash equivalents to be at significant risk. Similarly, the Group's Other receivables primarily comprise of cash collateral which is not considered to be at significant risk by the Group. With regard to customers, the Group assesses the credit quality of the customer, considering its financial position, past experience and other factors. The Group does not expect, in the normal course of events, that debts due from customers are at significant risk. The Group's maximum exposure to credit risk equates to the carrying value of cash and cash equivalents, trade and other receivables, contract assets and investments. The Group's maximum exposure to credit risk from its customers is £56,764,000 (2022: £44,682,000), being the sum of the carrying value of trade receivables and accrued income, including

Notes to the Financial Statements (continued)

23 Financial risk management (continued)

(e) Credit risk (continued)

contract assets, as disclosed within Trade and other receivables in note 14. The Group regularly monitors and updates its cash flow forecasts to ensure it has sufficient and appropriate funds to meet its ongoing operational requirements.

Impairment of financial assets

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

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

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

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

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

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

As at 31 December 2022, management had identified a subset of trade receivables as having a potentially elevated credit risk, due to a greater risk of administration as a direct consequence of the energy crisis that prevailed in the market in the latter half of 2021 and into 2022. This subset of trade receivables was provided for on a specific basis and a corresponding loss allowance of £0.7m recognised at 31 December 2022. Management has continued to monitor the situation through 2023 and identified that the volatility associated with the crisis in the energy market has declined significantly. Management have performed an analysis over the identified subset of trade receivables at 31 December 2023 and concluded that there is no longer a material risk arising from the energy crisis in relation to these balances. No specific provision has therefore been recognised at 31 December 2023.

On that basis, the loss allowance at 31 December 2023 was determined as £2,275,000 (2022: £4,182,000) for trade receivables and accrued income. A reconciliation of these balances is provided as follows:

	Accrued income £'000	Trade receivables £'000	Total £'000
At 1 January 2023	**1,156**	**3,026**	**4,182**
(Decrease)/increase in loss allowance recognised in profit or loss during the year – underlying	**(820)**	**(1,098)**	**(1,918)**
Amounts reversed/written off during the year	**–**	**11**	**11**
At 31 December 2023	**336**	**1,939**	**2,275**

Notes to the Financial Statements (continued)
23 Financial risk management (continued)
(e) Credit risk (continued)
Impairment of financial assets (continued)

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

The overall loss allowance has decreased at 31 December 2023. The decrease in loss allowance on trade receivables reflects the application of updated loss rates and, as detailed above, the impairment loss recognised in relation to the crisis in the energy market has been reversed. The decrease in loss allowance on accrued income reflects the application of updated loss rates and an overall decrease in accrued income in the year on certain customer portfolios.

Total impairment gains/(losses) on financial and contract assets were £2,452,000 in 2023 (2022: (£563,000)). Included in this amount is £1,918,000 (2022: £563,000) relating to a decrease in expected credit loss provisions over trade receivables and accrued income. The balance of £534,000 relates to dividend payouts confirmed on insolvent customers whose balances were previously written off.

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

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

The Group monitors capital on the basis of a leverage ratio. This ratio is calculated as net debt divided by pre-exceptional EBITDA. Net debt and pre-exceptional EBITDA for the purposes of the Group's leverage ratio are defined by the Group's revolving credit facility agreement. As at 31 December 2023 the Group's leverage ratio was 1.96x (31 December 2022: 0.45x), reflective of increased borrowing levels relative to the prior year.

The objective of SMS's strategy is to deliver long-term value to its shareholders whilst maintaining a balance sheet structure that safeguards the Group's financial position. Under the Group's enhanced dividend policy, SMS declared a 30.25p per share dividend in respect of FY 2022 and proposes a 33.275p per share dividend in respect of FY 2023. The Group's long-term index-linked cash flows from its existing asset base are able to support an intended annual increase of 10% in dividends for each of the financial years FY 2023 and FY 2024. This results in a more predictable return to shareholders and reflects the forecast growth of the business over and above RPI in that period. The Group's strong liquidity position supports the funding of its contracted smart meter order pipeline, which will further add to its long-term index-linked cash flows. Changes to the Group's capital management policy may arise as a consequence of Bidco's post year-end Acquisition of the Group as detailed in note 34.

Notes to the Financial Statements (continued)
23 Financial risk management (continued)

(g) Disclosure of offsetting arrangements

31 December 2023	Gross balances[1] £'000	Amounts offset[2] £'000	Balance sheet[3] £'000
Financial assets			
Trade receivables	39,994	(1,774)	38,220
Accrued income	22,568	(4,024)	18,544
Financial liabilities			
Trade payables	23,527	(120)	23,407
Accruals	34,817	(5,679)	29,138

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

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

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

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

Notes to the Financial Statements (continued)
24 Business combinations

Year ended 31 December 2023
On 8 August 2023 the Group acquired the Home Services division of Evergreen Energy Limited, a Manchester-based green energy solutions business focusing on heat pumps, solar panels and battery storage installation, for total consideration of £205,000. The acquisition will broaden the Group's reach into the business-to-consumer (B2C) segment, widen existing product offerings with the addition of solar panels and heat pumps, add technical expertise, and allow the Group to capitalise on increasing domestic green energy demand.

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

	Fair value £'000
Intangible assets: Customer contracts	25
Inventories	24
Trade and other payables	(46)
Deferred tax liabilities	(6)
Net identifiable assets/(liabilities) acquired	**(3)**
Add: goodwill	208
Net assets acquired	**205**
Satisfied by:	
Cash	80
Deferred consideration	125
Total consideration	**205**

No contingent assets or liabilities were acquired.

The deferred consideration was paid in January 2024 on the completion of remaining contractual obligations by both parties.

The goodwill is attributable to the opportunity to accelerate growth of the Group's behind-the-meter business. Goodwill will not be deductible for tax purposes.

The acquisition contributed to the Group's revenue by £283,000 and decreased the Group's profit before tax by £408,000 between the date of acquisition and 31 December 2023.

If the acquisition had been completed on 1 January 2023, the Group's revenue would have been £173,322,000 and profit before tax would have been £15,893,000 for the year ended 31 December 2023.

Year ended 31 December 2022
On 25 May 2022, the Group acquired 100% of the issued share capital of n3rgy Data Limited, a data software company, for cash consideration of £1.4m and additional contingent consideration subject to the company achieving certain performance targets. n3rgy Data Limited's software enables and facilitates the use of energy consumption, generation and tariff data from smart meters. The acquisition is expected to enhance and accelerate the Group's capabilities in smart energy data solutions and is reported in the Group's asset management segment.

Notes to the Financial Statements (continued)

24 Business combinations (continued)

Year ended 31 December 2022 (continued)

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

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

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

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

No contingent assets or liabilities were acquired.

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

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

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

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

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

25 Asset acquisitions

Year ended 31 December 2023

There were no asset acquisitions during the year ended 31 December 2023.

Notes to the Financial Statements (continued)
25 Asset acquisitions (continued)

Year ended 31 December 2022

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

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

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

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

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

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

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

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

No contingent assets or liabilities were acquired.

Notes to the Financial Statements (continued)
25 Asset acquisitions (continued)
Year ended 31 December 2022 (continued)

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

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

26 Related party transactions

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

	2023 £'000	2022 £'000
Short-term employee benefits	3,457	3,154
Post-employment benefits	70	50
Termination benefits	–	273
Share-based payments	1,060	1,661
	4,587	5,138

(b) Directors
Directors' emoluments
Aggregate remuneration for both Executive and Non-executive Directors in respect of qualifying services was:

	2023 £'000	2022 £'000
Aggregate emoluments	1,623	1,776
Company contributions to money purchase pension scheme	37	24
	1,660	1,800

In 2023, £nil was payable to a Director as settlement following resignation (2022: £273,000).

Emoluments of highest paid Director	2023 £'000	2022 £'000
Emoluments	934	901
Company contributions to money purchase pension scheme	22	20
	956	921

Number of Directors who accrued benefits under Company pension schemes	2023 Number	2022 Number
Money purchase schemes	2	3

No Directors exercised options in the current or prior year and no amounts vested under LTIPs in the current or prior year.

Notes to the Financial Statements (continued)
26 Related party transactions (continued)

(c) Associates

The following transactions were carried out with Clenergy EV LTD, an associate of the Group:

Amounts due from associates	2023 £'000	2022 £'000
Opening balance	–	–
Loans issued	**2,000**	–
Closing balance	**2,000**	–

The loan is unsecured and holds an interest-free period of one year, after which an interest rate of 3% per annum is applied on amounts outstanding. The loan holds the option to convert into the number of fully paid ordinary shares sufficient to result in the Group owning an additional 26% of all ordinary shares in Clenergy EV LTD. It is expected that the loan will meet the requirements to be converted in 2024. If not converted by the maturity date in 2025 the loan will become fully repayable by Clenergy EV Ltd.

(d) Other transactions with related parties
During the year, the Group entered into the following transactions with related parties:

The Group paid dividends to Alan Foy (whilst a Director) of £nil (2022: £321,809), The Metis Trust[1] of £nil (2022: £61,875), Metis Investments Limited[2] of £nil (2022: £25,599), Tim Mortlock of £16,473 (2022: £5,033), Gail Blain of £431 (2022: £nil), Gavin Urwin (whilst a Director) of £nil (2022: £458), Miriam Greenwood of £9,709 (2022: £7,177), Graeme Bissett of £7,104 (2022: £5,796), Jamie Richards of £2,416 (2022: £1,389) and Ruth Leak of £876 (2022: £nil).

[1] Alan Foy is a trustee but not a beneficiary.
[2] Alan Foy is a Director and shareholder.

27 Share capital

	2023 £'000	2022 £'000
Allotted and called up:		
133,606,918 ordinary shares of £0.01 each (2022:133,397,009 ordinary shares of £0.01 each)	**1,336**	1,334

The Group has one class of ordinary shares which carries no right to fixed income. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company.

During the year 209,909 (2022: 75,454) ordinary share options were exercised in relation to the Group's employee share plans which are described in note 28. The ordinary shares issued have a nominal value of £2,099 (2022: £755) and aggregate consideration of £1,091,000 (2022: £285,000) was received.

The Group's Share Incentive Plan is administered by the Smart Metering Systems SIP Trust, which acquires shares in SMS (own shares) to satisfy awards under this plan and facilitate the delivery of shares to participants. At 31 December 2023, 176,125 (2022: 145,821) own shares were held in trust with a carrying value of £1,204,000 (2022: £955,000) and a market value of £1,656,000 (2022: £1,140,000). The Company purchased 72,232 shares (2022: 48,900) from the market during 2022 with a weighted average fair value of £7.36 per share (2022: £8.08).

28 Share-based payments

(a) Employee option plans
The Group operates an Unapproved Share Option Plan (the 'Unapproved Plan') and an Long-Term Incentive Plan (LTIP).

Notes to the Financial Statements (continued)

28 Share-based payments (continued)

(a) Employee option plans (continued)

Unapproved Plan

The Unapproved Plan is open to any employee, including Executive Directors. Participants are granted options which, except in certain specified circumstances, only vest if certain performance conditions are met and the employee is still in service five years from the date of grant. The options are structured in five annual tranches. The vesting of each annual tranche takes place by reference to a distinct annual performance period and is subject to annual targets. Targets can include a market capitalisation target, non-market performance criteria based on financial targets and individual objectives, which are set at the beginning of the corresponding performance period. Tranches which do not vest due to a missed market capitalisation target can vest in future years if the future-year market capitalisation target is met or on the occurrence of certain events which would cause all tranches to vest. The Remuneration Committee has discretion in relation to the vesting of awards where certain other criteria are not met. Once vested, the options remain exercisable for a period of up to ten years from the date of grant. The exercise price of the options is determined by the Directors but shall not be less than the closing price at which the Company's shares are traded on the date of grant.

LTIP

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

Summary of options

The number of options outstanding at the beginning and end of the year, under both the Unapproved Plan and LTIP, were as follows:

	Number of options
At 31 December 2021	**3,027,722**
Granted	889,579
Exercised	(75,454)
Forfeited	(80,000)
Expired/cancelled	–
At 31 December 2022	**3,761,847**
Granted	535,376
Exercised	(209,909)
Forfeited	(42,000)
Expired/cancelled[1]	(245,080)
At 31 December 2023	**3,800,234**

[1] Expired/cancelled options include the effect of modifications arising from discretion exercised by the Remuneration Committee to vest certain awards at a smaller proportion of the maximum available (see details below).

Notes to the Financial Statements (continued)

28 Share-based payments (continued)

(a) Employee option plans (continued)

Summary of options (continued)

Out of the 3,800,234 options outstanding at 31 December 2023 (31 December 2022: 3,761,847), 2,129,878 options were exercisable (31 December 2022: 456,268). Options exercised during the year were satisfied by new issues. The weighted average share price at the date of exercise of options exercised during the year ended 31 December 2023 was £8.05 (2022: £8.02). The share options had a weighted average exercise price of £5.20 (2022: £3.78)

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

Plan	Award	Number of share options at 31 December 2023	Number of share options at 31 December 2022	Exercise price (pence)	Date exercisable	Expiry date	Fair value at grant (pence)
Unapproved	November 2014 options	289,159	379,934	350.0	12 Nov 2019	11 Nov 2024	84.8
Unapproved	August 2016 options	–	26,334	470.0	18 Aug 2021	17 Aug 2026	87.2
Unapproved	September 2016 options	50,000	50,000	529.0	26 Sep 2021	25 Sep 2026	142.4
Unapproved	July 2018 options	1,730,719	1,964,999	700.0	1 Jan 2023	13 Jul 2028	11.1 to 134.3
Unapproved	September 2018 options	60,000	60,000	602.8	13 Sep 2023	13 Jul 2028	98.0 to 266.1
Unapproved	September 2019 options	266,400	370,000	454.6	05 Sep 2024	13 Jul 2028	111.5
Unapproved	June 2020 options[1]	304,000	228,000	577.4	26 Jun 2025	13 Jul 2028	56.7 to 191.4
Unapproved	February 2021 options[2]	768,000	580,000	705.4	10 Feb 2026	13 Jul 2028	124.1 to 210.8
LTIP	May 2022 LTIP	102,580	102,580	nil	18 May 2025 to 18 May 2027	18 May 2032	290.1 to 631.1
LTIP	March 2023 LTIP	226,874	–	nil	14 Mar 2026 to 14 Mar 2028	14 Mar 2033	387.8 to 713.3
LTIP	July 2023 LTIP	2,502	–	nil	1 Jul 2026 to 1 Jul 2028	1 Jul 2033	387.8 to 713.3
Total		**3,800,234**	**3,761,847**				

[1] These options relate to the first four of five tranches.

[2] These options relate to the first three of five tranches.

Fair value of options granted

i) Unapproved plan

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

The principal assumptions used in these valuations were:

	31 December 2023	31 December 2022
Dividend yield (%)	**4.48**	**3.5**
Expected volatility (%)	**29.09 to 30.38**	**30.03 to 38.48**
Risk-free interest rate (%)	**3.56 to 3.67**	**1.25 to 1.41**
Expected option life (years)	**2.24 to 2.87**	**1.28 to 3.87**
Exercise price (£)	**5.77 to 7.05**	**5.77 to 7.05**
Share price at grant date (£)	**7.42**	**7.89**
Fair value at grant date (£)	**0.57 to 1.24**	**0.11 to 1.96**

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

Notes to the Financial Statements (continued)

28 Share-based payments (continued)

(a) Employee option plans (continued)

Fair value of options granted (continued)

ii) LTIP

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

The principal assumptions used in these valuations were:

	31 December 2023	31 December 2022
Dividend yield (%)	4.11	4.27
Expected volatility (%)	33.99 to 36.76	36.84 to 37.89
Risk-free interest rate (%)	3.43 to 3.57	4.01 to 4.16
Expected option life (years)	3.00 to 5.00	2.6 to 4.6
Exercise price (£)	nil	nil
Share price at grant date (£)	8.10	7.08
Fair value at grant date (£)	3.88 to 4.18	5.78 to 6.31

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

Modifications

In January 2023, the Remuneration Committee assessed performance against vesting criteria of the: fifth tranche of the 2018 awards, the first three tranches of the 2019 awards and the third tranche of the 2020 awards under the Unapproved Plan. The aforementioned tranches of the 2018 and 2020 awards did not meet the market capitalisation targets set when they were originally granted, whilst the aforementioned tranche of the 2019 awards did not materially meet the non-market performance targets set when they were originally granted. The Remuneration Committee exercised the discretion available to it under the plan and, after taking into account a range of factors, concluded that the awards would vest at a proportion of the maximum as follows:

- 2018 awards, tranche five - 84%
- 2019 awards, tranches one to three - 40% (tranche 1), 40% (tranche 2), 80% (tranche 3)
- 2020 awards, tranche three - 84%

This has been accounted for as a modification of the awards. In accordance with IFRS 2, the options were valued as at the date of modification based on the original terms using a Monte Carlo simulation (for the 2018 and 2020 awards) and a Black-Scholes model (for the 2019 awards), and then based on the modified terms using a Black-Scholes model. The incremental fair value granted as a result of the modifications was £566,0000, of which £522,000 was recognised as an expense in 2023. The balance of the incremental fair value will be recognised over the remainder of the relevant vesting period.

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

Notes to the Financial Statements (continued)
28 Share-based payments (continued)
(a) Employee option plans (continued)

Modifications (continued)

The expense recognised in 2023 for all options, including the effect of the modifications, is £1,408,000 (2022: £2,262,000).

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

The tables below show the number of shares held in the SIP at the beginning and end of the year.

Type of award	At 1 January 2023	Awarded shares	Sold/ transferred	Forfeited	At 31 December 2023	Weighted average acquisition price
Partnership	**254,873**	**85,382**	**(35,219)**	**–**	**305,036**	6.30
Matching	**251,734**	**85,382**	**(20,273)**	**(17,959)**	**298,884**	6.30
Dividend	**39,701**	**23,050**	**(3,720)**	**–**	**59,031**	7.36
Total	**546,308**	**193,814**	**59,212**	**(17,959)**	**662,951**	

Type of award	At 1 January 2022	Awarded shares	Sold/transferred	Forfeited	At 31 December 2022 (restated)[1]	Weighted average acquisition price
Partnership	230,315	61,103	(36,545)	–	**254,873**	6.10
Matching	228,943	61,103	(23,875)	(14,437)	**251,734**	6.10
Dividend	25,204	17,323	(2,826)	–	**39,701**	7.24
Total	484,462	139,529	(63,246)	(14,437)	**546,308**	

1 Dividend shares disclosed in the prior year consolidated financial statements omitted an award of 4,996 shares in error. The number of awarded dividend shares and outstanding dividend shares at 31 December 2022 have been increased by 4,996 shares accordingly. There was no other impact on the consolidated financial statements for the year ended 31 December 2022.

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

The fair value of the Matching Shares at the award date is equal to the share price at the award date. The weighted average fair value per share of the Matching Shares awarded during 2023 was approximately £7.37 per share (2022: £8.02). The total fair value of Matching Shares awarded is recognised over the three-year period starting on the respective award dates.

The expense recognised in 2023 for all Matching Shares is £349,000 (2022: £350,000). No expense is recognised for the Partnership Shares and Dividend Shares because the participants pay full market value for these shares.

Notes to the Financial Statements (continued)

29 Other reserve

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

30 Capital commitments

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

	2023 £'000	2022 £'000
Property, plant and equipment	**18,010**	38,930

Capital expenditure of £18,010,000 (2022: £35,901,000) contracted for in relation to property, plant and equipment relates to the Group's grid-scale battery storage projects under construction. In 2022, the remaining £3,029,000 relates to the purchase of motor vehicles.

31 Ultimate controlling party

During the year ended 31 December 2023 and as at 31 December 2023 there was no ultimate controlling party by virtue of the structure of shareholdings in the Group.

The smallest and largest group in which the results of the Group are included as at 31 December 2023 is Smart Metering Systems Limited.

32 Subsidiary undertakings and associates

A full list of the Group's subsidiaries and associated undertakings (as defined in the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008) as at 31 December 2023 is detailed below. Unless otherwise stated, they have share capital consisting solely of ordinary shares, and the proportion of ownership interests held equals the voting rights held by the Group. The country of registration is also their principal place of business.

All interests presented in the table below are subsidiaries of the Group except for Clenergy EV Ltd which is an associate.

	Registered office (see key below table)	Holding	Proportion of shares held	Nature of business
SMS Connections Limited	1	Ordinary shares	100%	Gas utility connections
SMS Meter Assets Limited	1	Ordinary shares	100%	Gas and electric asset management
SMS MAPCO 1 Limited	2	Ordinary shares	100%	Gas and electric asset management
SMS Data Management Limited	1	Ordinary shares	100%	Data management
UKMA (AF) Limited*	2	Ordinary shares	100%	Funding
SMS Corporate Services Limited	1	Ordinary shares	100%	Administrative services
SMS Asset Management Limited*	2	Ordinary shares	100%	Gas and electric third-party asset management
SMS Energy Services Limited	2	Ordinary shares	100%	Electricity utility connections and management
SMS Data Services Limited*	2	Ordinary shares	100%	Electric asset and data management

Notes to the Financial Statements (continued)

32 Subsidiary undertakings and associates (continued)

	Registered office (see key below table)	Holding	Proportion of shares held	Nature of business
CH4 Gas Utility and Maintenance Services Limited*	2	Ordinary shares	100%	Meter installation
SMS Utilities Academy Limited*	2	Ordinary shares	100%	Engineer training and development
Trojan Utilities Limited*	2	Ordinary shares	100%	Meter installation
Qton Solutions Limited*	2	Ordinary shares	100%	Business and domestic software development
Solo Energy Limited (UK)*	1	Ordinary shares	100%	Renewable asset management
Solo Energy Limited (Ireland)*	3	Ordinary shares	100%	Renewable asset management
Care Assets Limited	2	Ordinary shares	100%	Holding company
Care Power (Barnsley) Limited*	2	Ordinary shares	100%	Renewable asset management
Care Power (Burwell 1) Limited*	2	Ordinary shares	100%	Renewable asset management
Care Power (Newtonwood) Limited*	2	Ordinary shares	100%	Renewable asset management
Care Power (Brook Farm) Limited*	2	Ordinary shares	100%	Renewable asset management
Care Power (Berkeley) Limited*	2	Ordinary shares	100%	Renewable asset management
Care Power (Brentwood) Limited*	2	Ordinary shares	100%	Renewable asset management
Care Power (Wolverhampton) Limited*	2	Ordinary shares	100%	Renewable asset management
Care Power (North Tawton) Limited*	2	Ordinary shares	100%	Renewable asset management
Care Power (Upton) Limited*	2	Ordinary shares	100%	Renewable asset management
Care Power (Bramford) Limited*	2	Ordinary shares	100%	Renewable asset management
Care Power (Drumcross) Limited*	1	Ordinary shares	100%	Renewable asset management
Care Power (Erskine) Limited*	1	Ordinary shares	100%	Renewable asset management
Care Power (Burwell 2) Limited*	2	Ordinary shares	100%	Renewable asset management
N3rgy Data Limited*	2	Ordinary shares	100%	Renewable asset management
Clenergy EV Ltd	4	Ordinary shares	25%	Renewable asset management
Metis Energy Limited	2	Ordinary shares	100%	Home energy solutions
Metis Charge Limited	2	Ordinary Shares	100%	Dormant
Smart Battery Systems Limited	2	Ordinary shares	100%	Dormant
Metering Limited	2	Ordinary shares	100%	Dormant
Cosmos AMR Limited*	2	Ordinary shares	100%	Dormant
Carbon Reduction Assets Limited*	2	Ordinary shares	100%	Dormant
Savano Limited*	2	Ordinary shares	100%	Dormant
Metering 1 Limited	1	Ordinary shares	100%	Dormant
Metering 2 Limited*	1	Ordinary shares	100%	Dormant
SMS Installations (Midlands) Limited*	1	Ordinary shares	100%	Dormant
Eco Project Management Limited	1	Ordinary shares	100%	Dormant
Smart Meter Systems Limited	1	Ordinary shares	100%	Dormant
UK Data Management Limited	1	Ordinary shares	100%	Dormant
UK Water Connection Limited	1	Ordinary shares	100%	Dormant
Utility Partnership Limited	1	Ordinary shares	100%	Dormant
SMS IP Limited	1	Ordinary shares	100%	Dormant
Smart Home Systems Limited	2	Ordinary shares	100%	Dormant

Notes to the Financial Statements (continued)

32 Subsidiary undertakings and associates (continued)

	Registered office (see key below table)	Holding	Proportion of shares held	Nature of business
UK Gas Connection Limited	1	Ordinary shares	100%	Dormant
The UK Meter Exchange Limited	1	Ordinary shares	100%	Dormant
UK Electricity Connection Limited	1	Ordinary shares	100%	Dormant
UK Meter Assets Limited	1	Ordinary shares	100%	Dormant
UK Smart Metering Group Limited	1	Ordinary shares	100%	Dormant
Smart Charging Systems Limited	2	Ordinary shares	100%	Dormant
Smart EV Systems Limited	2	Ordinary shares	100%	Dormant
Smart Install Systems Limited	2	Ordinary shares	100%	Dormant
Smart Solar Systems Limited	2	Ordinary shares	100%	Dormant
Care Data Management Limited	2	Ordinary shares	100%	Dormant
Care Energy Services Limited	2	Ordinary shares	100%	Dormant
Care Utility Connections Limited	2	Ordinary shares	100%	Dormant
Care Energy Limited	2	Ordinary shares	100%	Dormant
Care Power Limited	2	Ordinary shares	100%	Dormant
Care Power (Muckraw) Limited	2	Ordinary shares	100%	Dormant
Care Power (Kinkhall) Limited	2	Ordinary shares	100%	Dormant
Care Power (Kellingley) Limited	2	Ordinary shares	100%	Dormant
Care Power (Overseal) Limited	2	Ordinary shares	100%	Dormant
Care Power (Overton) Limited	2	Ordinary shares	100%	Dormant
SMS MAPCO 2 Limited	2	Ordinary shares	100%	Dormant
Care Power (Burwell Holco) Limited*	2	Ordinary shares	100%	Dormant

* The shareholding in this company is indirect, via a subsidiary company.

[1] Registered office address: 2nd Floor, 48 St. Vincent Street, Glasgow G2 5TS.

[2] Registered office address: Prennau House, Copse Walk, Cardiff Gate Business Park, Cardiff CF23 8XH.

[3] Registered office address: Unit 4 Joyce House, Barrack Square, Ballincollig, Cork, P31HW35, Republic of Ireland.

[4] Registered office address: The Mill House Erw Hir, Llantrisant, Pontyclun, Wales, CF72 8BY.

The following UK subsidiaries will take advantage of the audit exemption set out within section 479A of the Companies Act 2006 for the year ended 31 December 2023.

Name	Registration number
SMS Utilities Academy Limited	11896547
Care Assets Limited	12475528
Care Power (Berkeley) Limited	10942601
Care Power (Drumcross) Limited	SC679835
Care Power (Erskine) Limited	SC690064
Care Power (Newtonwood) Limited	11257609
Care Power (Bramford) Limited	12480700
Care Power (Burwell 2) Limited	12875930
N3rgy Data Limited	11712674
Trojan Utilities Limited	07790830

Notes to the Financial Statements (continued)

32 Subsidiary undertakings and associates (continued)

Name	Registration number
UKMA (AF) Limited	07130739
SMS Asset Management Limited	12285853
SMS Data Services Limited	13166529
Care Power (Wolverhampton) Limited	11894406
Care Power (North Tawton) Limited	12266348
Care Power (Upton) Limited	12341398
Care Power (Brentwood) Limited	11516707
Metis Energy Limited	14648082
SMS MAPCO 1 Limited	11022594

33 Restatement of the comparative financial statements

i) Impairment of financial assets

As net impairment gains/(losses) on financial assets are material in the current year, they are now presented on the face of the consolidated income statement along with the comparative impairment loss for the year ended 31 December 2022, which was previously classified within administrative expenses on grounds of materiality.

ii) Financial Reporting Council ("FRC") letter relating to the 2022 Annual Report and Accounts

During the year, the Group received a letter from the Financial Reporting Council ('FRC') requesting further information in relation to the classification of uninstalled meter assets and the presentation of related cash flows for the year ended 31 December 2022.

The review conducted by the FRC focused entirely on the Group's 2022 Annual Report and Accounts and was subject to the following inherent limitations as set out in its communication with SMS on 23 October 2023:

- the FRC review is based on its review of the Company's 2022 Annual Report and Accounts and does not benefit from detailed knowledge of the Group's business or an understanding of the underlying transactions entered into. The review was however conducted by staff of the FRC who have an understanding of the relevant legal and accounting framework;
- correspondence from the FRC with SMS provides no assurance that Company's Annual Report and Accounts are correct in all material aspects;
- the FRC's role is not to verify the information provided but to consider compliance with reporting requirements. Such letters are written on the basis that the FRC (which includes its officers, employees and agents) accepts no liability for reliance on them by the Company or any third party, including but not limited to investors and shareholders.

Following review of the matters raised it has been identified that uninstalled meters and other significant meter components have been incorrectly accounted for under IAS 2 - Inventories as inventory and should instead be accounted for under IAS 16 - Property, Plant and Equipment as property, plant and equipment (PPE). This is on the basis that uninstalled meters and other significant meter components are held with the intention of being installed in customer premises for delivery of long-term services in exchange for revenue, and are expected to be used across more than one period. Upon installation and removal, meters were previously transferred between PPE and inventory consistent with their installation status – the change in accounting policy means that meters will remain classified within PPE regardless of installation status.

Various amendments have been made to the Group's accounting policies as a result of this change, detailed in note 33 (a) below.

Notes to the Financial Statements (continued)

33 Restatement of the comparative financial statements (continued)

ii) Financial Reporting Council ("FRC") letter relating to the 2022 Annual Report and Accounts (continued)

In line with IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors the Company has made this correction on a retrospective basis in the consolidated financial statements for the year ended 31 December 2023, being the first set of financial statements authorised for issue after the discovery of the error. Where required, the Company has restated the comparative amounts for the prior year and, as the error occurred before the earliest prior period presented, the Company has also restated the opening balances of assets and liabilities for the earliest prior period presented. Full details of these restatements are disclosed in note 33 (b) below.

The restatements primarily impact financial statement line items in the consolidated statement of financial position and the consolidated statement of cash flows. There has been no net impact to the Group's opening retained earnings at 1 January 2022 or 1 January 2021, and therefore basic and diluted earnings per share for prior periods are not affected.

(a) Key amendments to the Group's accounting policies

Classification of uninstalled meters and significant components
Newly purchased meter units and other significant components which are installed along with the meter and are critical for the installed meter to operate (such as regulators), together with meter units that have been installed and subsequently removed from the customers' premises and retained in storage for subsequent re-installation, will be presented within property, plant and equipment.

The following assets will continue to be classified as inventory under IAS 2 on the basis that they are consumable in nature or are held for sale in the ordinary course of business:

- Consumable items (e.g. wiring, brackets, bolts, etc.)
- Contactors, correctors and isolators which are optional add-ons considered to be insignificant and not tracked on an asset-by-asset basis. SMS does not retain ownership or control of these assets once consumed. These do not meet the definition of PP&E and are therefore carried in inventory and recognised in profit and loss when consumed.

Depreciation of uninstalled meters
An installed meter asset primarily comprises a meter unit, other ancillary parts and an installation cost (consisting of labour and consumables). The meter unit itself is treated as a significant component of the installed meter asset, with the installation costs (i.e. consumables and labour) treated as a separate component.

Having determined that the meter unit is a separate component, this would only meet the criteria of disposal if the decision were taken to scrap the meter following triage. Depreciation on the meter unit, therefore, does not cease until a meter unit is either scrapped or fully impaired. If the uninstalled meter unit is deemed to be re-usable following triage, then the meter unit is classified as temporarily idle and continues to be depreciated.

Other ancillary parts and the installation component (comprising labour and consumables) are derecognised when the meter asset is uninstalled. Installation elements are scrapped at the point of removal and therefore meet the criteria of a disposal event.
Other ancillary parts are either scrapped at the point of removal and therefore also meet the criteria of a disposal event or are fully impaired.

For the purposes of depreciation, management has concluded that the useful life and pattern of consumption are similar for the meter unit, the ancillary parts and the installation costs, and therefore the components can be depreciated over the same useful economic life. This is on the basis that, at the point of installation, the expectation is that the meter unit, ancillary parts and the installation elements of consumables and labour are expected to be available for use for the same duration of time. Instances of removal are typically the result of individual faults, changes to the energy supplier or commissioning updates, that are not representative of the standard durability of the related component.

Notes to the Financial Statements (continued)

33 Restatement of the comparative financial statements (continued)

ii) Financial Reporting Council ("FRC") letter relating to the 2022 Annual Report and Accounts (continued)

(a) Key amendments to the Group's accounting policies (continued)
Depreciation of uninstalled meters (continued)

When a refurbished meter is subsequently reinstalled, new ancillary parts are installed and a new installation cost (comprising labour and consumables) is incurred. These meet the recognition criteria under IAS 16 and are therefore capitalised within property, plant and equipment at the point of installation. They are subsequently depreciated over the remaining useful economic life of the refurbished meter unit to which they relate.

Impairment
Meter units, ancillary parts and consumable components classified as property, plant and equipment are all assessed for impairment under IAS 36 - Impairment of Assets. Where an impairment is identified, the unit of property, plant and equipment is impaired with the impairment charge recorded though the income statement.

Termination income
The reclassification of uninstalled meter units from inventory to property, plant and equipment results in a change in how a deemed disposal event is defined i.e. a meter asset being removed from a wall no longer constitutes a disposal of the meter unit component itself. Termination charges, which are earned from an energy supplier in cases where the meter asset removal meets the definition of a chargeable termination event under the terms of the contract, were previously classified as deemed proceeds on disposal when a meter is removed from a wall. As a result of the change in accounting policy for uninstalled meters, termination income will now be recognised as revenue under IFRS 15. Consistent with the previous recognition of deemed disposal proceeds, termination revenue will be recognised at a point in time when a meter unit subject to termination charges is removed from a wall.

(b) Impact on the consolidated financial statements

The following tables show the adjustments recognised for each individual line item along with supporting explanations. Line items that were not affected by the changes have not been included. As a result, the subtotals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail within each of the sub-sections below. A third balance sheet as at 31 December 2021 has also been presented which includes restated figures for the impacted line items.

(i) Consolidated income statement

Consolidated income statement (extract)	31 December 2022 as originally presented £'000	Impact of change in accounting policy £'000	31 December 2022 restated £'000
Revenue[1]	135,520	3,680	139,200
Administrative expenses (excluding net impairment loss on financial assets)	(51,305)[2]	(3,680)	(54,985)

[1] Termination income reclassed to revenue of £3,680,000 includes £2,019,000 relating to exceptional revenue and £1,661,000 relating to underlying revenue.

[2] Total administrative expenses presented in the previous financial statements were £51,868,000. This included £563,000 relating to impairment of financial assets which has now been presented separately on the consolidated income statement as detailed above in note 33(i).

Notes to the Financial Statements (continued)

33 Restatement of the comparative financial statements (continued)

ii) Financial Reporting Council ("FRC") letter relating to the 2022 Annual Report and Accounts (continued)

(b) Impact on the consolidated financial statements (continued)

(i) Consolidated income statement (continued)

Certain components within Administrative expenses have also been amended within note 3 as a result of the change in accounting policy:

Administrative expenses (extract)	31 December 2022 as originally presented £'000	Impact of change in accounting policy £'000	31 December 2022 restated £'000
Gain/(loss) on disposal	(2,937)	(778)	(3,715)
Impairment	0	(1,032)	(1,032)
Other operating charges	(12,609)[3]	149	(12,460)
Total		**1,661**	

[3] Other Operating Charges presented in the previous financial statements were £13,171,000. This included £563,000 relating to impairment of financial assets which has now been presented separately on the consolidated Income Statement as detailed above in the Impairment of financial assets section of this note.

Exceptionals (extract)	31 December 2022 as originally presented £'000	Impact of change in accounting policy £'000	31 December 2022 restated £'000
Administrative expenses - losses on the traditional and SMETS1 meter portfolio	(5,716)	(2,019)	(7,735)
Revenue - Termination income on traditional and SMETS1 meter portfolio	0	2,019	2,019

Formerly, the meter unit was deemed to be disposed of at the point of removal along with the installation cost, with termination charges classified as deemed proceeds on disposal. The uninstalled meter unit was then recorded in inventory and no depreciation recognised whilst not in use. Stock provisions were recognised under IAS 2, giving rise to inventory costs in the consolidated income statement. The change in accounting policy, as detailed in note 33 (ii) (a) above, therefore gives rise to:

- A change in the loss on disposal charge as termination income which was previously recognised as deemed proceeds and offset against the remaining carrying value of an asset is now be accounted for as revenue under IFRS 15;
- A reduction in inventory costs as stock provisioning under IAS 2 is no longer applied to meter units; and
- An increase in impairment charges recognised under IAS 16 for meter units that cannot be re-used but have not yet been scrapped.

The increase in the depreciation charge on uninstalled meter units that can be re-used and therefore continue to be depreciated whilst not in use was analysed and concluded not material by management.

In aggregate, the components above do not have a material impact on the reported consolidated statement of comprehensive income for the year ended 31 December 2022. There has therefore been no net impact to the Group's opening retained earnings at 1 January 2023 or 1 January 2022 as a result of the correction.

(ii) Consolidated statement of financial position

Consolidated statement of financial position (extract)	31 December 2021 as originally presented £'000	Impact of change in accounting policy £'000	1 January 2022 restated £'000
Property, plant and equipment	415,901	22,543	438,444
Inventories	22,980	(22,543)	437
Net assets	553,790	0	553,790

Notes to the Financial Statements (continued)

33 Restatement of the comparative financial statements (continued)

ii) Financial Reporting Council ("FRC") letter relating to the 2022 Annual Report and Accounts (continued)

(b) Impact on the consolidated financial statements (continued)

(ii) Consolidated statement of financial position (continued)

Consolidated statement of financial position (extract)	31 December 2022 as original presented £'000	Impact of change in accounting policy £'000	31 December 2022 restated £'000
Property, plant and equipment	533,240	37,080	570,320
Inventories	37,438	(37,080)	358
Net assets	533,486	0	533,486

Uninstalled meters and other significant components, including newly purchased meter units together with meter units that have been installed and subsequently removed, were previously classified as inventory but are now classified as property, plant and equipment.

(iii) Consolidated statement of cash flows

Consolidated statement of cash flows (extract)	31 December 2022 as originally presented £'000	Impact of change in accounting policy £'000	31 December 2022 restated £'000	Nature of restatement
Operating activities				
Exceptional items: other	5,716	2,019	7,735	Reflecting termination income now being classified as revenue under IFRS 15 as opposed to proceeds on disposal within investing activities.
Loss on disposal of PPE	2,937	778	3,715	Reflecting termination income now being classified as revenue under IFRS 15 as opposed to proceeds on disposal and write downs of uninstalled meter assets now classified as impairment
Impairment of PPE	-	1,032	1,032	Reflecting underlying impairment on PPE.
Movement in inventories	(12,481)	12,559	78	Movements in meter units previously recognised within inventory working capital are now recognised as part of property, plant and equipment within investing activities.
Investing activities				
Payments to acquire PPE	(143,399)	(13,145)	(156,544)	Payments to acquire property, plant and equipment now comprise only cash outflows to acquire new meter units, as permitted under IAS 7.
Proceeds on disposal of PPE	3,131	(2,856)	275	Reflecting termination income now being accounted for as revenue as opposed to proceeds on disposal, and therefore as part of cash flows from operating activities as opposed to investing activities..

34 Post balance sheet events

On 7 December 2023, the boards of directors of SMS and Sienna Bidco Limited ("Bidco"), a newly formed company wholly-owned by funds advised by Kohlberg Kravis Roberts & Co. L.P. and its affiliates, announced that they had reached agreement on the terms and conditions of a recommended cash acquisition by Bidco of the entire issued and to be issued ordinary share capital of SMS (the "Acquisition").

On 18 January 2024, Bidco announced that Bidco had determined, with the consent of SMS and the Takeover panel, to implement the Acquisition by way of a recommended takeover offer rather than by way of the Scheme.

That offer became unconditional on 22 March 2024 when Bidco announced that they had acquired SMS shares for 955 pence carrying not less than 75 percent of the voting rights. Accordingly, with effect from 22 March 2024, Bidco controls the Company. As the offer did not become unconditional until 22 March 2024, this constitutes a non-adjusting event post balance sheet.

Notes to the Financial Statements (continued)
34 Post balance sheet events (continued)

Bidco had acquired 100% of the Company's shares by 16 May 2024. The Company's immediate parent company is Sienna Bidco Limited (registered number 15311159) whose registered address is Duo, Level 6, 280 Bishopsgate, London, United Kingdom.

KKR & Co. Inc., together with entities owned by current and former employees and associated persons of KKR and their designees, ultimately owns 100% of Smart Metering Systems Limited. KKR & Co. Inc. is incorporated in Delaware, United States of America and is registered at 30 Hudson Yards, Suite 7500, New York, New York, 1001, United States of America. For more information about KKR & Co. Inc., please see its filings with the U.S. Securities and Exchange Commission at www.sec.gov.

On 25 April 2024, the listing of the Company's shares on the London Stock Exchange's AIM market, was cancelled.

The consolidated financial statements for the year ended 31 December 2023 have been prepared on the basis that the acquisition was not considered more likely than not as at the year end. This is evidenced by the fact that the form of the acquisition was changed in January 2024 from a scheme of arrangement to an agreed takeover. Accordingly, the 2023 financial statements do not reflect any acceleration of share-based payment costs or issue costs on the outstanding revolving credit facility, or recognition of contingent fees that were due on the acquisition completing. The revolving credit facility continued to be classified as non-current, given that as at 31 December 2023, the scheme of arrangement to effect the acquisition was still required to be voted on in a general meeting by shareholders. Consequently, the Acquisition is a non-adjusting post balance sheet event.

The Acquisition has several expected financial impacts on the Group for the year ended 31 December 2024:

i) Transaction costs of c.£18m were incurred in relation to the transaction, of which £3.5m were recognised in the year ended 31 December 2023. The remaining balance, relating to legal and professional costs incurred post year end, will be recognised in the consolidated financial statements for the year ended 31 December 2024.

ii) All outstanding share options under the Group's Unapproved Plan and LTIP schemes vested on takeover and were equity settled following the change of control. C.4.5 million shares were issued in relation to the options with a nominal value of c.£0.05m. Aggregate consideration of £25.6m was received. Management is in the process of assessing the IFRS 2 impacts of the Acquisition on the Group's share schemes, but a significant share based payment charge is expected to be recognised in the year ended 31 December 2024 given the accelerated vesting.

iii) The Group's existing indebtedness immediately prior to the Acquisition totalling £252.8m, including the outstanding loan principal, interest and commitment fees, was settled in full upon completion of the Acquisition. The balance immediately prior to the Acquisition reflected additional drawdowns made post year-end. An accelerated amortisation charge for arrangement fees of £1.0m will be recognised within exceptional costs in the year ended 31 December 2024. As detailed on pages 6 and 7, a new financing package came into effect following the Acquisition along with various hedging arrangements and these will be recognised in the consolidated financial statements for the year ended 31 December 2024.

Subsequent to the completion of the Acquisition, the managing and operational directors of the Solo business resigned from their positions in the business. The Board are assessing the strategic direction of the Solo Energy business. Demand Flexibility Services may continue to be provided through another subsidiary undertaking and a review is underway to assess the potential leveraging of the Flexigrid™ platform in other areas of the Group. Given this decision was made post year-end, following the Acquisition, this is a non-adjusting post balance sheet event. In 2024, management will perform a detailed assessment over the intangible assets and goodwill associated with the Solo business to assess for any impairment required.

Parent Company Balance Sheet
For the year ended 31 December 2023

	Notes	2023 £'000	2022 £'000
Non-current assets			
Investments in subsidiaries	2	**26,563**	**24,306**
Trade and other receivables	3	**416,365**	**407,125**
Total non-current assets		**442,928**	**431,431**
Current Liabilities			
Trade and other payables	4	**(929)**	**(429)**
Total current liabilities		**(929)**	**(429)**
Net assets		**441,999**	**431,002**
Capital and reserves			
Share capital	6	**1,336**	**1,334**
Share premium		**333,421**	**332,332**
Other reserves	7	**19,803**	**18,046**
Own share reserve		**(1,204)**	**(955)**
Retained earnings		**88,643**	**80,245**
Equity shareholders' funds		**441,999**	**431,002**

No profit and loss account is presented by the Company, as permitted by section 408 of the Companies Act 2006. The profit after taxation dealt with in the financial statements of the Company was £50,077,000 for the financial year ended 31 December 2023 (2022: £nil).

The parent company financial statements on pages 116 to 119 were approved and authorised for issue by the Board of Directors and signed on its behalf by:

Gail Blain
Director

Date: 25th September 2024
Company registration number
SC367563

Parent Company Statement of Changes in Equity

For the year ended 31 December 2023

Attributable to the owners of the parent company	Share capital £'000	Share premium account £'000	Other reserves £'000	Own share reserve £'000	Retained earnings £'000	Total £'000
As at 1 January 2022	**1,333**	**332,048**	**15,435**	**(825)**	**118,102**	**466,093**
Total comprehensive income for the year	–	–	–	–	–	–
Transactions with owners in their capacity as owners						
Dividends (note 8)	–	–	–	–	**(37,592)**	**(37,592)**
Share-based payments (note 7)	–	–	**2,611**	–	–	**2,611**
Movement in own shares	–	–	–	**(130)**	**(265)**	**(395)**
Shares issued	**1**	**284**	–	–	–	**285**
As at 31 December 2022	**1,334**	**332,332**	**18,046**	**(955)**	**80,245**	**431,002**
Total comprehensive income for the year	–	–	–	–	**50,077**	**50,077**
Transactions with owners in their capacity as owners						
Dividends (note 8)	–	–	–	–	**(41,396)**	**(41,396)**
Share-based payments (note 7)	–	–	**1,757**	–	–	**1,757**
Movement in own shares	–	–	–	**(249)**	**(283)**	**(532)**
Shares issued	**2**	**1,089**	–	–	–	**1,091**
As at 31 December 2023	**1,336**	**333,421**	**19,803**	**(1,204)**	**88,643**	**441,999**

Notes to the Parent Company Financial Statements

The parent company financial statements of Smart Metering Systems Limited (the 'Company') for the year ended 31 December 2023 were authorised for issue by the Board of Directors on 19th September 2024 and the balance sheet was signed on the Board's behalf by Gail Blain. Smart Metering Systems Limited is a private limited company limited by shares and incorporated and domiciled in Scotland, with its registered office at 2nd Floor, 48 St. Vincent Street, Glasgow, G2 5TS. As at 31 December 2023, the Company's ordinary shares were traded on AIM. SMS de-listed from the London Stock Exchange through cancellation of the SMS shares traded on AIM and re-registered as a private limited company on 25 April 2024.

1 Parent company accounting policies

Basis of accounting
The financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) and on a historical cost basis.

The accounting policies of the parent Company financial statements follow those policies which apply in preparing the consolidated financial statements for the year ended 31 December 2023. The financial statements are prepared in Sterling and are rounded to the nearest thousand Pounds (£'000).

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted average exercise prices of share options, and how the fair value of goods or services received was determined).
- IFRS 7, 'Financial instruments: Disclosures'.
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).
- Paragraph 38 of IAS 1, 'Presentation of financial statements' – comparative information requirements in respect of paragraph 79(a)(iv) of IAS 1.
- The following paragraphs of IAS 1, 'Presentation of financial statements':

– 10(d) (statement of cash flows);
– 16 (statement of compliance with all IFRS);
– 38A (requirement for minimum of two primary statements, including cash flow statements);
– 38B–D (additional comparative information);
– 111 (cash flow statement information); and
– 134–136 (capital management disclosures).
– IAS 7, 'Statement of cash flows'.

- Paragraphs 30 and 31 of IAS 8, 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation).
- The requirements in IAS 24, 'Related party disclosures', to disclose related party transactions entered between two or more wholly owned members of a group.

Disclosure of auditor remuneration for non-audit fees is not given in the individual financial statements as the Group accounts are required to comply with regulation 5(1)(b) of the Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008 and present the information on a consolidated basis.

The Company is a guarantor in respect of the Group's £420m revolving credit facility along with other Group subsidiary entities. The fair value of the parental guarantee has been assessed and is not considered significant on the basis that the subsidiary undertaking utilising the facility has a creditworthiness at least similar to the Company. The Company assesses, on a forward-looking basis, the expected credit losses associated with the guarantee. The impairment assessment considers the financial position of the subsidiary undertaking utilising the

Notes to the Parent Company Financial Statements

1 Parent company accounting policies (continued)

Basis of accounting (continued)

facility and concluded that there is no significant risk to the Company of impairment over the guarantee. While the guarantee is subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

Going concern

Based on the current projections and facilities in place, the Directors consider it appropriate to continue to prepare the financial statements on a going concern basis. A detailed assessment for the Group is disclosed in the accounting policies to the consolidated financial statements.

Investments in subsidiaries

Investments in subsidiary undertakings are stated in the balance sheet of the Company at cost, or nominal value of the shares issued as consideration where applicable, less provision for any impairment in value.

Amounts owed by Group undertakings

Amounts owed by Group undertakings recorded on the parent company balance sheet consist of outstanding loan balances. These are unsecured and interest free. All loans between Group undertakings are repayable on demand and are classified as current except where the amounts owed are not expected to be settled within 12 months of the reporting date, in which case balances are classified as non-current. Amortised cost is equal to the principal value, which is considered to approximate fair value.

The Company assesses, on a forward-looking basis, the expected credit losses associated with Amounts owed by Group undertakings. The impairment methodology applied depends on the ability to repay amounts repayable on demand and whether there has been any significant change in credit risk.

Share-based payments

The grant by the Company of options and share awards over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services rendered, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to the investments in subsidiary undertakings, with a corresponding credit to equity in the Company financial statements. The credit to equity is recognised within Other reserves, as these amounts are non-distributable at the Company level.

2 Investments in subsidiaries

Carrying value	2023 £'000	2022 £'000
At 1 January	**24,306**	**21,694**
Share-based payments (note 7)	**1,757**	**2,612**
Additions	**500**	–
At 31 December	**26,563**	**24,306**

During 2023 and 2022, a number of subsidiary companies granted options and share awards to their employees over the shares of SMS. For accounting purposes, these grants are recorded as investments by the Company in its subsidiary undertakings.

During the year, the company invested £500,000 in Metis Energy Ltd for 100% of the ordinary shares on incorporation. Metis Energy Ltd is incorporated in the United Kingdom and is not publicly traded. The registered office is Prennau House Copse Walk, Pontprennau, Cardiff, Wales, CF23 8XH. The company received £nil in dividends from Metis Energy Ltd in the year.

Investments in subsidiaries are assessed annually to determine if there is any indication that any of the investments might be impaired. There were no material indicators of impairment at 31 December 2023 and therefore no impairment charge has been recognised in the year ended 31 December 2023.

Notes to the Parent Company Financial Statements

2 Investments in subsidiaries (continued)

Subsidiary undertakings

Details of the subsidiary undertakings of the Company, including those that are held indirectly, are listed in note 32 to the consolidated financial statements.

3 Trade and other receivables

	2023 £'000	2022 £'000
Amounts owed by Group undertakings	**416,283**	407,125
Group Relief debtor	**82**	–
	416,365	407,121

Amounts owed by Group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand. The amounts are not expected to be settled within 12 months of the reporting period.

4 Trade and other payables

	2023 £'000	2022 £'000
Amounts owed to Group undertakings	**929**	429

Amounts owed to Group undertakings consist of outstanding loan balances, classified as debt instruments under IFRS 9. These are unsecured and interest free. All loans between group undertakings are repayable on demand and classified as creditors due within one year. Amortised cost is equal to the principal value, which is considered to approximate fair value.

5 Related party transactions

The Company paid dividends to Alan Foy (whilst a Director) of £nil (2022: £321,809), The Metis Trust[1] of £nil (2022: £61,875), Metis Investments Limited[2] of £nil (2022: £25,599), Tim Mortlock of £16,473 (2022: £5,033), Gail Blain of £432 (2022: £nil), Gavin Urwin (whilst a Director) of £nil (2022: £458), Miriam Greenwood of £9,709 (2022: £7,177), Graeme Bissett of £7,104 (2022: £5,796), Jamie Richards of £2,416 (2022: £1,389) and Ruth Leak of £876 (2022: £nil).

[1] Alan Foy is a trustee but not a beneficiary.

[2] Alan Foy is a Director and shareholder.

6 Share capital

	2023 £'000	2022 £'000
Allotted and called up:		
133,606,918 ordinary shares of £0.01 each (2022: 133,397,009 ordinary shares of £0.01 each)	**1,336**	1,334

During the year 209,909 (2022: 75,454) ordinary share options were exercised in relation to the Group's employee share plans which are described in note 28 to the consolidated financial statements. The ordinary shares issued have a nominal value of £2,099 (2022: £755) and aggregate consideration of £1,091,000 (2022: £285,000) was received.

The Group's Share Incentive Plan is administered by the Smart Metering Systems SIP Trust, which acquires shares in SMS (own shares) to satisfy awards under this plan and facilitate the delivery of shares to participants. At 31 December 2023, 176,125 (2022: 145,821) own shares were held in trust with a carrying value of £1,203,984 (2022: £955,000) and a market value of £1,655,575 (2022: £1,225,000). The Company purchased 72,232 shares (2022: 48,900) from the market during 2023 with a weighted average fair value of £7.36 per share (2022: £8.08).

Notes to the Parent Company Financial Statements

7 Other reserves

Other reserves are non-distributable and include the following items:

- a reserve that initially arose by applying merger relief under section 612 of the Companies Act 2006 to the shares issued in 2009 in connection with the Group restructuring. Additionally, the premium of £4,189,000 and £1,115,000 arising on the issue of shares as part of the acquisitions of CH4 Gas Utility and Maintenance Services Limited ('CH4'), Trojan Utilities Limited ('Trojan') and Qton Solutions Limited ('Qton') has been credited to this reserve; and
- a share-based payment reserve, arising as a result of the grant by the Company of options and share awards over its equity instruments to the employees of subsidiary undertakings in the Group.

8 Dividends

Please refer to details in note 8 to the Group financial statements.

9 Post balance sheet events

Details of post balance sheet events as they apply to both the Group and the Parent Company are disclosed in note 34 to the Group financial statements.