

A warm, golden-hour photograph of two hands, an adult's and a child's, holding each other. The adult's hand is at the top, wearing a brown sleeve, and the child's hand is at the bottom, wearing a denim sleeve. The background is a soft, out-of-focus landscape with a bright sun creating a lens flare effect. A green diagonal overlay covers the bottom left portion of the image, where the text is located.

Serving our customers, protecting the environment

SMS Annual report and accounts 2020

Leading the smart energy revolution

SMS has been at the heart of the UK energy market for over 25 years.

We are a major smart metering and energy services business playing a critical role in transforming and decarbonising the UK's energy system.

Find out more about our achievements over the past 25 years on page 14.

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Our purpose: why we exist**Serving our customers, protecting the environment**

Delivering smart energy solutions to realise a greener, more sustainable future.

**Our strategy:** our strategic pillars

Long-term, recurring cash generation from secure infrastructure assets

Customer excellence and efficient delivery

Efficient capital allocation to provide headroom for growth

Sustainable and socially responsible business

► Find out more on pages 22 to 27

**What we do:** focus on carbon reduction**Asset Management**

Metering

Data

Asset Installation**Energy Management**

► Find out more on pages 30 to 37

**How we do it:** our approach

Origination and ownership of assets

► Find out more on page 31

Investing in our people

► Find out more on page 49

Listening to our customers

► Find out more on page 40

Leveraging our resources

► Find out more on page 70

See the report online
sms-plc.com

AT A GLANCE

Providing the complete energy service

We provide an end-to-end service covering all aspects of metering, utility connections and energy management.

Our vision

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

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

A trusted partner, we are uniquely positioned to help effect real and enduring transformation.

Our values

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

 **Safety**

 **Customer excellence**

 **Pride**

 **Innovation**

 **Sustainability**

Our purpose

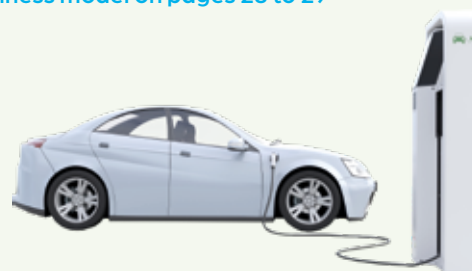
Serving our customers, protecting the environment.

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

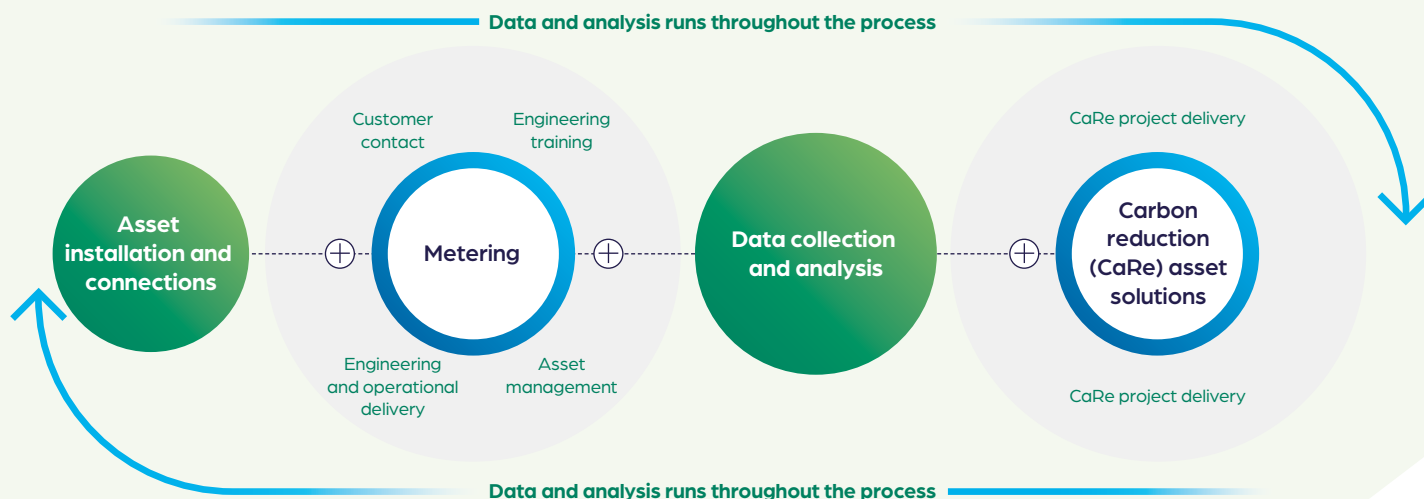
We use our technology, data, finance and engineering skills and knowledge to provide innovative energy solutions for our customers. Through our services we are changing how businesses and consumers access and use energy. In doing so, we are delivering value to them, generating long-term sustainable and recurring revenue streams for the Company and, above all, reducing carbon emissions.

Our strategic investment in emerging carbon reduction ('CaRe') asset classes helps to carve out new market segments that align with these goals.

► [See our business model on pages 28 to 29](#)



A joined up end-to-end energy service



What we do

Our complete energy service covers:

Asset Management

Smart metering and data services

Installation, operation and management of meter and energy infrastructure assets and related data services, which facilitate a greener and more flexible energy system.

Asset Installation

Smart utility services

Design, installation and management of utility connections and energy infrastructure.

Energy Management

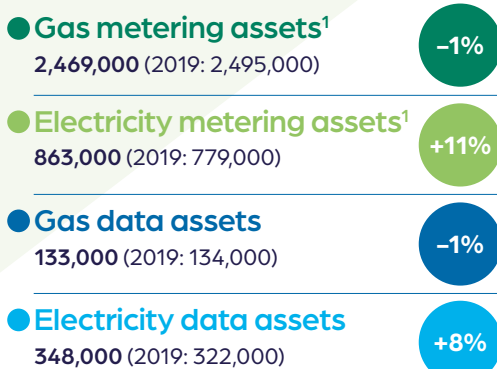
Smart energy services

Ongoing delivery of energy management and carbon reduction solutions, including the operation of CaRe assets, enabling long-term sustainability and lower carbon emissions.

There are no other UK organisations in a position to offer all these services in house simultaneously, meaning our customers do not have to worry about finding multiple partners to deliver their energy-related projects.

► [See the Operational review on pages 30 to 37](#)

Assets under management



¹ Includes third-party assets managed by SMS.

Our customers

Listening to and serving our customers is at the heart of what we do.

We put this into action throughout the business – be it a meter engineer on the doorstep of a customer, a customer service adviser on the phone to a customer or an energy consultant in front of a customer.

Utilities

- Major UK energy suppliers
- Independent energy suppliers
- Rapidly growing new market participants



Developers

- Major UK housebuilders
- UK-wide private and public property development organisations



Enterprises

- Retail chains
- Large supermarkets
- High street banks
- Major rail and telecoms companies
- Public sector organisations
- Industrial & Commercial (I&C) businesses



OUR RESPONSE TO COVID-19

Playing our part to keep the UK's gas and electricity flowing

Throughout the global pandemic, SMS has played a critical part in maintaining the UK's energy supplies. The security of our energy supply and metering infrastructure at an extraordinary time like this has never been more important.

During the crisis we have focused on the following priorities, while also ensuring we stay agile and able to respond to the ongoing volatility and uncertainty caused by COVID-19:

- 1 **protecting the health, safety and wellbeing** of our customers, our employees and the wider public;
- 2 **being there for our customers** and all energy consumers, providing support and continuity of service in the safest way possible; and
- 3 **strengthening the Group's balance sheet** and maintaining operational and financial flexibility.

The perseverance, resilience and professionalism our people have shown through this difficult period has been exceptional. They have demonstrated an unwavering commitment to making sure the country's essential energy network remains fully functioning, and we continue to serve our customers to the highest standards every single day.



1 Protecting health, safety and wellbeing

Our number one core value is safety.

That is why, on 24 March 2020, we took the decision to stand down all non-essential field work – including the planned installation of smart meters – and prioritise only emergency work.

This decision was a leading one for our industry, coming hours before the UK Government's announcement of strict national lockdown measures. It was not a decision taken lightly, knowing the disruption it would have on our business operations, but it was a measure we considered essential to protect the wellbeing of our key stakeholders.

Concurrently, the decision was made to close all offices and warehouses, except for activities required to support emergency field activity and our IT infrastructure, where these could not be conducted remotely. The majority of our remaining workforce continued to work and seamlessly support customers from home.

As part of this change of focus, we immediately introduced increased protection measures to ensure the health and wellbeing of our staff and supply chain, and our customers and their consumers. We took proactive steps to ensure our national network of staff were appropriately trained and this, combined with our robust



IT infrastructure, ensured we could continue to undertake emergency works whilst reducing the risks to an absolute minimum.

Following the Government's announcement detailing the phased lifting of restrictions, we worked closely with our energy partners to develop new COVID-19-secure health and safety installation protocols and agreed a phased and progressive resumption of all non-essential field work, commencing from 1 June 2020. This gradual remobilisation was governed by our comprehensive COVID-19 Business Risk Assessment, with control measures developed in consultation with our employees, contractors and customers.

Since then, we have seen a progressive recovery in installation run rates, despite continued local restrictions, and by the end of 2020 we were operating at c.80% of the pre-COVID-19 run rate. Whilst our warehouses are now open and operating, our offices remain closed for the most part, with the majority of our non-engineering workforce continuing to work from the safety of their own homes.

Priority in action: Investment in protection and training

Our front-line engineers are provided with the protection and training that they require to respond to jobs safely, keeping risk to a minimum. These stringent measures include:

- updated procedures – via a method statement, risk assessment and e-learning module;
- revised scripts for our contact centre staff to establish whether it is safe for our engineers to attend a job;
- additional Personal Protection Equipment (PPE);
- additional hygiene items including hand sanitiser and masks; and
- procedures to reduce risk, e.g. not passing hand-held devices to customers.

For the remainder of our people – our office and operational support staff – their wellbeing has been a priority. We have helped individuals manage the transition to home, supplying the necessary technology and guidance to do so. See the Our people section on page 49.

2 Being there for our customers

Serving our customers is a core component of our purpose; we strive to deliver an exceptional customer experience. Throughout the challenges we have faced with the pandemic, being there for our customers has been of paramount importance.

We have kept all our customers closely updated on our decisions, maintaining daily communication with them through dedicated representatives. Information on our new procedures and protocols – including our COVID-19 Business Risk Assessment – was shared, to give our customers the reassurance that their safety, and that of their own customers, was our number one priority.

And, when we talk about being there for our customers, we do not just mean virtually. Through the pandemic SMS has, literally and physically, been there for our customers, providing full emergency field services to support critical national infrastructure and maintain people's energy supplies. Our focus in the year, especially during times of lockdown, has been on the most vulnerable consumers, and also on ensuring the nation's front-line services – hospitals, care homes and the like – have a reliable flow of gas and power.

We are proud in the knowledge that the services we deliver are making a real difference.



Priority in action: Keeping essential services running smoothly

During the first national lockdown we were approached by a care services company regarding one of its care homes, which had been closed since the previous summer due to problems with the gas supply. As works had been pulled on previous occasions by another supplier, the company was desperate to get the care home re-opened in order to provide much-needed beds for COVID-19 patients and medical staff.

Our engineer assigned to the job recognised the importance of this project and went beyond the call of duty to ensure the care home was resupplied with gas quickly and thus able to re-open.

This is just one example of the amazing contributions our front-line engineers and support workforce have made during COVID-19 by responding to emergency energy situations.

OUR RESPONSE TO COVID-19 continued

3 Maintaining operational and financial flexibility

The completion of the disposal of a minority of the Group's meter assets on 22 April 2020, for gross cash consideration of £290.6m, was a demonstration of the strength of our meter asset class. The proceeds allowed the Group to reset its leverage, supporting a £270m voluntary prepayment of the Group's revolving credit facility and driving a net cash position overall, which is still maintained as at 31 December 2020. As anticipated, the disposal provided the Group with significant headroom to manage the business going forward on a low-leverage basis.

Despite the constraints COVID-19 placed on the business during the year, the Group's existing index-linked annualised recurring revenue (ILARR) of £73.2m at 29 February 2020, just prior to the first national lockdown, remained unaffected by the temporary measures taken.

Throughout the year, the Group has managed its cash flows carefully, with a concentrated effort to work with our customers to ensure orderly debt collection. The Group's engineer capacity has been adapted in order to manage customer demand, which has been inherently more volatile through the pandemic, more efficiently.

Management has also ensured that the Group's operating cost base has remained as streamlined as possible, suspending any non-critical business spend.

Whilst the COVID-19 situation will continue to impact on the short-term growth of the business, the combination of the Group's robust balance sheet, high-quality, index-linked recurring revenue streams and contracted order pipeline ensures that the longer-term impact on the Group will be minimal. This demonstrates the financial resilience of the Group's business model.

Priority in action:

The Coronavirus Job Retention Scheme (CJRS)



Due to significant uncertainties prevailing in the earlier part of 2020, and the material impact of the cessation of activities from March to June on the roles of many of the Group's workforce, we elected to furlough some of our staff in March 2020 and apply for a grant under the CJRS.

However, when we emerged from this uncertain period with a strong cash position and underlying growth despite the lockdown, the Board took

the decision in June to return all funds received from the UK Government under the CJRS and to withdraw from the scheme altogether.

Following positive feedback from our people and customers regarding our phased re-mobilisation, we were able to accelerate the process over the summer, and all staff previously stood down had returned to work by the end of August.

12 March 2020

- COVID-19 formally tabled at Board meeting

19 March 2020

- COVID-19 Business Risk Assessment compiled

27 March 2020

- Dedicated Company wellbeing intranet page launched to staff

31 March 2020

- Communication to employees to confirm enrolment in the CJRS

22 April 2020

- Completion of asset disposal and voluntary prepayment of the Group's revolving credit facility

17 March 2020

- 2019 final results announcement

24 March 2020

- Temporary suspension of all non-essential field work announced
- All offices and warehouses closed
- New health and safety processes and procedures introduced

13 April 2020

- Lockdown extension announced by UK Government. Customer update issued

23 April 2020

- Trading update

Stakeholder management

Communicating with our key stakeholders effectively and transparently through the pandemic has been critical in ensuring the continued operation of the business:



Shareholders

We engaged proactively with shareholders, providing regular updates and releasing several Regulatory News Service announcements through the year. Our share price reaction has been positive and our financial results have come in marginally ahead of market expectations for the year.



Customers

We have communicated frequently with customers to provide updates on our services and risk assessments, and to give them information on new health and safety protocols. We have endeavoured to support our customers – and the end consumer – wherever possible.



Employees

Protecting the safety and wellbeing of our people has been our top priority. Various forums have been used to engage with teams across the business and an extensive suite of wellbeing initiatives has been implemented. Staff have remained financially supported, without exception.



Suppliers

Our long-standing partner relationships remain stronger than ever. Our key focus was on vendors critical to maintaining the operation of our Asset Installation business. We engaged early to ascertain potential risks to the supply chain for key items. In this way, we were able to respond quickly to potential PPE shortages, ensuring we had sufficient access through alternative suppliers.



Lenders

Our lenders were kept up to date on key developments during the year and were directly involved in discussions around the impact of the disposal of a minority of meter assets on the business and, of course, the subsequent voluntary debt prepayment. Bank reporting was provided without exception, with no breaches to our covenants in the year.



Government and regulatory bodies

We proactively engaged with government and regulatory bodies to come together as an industry, helping to develop aligned strategies in response to the crisis. We actively participated in the COVID-19 Remobilisation Working Group chaired by the Department for Business, Energy & Industrial Strategy (BEIS), and represented Meter Asset Providers (MAPs) on a Data Communications Company (DCC)-chaired Communications Hub Supply Chain Group, helping to evaluate how best to slow down deliveries while keeping supply running.

Looking ahead

Since summer 2020, the UK Government's restrictions – including the most recent national lockdown initiated at the end of December 2020 – do not apply to engineering and construction works in England, Wales and Northern Ireland. This means that the rollout of smart meters across domestic and commercial sites can continue as normal in these parts of the country, in addition to emergency works and other construction projects such as energy efficiency and utility connections works.

For now, therefore, it's business as usual as we continue with our mission to deliver the future of smart energy, in the safest possible way.

1 May 2020

- SMS signs up to the C-19 Business Pledge (see page 49 for details)

7 May 2020

- COVID-19 Business Risk Assessment finalised and distributed to key stakeholders

1 July 2020

- Announcement of decision to return the furlough funds received under the CJRS and withdraw from the scheme forthwith

31 August 2020

- All employees returned from furlough

17 December 2020

- 2020 trading update confirming an installation run rate at c.80% of the pre-COVID-19 run rate

6 May 2020

- 20 employees became accredited mental health first aiders

29 May 2020

- Announcement of plans for a phased and progressive resumption of non-essential field work from 1 June

30 July 2020

- Half-year trading update

15 September 2020

- 2020 interim results announcement

CHAIRMAN'S STATEMENT

Protecting value for our shareholders

2020 presented us all with exceptional challenges, but the resilience of our business model was demonstrated once again.



**DESPITE THE
UNPRECEDENTED
CIRCUMSTANCES,
I BELIEVE WE HAVE COME
OUT STRONGER, MORE
UNIFIED AS A BUSINESS."**



I was appointed as Chairman in June 2020, at our first virtual Annual General Meeting. Against the backdrop of the COVID-19 pandemic, we have faced considerable challenges during the year, as individuals and as a business. First and foremost, I would like to thank all of our people at SMS for the commitment and resilience that they have shown over the last year, and as I write.

2020 has, nonetheless, been a remarkable year for SMS, with considerable successes. We completed the largest commercial transaction in the Company's history, selling a minority portfolio of meter assets in April for over £290m, allowing us to pay down all our debt and to be cash-positive through the remainder of the year. We started the building of our business in carbon reduction ('CaRe') assets, in our first addressable market, with our investment in grid-scale battery storage. We now have 90MW under construction, driving forward our strategy of being at the heart of the energy transition in the UK. Most importantly, we announced our aim to be 'net carbon zero' by 2030, supported by an ambitious implementation plan. We have established a new Board committee under my Chairmanship – the Health, Safety and Sustainability Committee – which provides enhanced oversight and governance of these key drivers of our business.

In unprecedented circumstances, the determination of our people has been outstanding, and I am proud of how we have supported each other to deliver a highly successful 25th year for the Company.

Financial performance and dividend

Our results for the year to 31 December 2020 clearly demonstrate the underlying financial strength of our business. We have remained profitable and seen growth in our asset-backed, index-linked annual recurring revenues, all underpinned by a strong debt-free balance sheet.

The unlocking of value from the sale of a minority of our meter assets has enabled us to deliver an enhanced dividend. We have proposed a 25p per share dividend in respect of FY 2020, with intended annual growth of 10% through to the end of the UK smart meter rollout in 2025. Two of four equal quarterly instalments have already been in paid, in October 2020 and January 2021 respectively. The remaining instalments will be paid in the coming months.

Progress against our strategy

We have four key strategic priorities, which are: long-term, recurring cash generation from secure infrastructure assets; customer excellence and efficient delivery; efficient capital allocation; and sustainable and socially responsible business. This framework provides a clear strategic vision for the Group to ensure that the business is capable of growing whilst balancing delivery of long-term value for all stakeholders.

The business maintains its focus on operational excellence in the delivery of the UK smart meter rollout and, increasingly, a parallel focus on the development of the next generation of energy transition assets.

I am pleased to report that progress against our strategy has continued apace over the year. Capital deployment in our contracted order pipeline in meters and CaRe assets now stands at c.£450m and c.£180m respectively, in particular on the Group's investment in grid-scale battery storage projects in the year. Our pipeline of opportunities is growing, supporting the global trend towards decarbonisation.

COVID-19

SMS played an essential part in keeping the UK's energy networks functioning through the various lockdowns and restrictions that dominated the year. We ensured that those most vulnerable in our society did not go without a reliable source of gas and electricity and we were on hand to deliver emergency utility services to those operating on the front line.

Protecting the health, safety and wellbeing of our people, our customers and the end consumer has been our number one priority and, as detailed on pages 4 to 7, extensive new and enhanced measures have been introduced in the year. Protective equipment, clear protocols and processes, detailed risk assessments – these have all been vital. As importantly, we have focused on supporting the emotional health of our people, providing extensive wellbeing resources as part of a dedicated programme to improve awareness around mental health.

The Our people section on pages 49 to 53 highlights these initiatives and the accreditations we have received as a result.

We were able to provide complete financial support to all employees through the pandemic, including those who were temporarily stood down from their positions during the first national lockdown, and most staff retained their full salaries. Because of the financial strength and resilience of the business, we have not needed to rely on any support from the UK Government and were one of the first companies in the UK to return furlough grants covering the earlier part of the Coronavirus Job Retention Scheme.

There have been challenges – but working together, albeit remotely, we have successfully adapted. The journey of continuous improvement does not end here, of course, and the measures introduced will form an integral part of our way of working going forward.

You can read more about our strategic priorities and progress on pages 22 to 27.

Environmental, social and governance (ESG) commitments at the heart of what we do

Sustainability is embedded within our culture, principles and values. Together with our products and services, it underpins our ability to create long-standing value for our stakeholders and achieve our vision to be at the heart of the low-carbon, smart energy revolution that is pivotal to realising a greener, more sustainable world.

Earlier this year I met, virtually, with several of our major shareholders and it was very apparent that sustainability, and the broader concept of ESG accountability, is playing a more significant part in their investment strategies. We are already well aligned with this trend, with our development and delivery of low-carbon assets and solutions. We have also enhanced our reporting and published our first Sustainability Report concurrent with the Annual report and accounts 2020.

We are working hard to protect the environment. The recent announcement of our net-zero carbon target by 2030 demonstrates just how committed we are to this agenda and I am excited about the changes to come as we bring our mission of delivering the future of smart energy 'in-house'.

CHAIRMAN'S STATEMENT continued

Board changes

Willie MacDiarmid stepped down from the Board in June 2020 following over six years of service as a Non-executive Director and four years as Chairman. Throughout his tenure as Chairman, Willie provided the Board with wise leadership and strategic counsel and we are very grateful for his contributions. On behalf of the Board, I would like to thank Willie for his service and wish him a happy retirement. I am delighted to have succeeded Willie as Chairman and very much hope that, with experience on the Board as a Non-executive Director, I can bring value to the role.

Graeme Bissett has succeeded me as Senior Independent Non-executive Director.

It is my pleasure to welcome Jamie Richards, who joined the Board as Independent Non-executive Director and Chair of the Remuneration Committee in April 2020. Jamie brings considerable experience in the infrastructure and solar sectors, which will be invaluable as we execute on our smart meter rollout programme and, importantly, look to grow our investment in carbon-reducing assets to create long-term value for our stakeholders.

Whilst not a 2020 Board change, I also wish to mention the imminent departure of our Chief Financial Officer, David Thompson, at the end of this month. After almost five years with SMS, the last three of them as Chief Financial Officer, David has seen the Company through a period of remarkable change and development. The Board and I wish him all the best in his new endeavours and thank him for his very valued contribution. I would also like to welcome his successor, Gavin Urwin, who will join the Board as our new Chief Financial Officer on 31 March 2021.

Section 172 and stakeholder engagement

Effective stakeholder engagement is key to our success, helping the Board and management make better decisions. The Board recognises its responsibility to understand and consider stakeholder views as part of its decision-making process and

remains committed to fostering effective business relationships. We have categorised our stakeholder relationships into seven key groups and ensure that the perspectives and opinions of these groups taken account of when key strategic, financial or operational decisions are being taken. SMS's approach to stakeholder engagement is set out in more detail on pages 39 to 42 and our section 172 statement is set out on page 39.

The Board's commitment to fulfilling its section 172 duties has been clearly demonstrated in its response to the COVID-19 crisis and how it has engaged with different stakeholder groups during this time. The Board has fully supported the business's number one priority of protecting the health and wellbeing of its staff, customers and consumers during this time, whilst also managing the commercial and financial implications of the pandemic and preserving the long-term value of the Company.

A key objective of the Annual report and accounts is to help stakeholders assess how effectively the Board, supported by the executive management team and other employees, promoted the success of SMS during the year, specifically with respect to our obligations pursuant to section 172 of the Companies Act 2006. Case studies dispersed throughout the Strategic and Governance reports explain the principal decisions taken in the year and how the interests of relevant stakeholder groups were considered. A summary of these decisions is provided opposite.

Corporate governance

Corporate governance remains a priority and focus of the business and, whilst we adopt the Quoted Companies Alliance's Corporate Governance Code, we strive to set ourselves UK Corporate Governance Code targets and aspirations where possible and appropriate.

We set out our approach to corporate governance and compliance in detail in the Corporate governance report (see pages 76 to 87).

Looking to the future

Celebrating 25 years of SMS, I am proud to be chairing a company built on such a strong heritage, driven by a powerful purpose that goes beyond financial achievements and shareholder value. This purpose is striving to make the world a better place for future generations, and we are a business that is making a difference.

The COVID-19 crisis, and its implications for our business and the wider industry, will of course continue to be closely monitored. However, we remain hopeful that we may be through the worst of it and on track to return to business as usual.

Built on secure foundations, and with a clear strategy for growth, I am confident that our future is a bright one.

Miriam Greenwood

Non-executive Chairman

16 March 2021



**EFFECTIVE
STAKEHOLDER
ENGAGEMENT IS KEY
TO OUR SUCCESS,
HELPING THE BOARD
AND MANAGEMENT
MAKE BETTER
DECISIONS."**

Principal decisions























Principal decisions are those operational and strategic decisions which the Board made during the course of 2020 and which are considered to be material to:

(a) The SMS corporate group

This process is streamlined by the fact that the Directors of SMS and those of the subsidiary boards comprise the same individuals; therefore decision-making is relatively straightforward in practice, albeit subsidiary directors still pay due consideration to the perspective of each legal entity over all decisions being made.

(b) Stakeholder groups

The table on pages 39 to 42 details how we established and defined our stakeholder groups. On the pages listed in the table below we have provided examples of how, in making principal decisions, the Board duly considered the impact upon them during the course of 2020:

Principal decision	Pages	Key stakeholders impacted
Our response to COVID-19	4-7	      
Investment in grid-scale battery storage	36	 
Net-zero carbon target	46	  
New, enhanced dividend policy	69	   
Sale of a minority of the Group's meter assets	84-85	     

Key:



Shareholders



Customers



Employees



Suppliers



Lenders



Government



Regulatory bodies

CHIEF EXECUTIVE OFFICER'S STATEMENT

Originating Smart Energy Solutions

2020 has been a transformational year for SMS, from which we have emerged a stronger, leaner organisation with a reinforced commitment to our customers, the environment and our people.



LISTENING TO CUSTOMERS IS CRITICAL TO OUR SUCCESS IN REALISING A GREENER, MORE SUSTAINABLE FUTURE."



I am exceptionally proud of the way all our staff have responded to the challenges presented by the COVID-19 pandemic in 2020, maintaining our focus on safely serving our customers every single day. In delivering for them, and through all our assets and services, we also serve to protect the environment and deliver on our strategic objectives.

Our people: delivering for our customers

We have been at the heart of the UK energy market for 25 years, transforming and decarbonising the country's gas and electricity energy networks and providing critical services to maintain essential energy supplies to consumers. Our people have always been central to this delivery and 2020 was no different, with staff harnessing our cloud-based technology and data platforms to seamlessly provide continuity of services to all our customers through the year, including from the very start of the national lockdown in March. Whilst we led the industry in suspending non-essential meter exchange and field activity, our engineers continued to deliver essential new connections to care homes and other critical national infrastructure, keeping vulnerable customers on supply. We did this whilst swiftly putting in place robust and updated procedures, to ensure the safety of all our staff and those people in the homes our engineers visit, and we shared this learning with other industry participants to ensure best practice.

The experiences of 2020 have also proven the strength of our business model. We raised over £290m from the sale of a minority of our meter asset portfolio, enhanced our dividend policy and began to invest in other carbon reduction asset classes enabled by smart meters. Delays to the deployment of smart meters

resulted in lower capital expenditure in the year which, coupled with the security of recurring revenues from our existing asset base, meant that we exited the year in a very strong cash-positive position. The financial resilience of our business also ensured we were able to look after our staff without the need for support from the UK Government.

Now that we are past the early technical challenges of the UK smart meter rollout, we have been able to focus on improved utilisation of our workforce, supported by continued investment in our technology platforms. We remain focused on delivering for our customers and, in doing so, generating long-term recurring cash flows from carbon-reducing infrastructure assets. These form a secure platform for ongoing growth.

Our purpose: customer service and environmental benefit

Listening to customers is critical to our success, and delivering smart energy solutions to realise a greener, more sustainable future is why we exist.

Smart meters are the enabler of a sustainable energy system of which we can all be proud. But at SMS it is our end-to-end platform that makes us different, provides an unparalleled customer experience and places us in a unique position in the energy sector. Our technology platforms are foundational for the deployment of these smart meters; but they also enable judicious use of the data they produce and the operation, integration and optimisation of other vital carbon reduction assets, which we have the skills to design, deliver, operate and maintain over their long lives.

We believe we have a social obligation to accelerate the transformation to a carbon-neutral world, and this sense of duty underpins our pioneering culture. Whilst all our assets and services already have a net positive carbon impact, we strive to lead by example and have announced our commitment to neutralise our own carbon emissions by 2030.

Strategic progress



The significant scale of these market opportunities in a rapidly changing energy landscape is reflected in our evolving strategic focus, which is now prioritised around four key pillars:

1. Building long-term recurring cash flows from secure infrastructure assets

Our vertically integrated platform allows us to originate carbon-reducing assets, with the primary focus of the business being to grow index-linked annualised recurring revenue (ILARR) from our meter and data portfolio whilst demonstrating the reliability and security of our new carbon reduction ('CaRe') asset classes and the ongoing management services we provide to them.

2. Customer excellence and efficient delivery

We have an unrelenting focus on serving our customers. During the year, we have worked hard to align our resources to the extended UK smart meter rollout, driving the digital conversion of customers to smart meters.

3. Efficient capital allocation to provide headroom for growth

We are focused on optimal capital allocation. The disposal of a minority of our Industrial & Commercial (I&C) meter assets in April 2020 has transformed the financial foundations of our business, strengthening our growth platform and demonstrating the inherent value of the assets we create. We will maintain prudent leverage and have announced an enhanced and sustainable dividend, which we aim to increase by 10% each year through to 2024.

4. Sustainable and socially responsible business

We are proud of our ESG focus, reflected in the creation of this new strategic objective. We have a robust governance structure including through our newly established Health, Safety and Sustainability Board Committee, which monitors the delivery of our Safety, Health and Wellbeing action plan. We take our social obligations to our staff, our communities and the environment we share very seriously, as demonstrated by our commitment to an ambitious target of becoming a net-zero organisation by 2030, to ensure we are living by our values.

Our roadmap to net zero features a variety of sustainability measures, including increased adoption of renewable on-site generation and battery storage to power the Group's UK and Ireland estate, and the transition of our entire van fleet to electric vehicles or plug-in hybrids. At the forefront of this journey will be our employees, who are fundamental to our low-carbon goal and who will help drive our green business transition through putting into practice our embedded Company value of sustainability.

Growth opportunity ahead

Whilst the lockdown impact has extended the deadline for completion of the UK smart meter rollout to 1 July 2025, continued increases in our contracted smart meter order pipeline since year-end to c.2.5 million means we have the potential to add c.£50m ILARR over the remaining rollout period. This will build on the c.£77m ILARR we have already established from our 3.8 million meter and data asset portfolio at the end of 2020.

6%

Increase in ILARR reflecting continued growth in our meter estate

The infographic is a vertical timeline with a central column and side panels. The central column has five colored sections: grey (bottom), blue, dark blue, green, and light green (top). The side panels are light green and light blue, with illustrations of buildings, workers, and smart meters. The timeline is marked with years in white circles: 1995, 2004, 2008, 2009, 2011, 2014, 2016, 2017, and 2020.

2020
Full turnkey service proposition

2017
£150m of additional equity raised
Solo Energy Limited acquired, growing our energy services proposition
Workforce numbers reach 1,000+

2016
A full turnkey service proposition now available
UK national smart meter rollout begins
Installation capabilities brought in-house through acquisition of the asset installation businesses CH4 and Trojan, and field services and data security firm Qton

2014
Electricity and energy service offerings launched through acquisition of UPL
Dual-fuel proposition now offered to the market

2011
SMS floated on AIM raising £27m at IPO
SMS introduced its ADM™ device to the market, establishing its gas data business

2009
SMS accredited by Ofgem as a gas Meter Asset Manager (MAM) – the first independent MAM to enter the market
Creation of our gas meter asset portfolio

2008
First bank debt drawn to fund capital investment in assets

2004
SMS established to provide gas connection services following the deregulation of the gas industry

1995
SMS established to provide gas connection services following the deregulation of the gas industry

Asset management
Data management
Asset installation

Constant investment in our people and business infrastructure, reinforcing our platform for growth

We see substantial opportunity to expand our data services from these meters, both in the UK and through the potential deployment of our proven ADM™ data logger to water and gas meters in Australia.

Our developing pipeline of CaRe infrastructure assets is also accelerating the adoption of renewable energy, whilst making the UK's energy networks more flexible and resilient. We have already established exclusivity over a 470MW pipeline of grid-scale battery storage projects, of which 90MW is under construction and forecast to be energised by the end of 2021. We have the ability to deliver the projects in their entirety, from initial construction through to ongoing operation, trading, maintenance, and asset management for the 40-year lifespan of the sites. National Grid forecasts a requirement for c.10GW of electricity storage by 2030¹ – and our growing pipeline and existing experience place us in a strong position to develop a significant market share in this large electrical infrastructure asset class.

In addition, we are launching our Solopower solution to provide smart solar and storage solutions for local authorities and housing associations which, backed by long-term secured revenues, will significantly reduce tenants' energy costs by up to 25% and decarbonise up to 90% of a home's electricity supply. We are also advancing our electric vehicle charging solutions and heat network and metering solutions, all of which are integrated with our cloud-based digital technology platforms.

Generating value into the future

Our recurring revenues and the efficiency of our business mean that we can sustainably create and maintain the financial, technology and skills capacity to advance our purpose.

Reinvestment in our people and our digital platforms is key and we remain focused on advancing in areas where we have proven capability and long-standing relationships with our customers, developing infrastructure assets with annuity-style returns.

As we accelerate our progress following COVID-19, our immediate priorities are to leverage our unique end-to-end platform in order to grow and safely deliver our c.2.5 million contracted smart meter order pipeline, to extend our data services and to establish new carbon reduction infrastructure asset classes.

I am grateful for the unwavering support from all our staff, the management team and Board, and our customers to whom we remain dedicated. I firmly believe that the platform we have built over the last 25 years gives us the opportunity to build an even greater business, providing long-term value to all our stakeholders over the coming years.

In an unprecedented year and despite a worldwide pandemic, we have not slowed down – in fact, we are only just getting started.

Alan Foy

Chief Executive Officer

16 March 2021

Investment case

At the heart of enabling the low-carbon revolution

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

▶ See more on pages 43 to 48

Strong growth platform reinforced by trend towards decarbonisation

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

▶ See more on pages 30 to 37

Robust, sustainable dividend policy underpinned by existing asset base

Existing long-term, index-linked cash flows provide strong visibility to support 10% dividend compound annual growth rate (CAGR).

▶ See more on pages 65 to 71

Fully integrated, scalable platform with well-established industrial partnerships

Industry-leading central, cloud-based IT and data platform, nationwide engineering workforce and decades of strong industrial relationships.

▶ See more on pages 30 to 37

Highly experienced management team committed to delivering shareholder value

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

▶ See more on pages 74 to 75

¹ Calculated as the average of National Grid's four forecast scenarios in its Future Energy Scenarios 2020.

OUR MARKETS

SMS operates right across the UK energy sector

Our core market areas fall into two general categories: 1) The UK smart meter rollout, and 2) The green economy and 'net-zero 2050' challenge.

Our key market opportunities

UK smart meter rollout

SMS operates right across the UK energy sector, serving energy providers with meter and data solutions.

▶ See more on pages 16 to 18

The green economy and 'net-zero 2050' challenge

2020 was a watershed year for the UK's green economy, marking the first full year following the UK Government's announcement of its 'net-zero 2050' target.

▶ See more on pages 19 to 21

The UK smart meter rollout

Although the UK Government's mandated Smart Meter Installation Programme saw energy suppliers install record numbers of second-generation ('SMETS2') devices in January and February 2020, the restrictions on everyday life due to the COVID-19 pandemic disrupted the rollout from the end of March. With energy companies responding to the COVID-19 restrictions by moving in most instances onto an emergencies-only footing, the industry saw a sharp decline in installation rates, bringing the rollout to a de facto, albeit temporary, halt.

Restrictions force industry slowdown

Whilst the first lockdown, from 24 March 2020 to the start of June, saw restrictions for the most part universally applied across the UK, installation statistics from the smart meter rollout in England during this period demonstrate the extent of COVID's impact. According to figures from the Data Communications Company (DCC), the first lockdown in spring 2020 caused a fall of 96.2% in average daily installations of SMETS2 meters, or a total of just 658 per day compared to a February 2020 average rate of 17,362 per day.

Due to the pandemic-enforced pause in installation activity for Q2 2020, the UK Government subsequently confirmed a six-month extension to the 'all reasonable steps' obligation on energy suppliers. The Office of Gas and Electricity Markets (Ofgem)'s framework now mandates energy suppliers to take 'all reasonable steps' to roll out smart meters to their customers by 30 June 2021. The UK Government also confirmed that, as a knock-on effect, the overall smart meter programme deadline would be put back six months to 1 July 2025.

A resounding recovery

Energy suppliers and their smart meter installation partners were able to remobilise again from early June and effectively restart the rollout in a gradual and phased manner with new strict health and safety measures and protocols in place in order to confidently re-access consumers' homes and businesses with minimum risk.

By the end of Q3 2020, official Government statistics indicated the success of, and general consumer confidence in, the safe remobilisation of activity, with installation rates reaching c.80% of pre-pandemic levels (0.85 million domestic smart meters installed in Q3 2020 compared to 1.06 million in Q3 2019). October 2020 notably marked a record-breaking month for the installation of SMETS2 meters, with an average of 17,579 fitted each day, signifying that installation levels were even surpassing pre-pandemic peaks by the time Q4 2020 came around.

A tale of two lockdowns

The resounding industry recovery was demonstrated by the limited impact on installation rates during the second nationwide lockdown in November 2020. Installation rates in England during the period dropped by just 2.5% on the previous month – October itself already a record for SMETS2 meters installed as detailed above. The huge disparity in installation rates between the first and second national lockdowns demonstrates how effectively energy companies, distribution network operators and asset installation partners adapted their working practices to enable the rollout to continue safely in homes and businesses despite the ongoing pandemic.

As of 31 December 2020, there were 23.6 million smart meters installed in homes and small businesses in Great Britain, of which 19.1 million were operating in smart mode (connected to the DCC) or advanced meters. This means that more than a third of all meters in the UK are now smart or advanced, rising to 42% when including smart meters operating in traditional mode i.e. first-generation smart ('SMETS1') meters that had not yet been enrolled by the DCC.

Q4 2020 statistics continued to underline the industry's strong recovery from the initial impact of COVID-19, with installation levels increasing by 14% on Q3 2020.

By the end of 2020, SMS was operating at c.80% of its pre-COVID-19 run rate and was well positioned for a continued increase in installation activity through 2021 to deliver the mandated UK smart meter rollout and its contracted order pipeline.

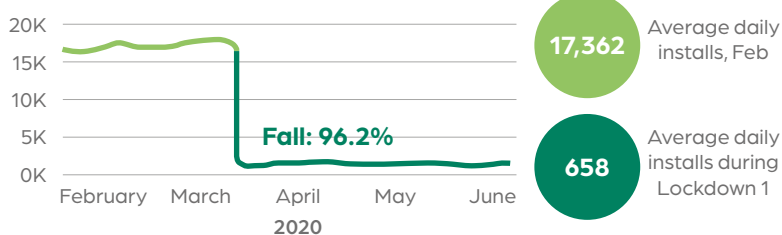
Progress on SMETS1 Enrolment and Adoption programme

In December 2020, the DCC reported much-improved progress on its Enrolment and Adoption (E&A) programme, which sees previously installed SMETS1 meters migrated to its network. To realise the full benefits of smart metering, the UK Government previously decided that along with a new unified network and a single smart meter standard, all older SMETS1 smart meters should be migrated to this single network rather than remaining on various unconnected networks. This will allow seamless energy supplier switching and smart operation no matter which variant of the smart meter consumers have or who originally installed it.

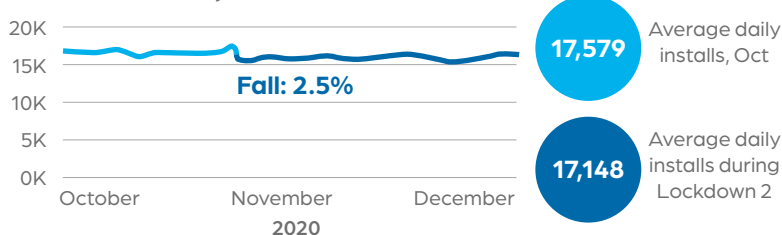
The DCC started 2020 with very low volumes of migrated SMETS1 meters on its network. However, despite the hugely challenging conditions, it closed the year with more than 2.7 million migrated SMETS1 meters, enabling many more consumers to regain and maintain connectivity and/or switch suppliers without losing any of the benefits that smart meters can bring. The DCC has confirmed that all SMETS1 smart meters, of which there are approximately 14 million in circulation, will be migrated to its network by the end of the rollout.

Smart meter rollout – a tale of two lockdowns

Lockdown 1 – daily installations



Lockdown 2 – daily installations



Source: the Data Communications Company (DCC)

OUR MARKETS continued

The UK smart meter rollout

Improved consumer experience and satisfaction

In January 2021, Ofgem released the results of its latest quarterly Consumer Perception Survey (Q3 2020), which found that more than 70% of consumers were happy with their smart meter – the highest level recorded since the national rollout began.

As well as general improved consumer satisfaction with the technology, Ofgem's survey also showed a significant increase in satisfaction of the smart meter installation process, rising to 80% (matching the record high set in Q1 2020).

Facilitating the smart energy revolution

The wealth of data generated by smart meters and other connected devices continued to complement and advance the creation of new green technologies and 'energy-as-a-service' solutions during 2020; and these services are helping drive more efficient use of energy, lower carbon, and enhanced customer affordability and experience. Looking forward, the energy revolution, enabled by smart meters, is set to continue to develop a more dynamic energy system in the years ahead, whilst the continued development in other technology areas such as artificial intelligence, automation, and use of blockchain – combined with smart meters – will also dramatically disrupt the energy market and make significant contributions to the UK's low-carbon transition.

Case study:

SMS continues to deliver industry milestones with UK's first ever polyphase SMETS2 installation

Despite the challenges posed to the energy industry by the pandemic, SMS remained undeterred in its mission to innovate and deliver smart energy solutions for its customers. In August 2020, after months of planning and development with industry partners amid COVID-19, SMS successfully installed the UK's first ever polyphase SMETS2 smart meter, marking a significant milestone in the country's transition to a smarter, greener energy system. The long-awaited device – which finally provides homes and businesses connected to a three-phase electricity supply with the option of a smart meter – was installed for a customer of Good Energy, and has significant implications for the future of energy supply. Though most UK households today have what is known as a 'single-phase' meter, there are still hundreds of thousands of sites across the country that

operate on a 'three-phase' connection, and which had previously not been able to use the latest smart metering technology.

Given that the clean energy system of the future will rely on domestic and commercial consumers using low-carbon technology to generate and share their power as part of a smarter grid (requiring their premises to manage higher loads of power through a three-phase supply), this was a current and future challenge that the energy industry sorely needed to address. Working collaboratively across the sector, including closely with a meter manufacturer and the DCC, SMS led the development of the polyphase SMETS2 smart meter. This included performing a rigorous testing and verification process at our dedicated test lab before the installation of the first ever such device in a real-life domestic setting.



THE YEAR WILL BE REMEMBERED FOR HOW CHALLENGES WERE OVERCOME THROUGH INDUSTRY COLLABORATION AND INNOVATION."

The green economy and 'net-zero 2050' challenge

Overview

2020 was a watershed year for the UK's green economy. With the UK Government having revealed its net-zero emissions target in 2019 – aiming to reach carbon neutrality by 2050 – 2020 marked the first full year following this momentous announcement. It was a period that would provide a valuable gauge of initial market reactions and developments (see Market highlights on page 21).

Importantly, 2020 also saw the UK Government reveal its intentions on how to lead and support the green economy in meeting the net-zero 2050 target through a binding national strategy. Details of this strategy were contained in the long-awaited but much-delayed Energy White Paper in December, which gave clarity on the key policies that will help shape the UK's energy and sustainability agenda for years – indeed decades – ahead.

Alongside the challenge of climate change that had served as the main driving force for the country's greener ambitions, COVID-19 has brought unprecedented social, economic and environmental challenges that have accentuated the essential and urgent importance of sustainability in our society. In this manner, the pandemic further underlined the central role that

the green economy – and the markets and industries that contribute to it – must play in leading the transition to a low-carbon world. Just as significantly, it also highlighted the importance of creating a far more resilient, shock-proof economy in order to protect future prosperity.

In responding to the pandemic, the UK Government has emphasised that the country must 'build back greener' and the Energy White Paper put forward various commitments aimed at transforming the UK's power and heating systems and cutting emissions from industry, transport and buildings.

Besides renewables growth, a key part of the plan is around the electrification of transport and heat, including the flagship policy to end the sale of new petrol and diesel cars and vans from 2030 (10 years earlier than had previously been planned), and the provision of a £2.8 billion package of measures to support industry and consumers in making the switch to cleaner vehicles. The UK Government also committed to supporting the installation of electric heat pumps in homes, raising its target from 30,000 per year to 600,000 per year by 2028 in order to drastically reduce the use of oil and gas by home heating systems and to help decarbonise the housing stock.

With this energy transformation requiring unprecedented public and private investment, the UK Government recognised its important role in making regulatory reforms which place fairness and affordability at the heart of the net-zero programme. These reforms include greater commitments aimed at protecting the fuel-poor and supporting the upgrading of home energy performance through smart technology. In order to facilitate the funding, development and deployment of such cutting-edge technologies, continued innovation and improved private finance solutions were highlighted as crucial to reaching the net-zero goal.

Driving forward and responding to the market: SMS develops pipeline of carbon reduction assets

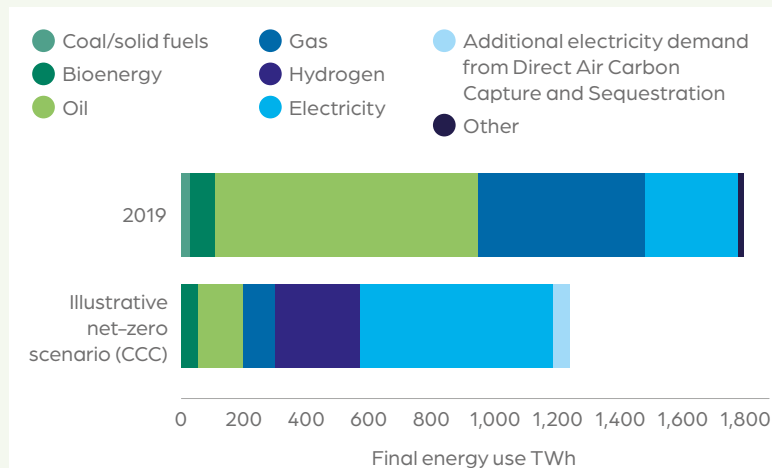
In addition to SMS's core focus on the UK smart meter market, the Group's strategy also includes the financing and development of green carbon reduction ('CaRe') assets as the economy transitions towards net-zero carbon emissions.

During 2020, market demand for green finance products remained strong despite the pandemic, as a heightened awareness of environmental, social and governance (ESG) pressures coincided with a raft of regulatory changes and an uptick in green capital-market activities.

Accordingly, SMS continued to make strong progress in developing its pipeline of CaRe assets across several verticals, including grid-scale battery storage, behind-the-meter storage and solar generation systems, electric vehicle (EV) charging infrastructure and heat networks – all of which are technologies that will play an increasingly important role in the UK's net-zero carbon mix.

This strategy will be delivered by SMS's well-established energy services arm, which for the last 25 years has been helping businesses to reduce their carbon footprint and achieve greater control over the generation, use and storage of energy.

Illustrative UK final energy use in 2050



Source: Energy Trends table 1.2; Climate Change Committee (CCC) Net Zero Report

OUR MARKETS continued

The green economy and 'net-zero 2050' challenge

Case study:

Solopower – tackling the dual challenge of fuel poverty and CO₂ in the social housing sector

SMS is piloting its first fully-funded behind-the-meter green energy asset service. This comprises a turnkey smart solar generation and battery storage solution specifically for local authorities and housing associations – a potential market covering up to five million UK homes.

Our productised service, Solopower, will significantly reduce tenants' energy costs (by up to 25%) while simultaneously decarbonising housing stock (for up to 90% of its electricity supply). This proposition has been tested and demonstrated by trials on housing stock with four local authorities – and is therefore expected to make a significant impact both on reducing CO₂ emissions and in improving affordability and accessibility (other central tenets of the energy transition) in order to lower costs for consumers.

In addition to design, supply and installation, SMS remotely operates the battery systems through our FlexiGrid™ aggregation technology to maximise each home's consumption of renewable power which is self-generated on site by solar panels. Solopower is also able to optimise grid import and export via smart meters to deliver the flexible demand-side management which is essential for the wider energy network's decarbonisation.

As of early 2021, SMS is in the progress of rolling out its Solopower model on three social housing projects with local authorities in Scotland, which will see the Company operate battery storage systems as a virtual power plant (VPP) across 700 houses.



Supporting the UK's regional green economic growth strategy

SMS continues to take forward its national approach to carbon reduction via the Company's regional bases up and down the country. This national installation platform, which underpins our ability to deliver CaRe assets at scale across a wide range of low- and zero-carbon technologies, is supported by our national training academy, where our regional engineering workforces are being trained and upskilled with the 'green' skills that the UK requires for the carbon transition. This includes an EV charge point installation course, accredited by City & Guilds, which was launched at our academy in 2020. This approach not only strengthens our preparation and builds capability for the net-zero challenge, but crucially also facilitates our contribution to investing in local communities, by creating jobs and supporting regional economic growth through our regional CaRe delivery, which includes, but is not limited to, our asset funding partnerships with UK local authorities for behind-the-meter housing stock solutions.

Leading innovation of the UK's smart energy system

SMS is playing a central role at both national and regional levels in developing energy innovation through its finance, technology and engineering delivery solutions, and is a lead partner on several UK Research and Innovation-supported energy innovation projects.

Market highlights

2020 hailed as greenest ever year with wind, solar and coal-free records broken

- Record for wind generation broken with maximum generation of 17.2GW.
- New record for solar generation achieved at 9.7GW.
- Solar contributed 34% of the nation's electricity in 2020, the highest share to date.
- Longest coal-free period in the UK: nearly 68 days without fossil fuel use, between 10 April and 16 June 2020.

UK electric vehicle market enjoys best ever year

- Electric vehicles (EVs) delivered record sales, seizing more than 10% of total market share in 2020.
- Sales of pure electric and plug-in hybrids proved resilient to the pandemic, whilst new petrol and diesel registrations slumped to lowest number since 1992.
- 108,200 new battery EVs and 66,870 new plug-in hybrids were registered in total.
- The UK's EV charging network grew by more than 20% in 2020 with 38,200 EV charging points (or connectors) registered at 24 February 2021 in more than 14,000 UK locations.

Door to large-scale UK battery projects opened

- UK Government in July 2020 eased planning restrictions for large-scale battery storage developments in the UK, allowing for storage projects above 50MW in England and 350MW in Wales.
- The UK Government estimates the move could lead to over 100 large-scale battery storage developments being built – three times the amount already in operation.
- The need for greater grid balancing provided by batteries was highlighted by the COVID-19 lockdown, as demand fell by around 20%, which led National Grid to develop additional tools for flexibility.
- Battery storage development is seen as the key facilitator as record levels of renewable energy sources generate more and more of the UK's power.
- The UK currently has over 1GW of storage, an ever-growing pipeline of battery projects, and a total of 14GW of planned battery projects across 700+ sites in the country.

34%

Solar contributed 34% of the nation's electricity in 2020, the highest share to date

10%

Electric vehicles (EVs) delivered record sales, seizing more than 10% of total market share in 2020

14GW

14GW of planned battery projects across 700+ sites in the UK

OUR STRATEGY

A clear strategy for future growth

At SMS, for 25 years we have striven to deliver significant value to our stakeholders and FY 2020 has been another transformational year for the Group, particularly considering the unprecedented challenges presented by COVID-19.

The Group has delivered a strong, resilient financial performance in the year, has reset its balance sheet to a cash-positive position and has established an attractive long-term dividend policy underpinned by our existing asset base.

Building on this secure platform, we have substantial growth momentum from both our contracted smart meter order pipeline and our other carbon reduction ('CaRe') assets, enabled by smart meters. This strong and growing pipeline is reinforced by the global trends towards decarbonisation and digitalisation, and SMS is well positioned at the heart of this agenda. Our CaRe asset classes have long-term infrastructure characteristics, which provides flexibility around funding options whilst enabling us to maintain a prudent leverage position.

Environmental, social and governance (ESG) commitments and sustainability are embedded in our purpose, our strategy and our business model through the development of low-carbon assets and solutions, which are operated and optimised by our cloud-based digital platform. Our CaRe assets are accelerating the adoption of renewable energy and making the energy system more resilient. And, whilst our assets and services already provide a substantial net positive carbon impact, the Group has set its own commitment to achieve net-zero carbon emissions by 2030, two decades ahead of the net-zero target for the UK as a whole.

A fourth strategic objective, dedicated to sustainability, has thus been introduced by the Board in 2020, in recognition of the critical role sustainability plays in the long-term success of our business.

The significant scale of the opportunities available to us, against a backdrop of a rapidly changing energy landscape, requires our strategic framework and capital allocation strategy to be highly resilient and nimble if we are to ensure continuous delivery of long-term value for all stakeholders. In this context, both are reviewed regularly, ensuring we remain focused on the critical areas that will ultimately support us in achieving our purpose of serving our customers and protecting the environment.



ESG COMMITMENTS AND SUSTAINABILITY ARE EMBEDDED IN OUR PURPOSE, OUR STRATEGY AND OUR BUSINESS MODEL."

Strategic priorities

Our strategic framework is structured into four key priorities, underpinned by our focus on continuing to deliver long-term value for our shareholders whilst also serving our customers, protecting the environment and looking after our people. This framework provides a clear strategic vision, built on secure foundations. These priorities, including progress made against them in 2020, are summarised on the following pages.

Whilst the COVID-19 pandemic has created unprecedented challenges globally, the long-term impact on the UK energy market and on SMS is not expected to be significant. Our vision and strategic priorities, over both the short term and the long term, thus remain consistent.

25%

Increase in contracted smart meter order pipeline at March 2021

470MW

Pipeline in grid-scale battery storage assets



Underpinned by our purpose

Serving our customers, protecting the environment

OUR STRATEGY continued

1

Building long-term, recurring cash generation from secure infrastructure assets



2020 priorities

- Focus on obtaining additional smart meter index-linked annualised recurring revenue (ILARR).
- Maintain return expectations in existing contracts and new opportunities through delivery of our valued turnkey service model.
- Continue to extend existing framework arrangements with existing customers across wider customer portfolios and extend contracted pipeline.
- Demonstrate reliability and security of new CaRe asset classes through pilot project deployments.

2020 progress

Contracted order pipeline in meters and CaRe assets increased to c.£450m and c.£180m respectively (in capital deployment terms) in FY 2020.

Meter and data assets

- ILARR grew 6% to £77.0m on a pro-forma basis.¹
- ILARR on our smart meter portfolio grew 14% to c.£43.8m, despite COVID-19 related restrictions.
- Developed new firmware data services for energy suppliers to manage second-generation smart ('SMETS2') assets.
- Enhanced contracted smart meter order pipeline by 25% to c.2.5 million at March 2021 providing an incremental c.£50m ILARR opportunity.

- New revenue stream established in the form of RPI-linked asset management fees from the disposed minority I&C asset portfolio.

CaRe assets

- 470MW pipeline in grid-scale battery storage assets:
 - 90MW under construction
 - Rights to acquire an additional 100MW obtained post year-end
 - In exclusivity to acquire a further 280MW.
- Order pipeline progressing in several key areas including behind-the-meter solar and batteries, electric vehicle (EV) charging, ADM™ Australia and heat meters and networks.

Future outlook

- Convert the meter order pipeline to add to the existing ILARR.
- Target additional domestic smart meter opportunities with both existing and new customers.
- Grow our half-hourly data services to energy suppliers and end customers.
- Develop our established portfolio of grid scale battery storage projects.
- Delivery of long-term management services on energised grid-scale battery assets, using our technology platforms.
- Establish additional pipeline of opportunities across several CaRe asset verticals, with focus on assets with infrastructure characteristics and attractive economics.

Strategy in Action

- Smart meters: a tale of two lockdowns – page 17
- Investment in grid-scale battery storage – page 36
- SMS data services in action – page 32

¹ 6% growth based on 2019 ILARR, which has been presented on a pro-forma basis for comparative purposes, excluding a net contribution of £17.6m from disposed I&C meter assets.

2

Customer excellence and efficient delivery



2020 priorities

- Introduce SMETS2 meter variants and work with all customers to complete Data Communications Company (DCC) integrations and systems testing and mobilise their mass rollouts.
- Align resource and cost base to the extended smart meter rollout period.
- Drive efficiency through continued improvements to digital customer journey and automated job scheduling.
- Dedicated focus on engineering efficiency and cost discipline, with flexibility in direct labour and subcontractor model to increase run rates to support customer requirements.

2020 progress

- Effective management of engineering model and cost discipline in response to COVID-19 challenges.
- Successful adaptation to new, stringent health and safety requirements, with all engineers re-trained through our training academy, ensuring effective protection for both engineers and the consumer.
- Increased use of technology to maintain regular communication with customers, enabling the provision of essential emergency and transactional services.

- Online booking portals and text messaging services fully functional, placing the consumer in control.
- Over 60% of all domestic smart meter appointments now booked online.
- In-house training facilities expanded to support EV and domestic battery installation.

Future outlook

- Ensure an injury-free organisation, protecting the safety of every individual involved with our business, resulting in zero harm realised across our business.
- Focus on digital conversion of customers to smart meters.
- Support our customers by continuing to expand installation services into adjacent non-metering utility infrastructure and energy services activities, such as EV charging.

Strategy in Action

- Supporting our customers through COVID-19 – page 5
- Working effectively with regulatory and government bodies to deliver the UK smart meter roll out – pages 41 to 42
- Investment in our training academy – page 51

OUR STRATEGY continued

3

Efficient capital allocation to provide headroom for growth



2020 priorities

- Maintain prudent but efficient leverage.
- Implement a strengthened sustainable dividend policy due to the unlocking of value from the sale of a minority of the Group's meter assets.
- Optimal capital allocation with cash flows supporting dividends and addressing growth opportunities with attractive returns.
- Enhance funding flexibility and ensure sufficient capacity to maximise growth opportunities.
- Secure funding mechanisms for new asset classes, resulting in cash-positive returns to the Group.

2020 progress

- Disposal of a minority of meter assets significantly strengthened the balance sheet, resulting in a net cash position of £40.2m, at 31 December 2020 and an unutilised revolving credit facility of £300m.
- New enhanced dividend policy established.
- Funding agreement signed with the Colombia Threadneedle Sustainable Infrastructure Fund and discussions with other infrastructure funds ongoing to establish alternative sources of funding for CaRe assets.
- Proven ability to deploy an optimal mix of debt, equity and capital recycling for future capital funding requirements.

Future outlook

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

Strategy in Action

- Sale of a minority of our meter asset portfolio – page 67
- Voluntary prepayment of our revolving credit facility – page 70
- Announcement of an enhanced dividend policy – page 69

4

Sustainable and socially responsible business



2020 priorities

- Implement a robust governance structure to monitor, measure and review progress on sustainability.
- Commit to an ambitious net-zero emissions target.
- Establish ESG ratings with independent agencies.
- Enhance the Group's ESG disclosures and reporting.
- Continue to support our customers in their own carbon reduction efforts.
- Deploy assets and services which serve to reduce carbon emissions.

2020 progress

- Dedicated Health, Safety and Sustainability Board Committee headed by the Group's Chairman (see page 77).
- Committed to a net-zero carbon target by 2030, two decades ahead of UK's own net-zero target.
- Secured strong ESG ratings: 'A' by Morgan Stanley Capital International (MSCI) and 'B' by Carbon Disclosure Project (CDP).
- Became a signatory to the United Nations Global Compact and a supporter of the Task Force on Climate-Related Financial Disclosures (TCFD).
- Focus on employee wellbeing, supported by the launch of a dedicated Company wellbeing intranet page.
- First Group external employee engagement survey.

- Full financial support (without reliance on the UK Government) for all our staff throughout national and regional lockdowns.
- Finalist for Employer of the Year award by Utility Week, amongst other accreditations (see page 50).

Future outlook

- Inaugural Sustainability Report published.
- Further improvement in ESG credentials and ESG ratings.
- Continue to enhance disclosures and reporting of SMS's ESG credentials.
- Delivery of Safety, Health and Wellbeing action plan.
- Delivery of Energy Reduction and Environment action plan.
- Commence rollout of renewable energy and efficiency upgrades at SMS's key office sites.
- Commence conversion of the Group's fleet of vehicles to EV or plug-in hybrid models.
- Progress focus areas identified from 2020 employee engagement survey and reassess via 2021 employee engagement survey.
- Rollout of new Groupwide pay and reward framework.

Strategy in Action

- Announcement of our net-zero carbon target – pages 45 to 46
- Establishment of a Health, Safety and Sustainability Board Committee – page 77
- Rollout of extensive suite of employee wellbeing resources – page 49

OUR BUSINESS MODEL

Providing an integrated service, using innovative solutions, to generate long-term value

What we have

Our strengths

A growing smart meter portfolio

Our meter assets generate highly sustainable, annuity-style cash flows and provide a secure foundation for the future growth of the business. 42% of all meters covered by the UK smart meter rollout, including

domestic and non-domestic, were smart meters at 31 December 2020, of which 34% were operating in smart mode and 8% were operating in traditional mode. Over 50% of meters are still to be exchanged.

Engaged people

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

track record of service delivery, which allows us to make smart decisions about all aspects of our customers' projects. Fostering innovation and creativity in what we do is also critical to allow us to deliver new and exciting solutions.

Robust technology platforms

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

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

Long-standing relationships with our customers

With more than two decades of operations, we enjoy multi-level relationships with energy suppliers, developers and enterprises within the UK industrial and commercial sectors. The enduring partnerships

we maintain with our customers are testament to our unrivalled support, extensive industry knowledge and commitment to providing successful, innovative and forward-thinking 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. Our primary source of debt has been Group-level funding secured on our revenue-generating assets; however, following the disposal of a minority of our meter assets earlier in the year, the business

has reset its leverage, resulting in a net cash-positive position. We plan to maintain prudent but efficient leverage going forward using internal cash generation, our available debt facility and additional mechanisms to fund our secure order pipeline and new carbon reduction ('CaRe') asset classes.

What we do

Our core businesses

Asset Management



Asset Installation



Energy Management



➡ See the Operational review on pages 30 to 37

Underpinned by our values

Putting our people first

Safety

Customer excellence

Innovation

Providing a fully managed, end-to-end metering and data service to the industrial and commercial (I&C) and domestic markets, including ownership and operation.

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

Providing energy-efficient strategies and specialist energy management solutions, which help our customers to deliver a zero-carbon future. Investing in renewable energy generation, we continue to pursue CaRe asset opportunities, including grid-scale battery storage, behind-the-meter smart solar and storage, electric vehicle (EV) charging, heat meters and networks, and energy efficiency measures.

Our strategic priorities



1

Building long-term, recurring cash generation from secure infrastructure assets

2

Customer excellence and efficient delivery

3

Efficient capital allocation to provide headroom for growth

4

Sustainable and socially responsible business

Who we deliver for

Creating value for our stakeholders

As we strive to deliver attractive and sustainable returns to our shareholders, we are also aware of the potential value creation we can offer to our diverse range of stakeholders.

Our shareholders

The Group has a growing, sustainable dividend and intends to pay a 25p per share dividend in respect of FY 2020 (representing an increase of 3.6x over FY 2019), to be paid over four instalments. There is intent to increase the dividend by 10% annually through to FY 2024, which will generate a more predictable and attractive return to shareholders.

25p
dividend for FY 2020, with an intended 10% annual increase until FY 2024



Our customers

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

£103m
turnover earned in 2020 from c.1,000 customers



Our employees

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

£46m
of staff costs in 2020



Our partners

We work with a wide range of partners over the long term including suppliers, lenders, government and regulatory bodies. These relationships are critical in delivering our strategic objectives and business model. Maintaining positive and open engagement is a key priority.

£300m
revolving credit facility



The environment

As a major energy services and smart metering company, we place sustainability at the core of our business. Through training and development, the sustainability culture of the business is instilled in all staff from the moment they join the Company.

2030
Targeting net-zero carbon by 2030



Pride



Sustainability

OPERATIONAL REVIEW

At the forefront of change in the energy industry

Our turnkey vertically-integrated service proposition and established technology platforms continue to drive value through the efficient origination and maintenance of our long-term infrastructure assets and data services.



“THROUGH OUR ASSETS AND DATA SERVICES WE CONTINUE TO PLAY A CRITICAL ROLE IN THE REALISATION OF A GREENER, LOW-CARBON ENERGY NETWORK.”



National and local lockdowns associated with COVID-19 had a significant impact on our field-based activities during the year, from smart meter installation to energy efficiency projects.

However, our business responded effectively and responsibly to these challenges, with an unparalleled focus on the health, safety and the wellbeing of all our staff and customers. We delivered a seamless transition to home working with complete continuity in our services, and followed this with the rapid and safe remobilisation of field activity as lockdowns were eased. Throughout the year, we continued to provide essential and emergency services to critical national infrastructure and maintained energy supplies to consumers on a national basis.

Providing the necessary financial and emotional support to all our employees was critical. The significant majority of staff retained their full salaries, supported by our robust financial performance and with no reliance on UK Government support. This is a real demonstration of the resilience of our business model and of our unwavering commitment to our staff and communities.

We have also, importantly, retained our engineering capacity to ensure we can accelerate back into the UK smart meter rollout and continue to build our asset portfolio and other field-based services as we progress through 2021. This includes the extension of our long track record in designing and delivering large-scale utility infrastructure projects to the construction and maintenance of our first grid-scale battery storage projects. In 2021 we will also continue to extend our asset management and installation services into other asset classes such as behind-the-meter renewable generation and storage, electric vehicle (EV) charging, heat metering and a range of energy efficiency measures.

Asset Management division

Summary	2020 ¹	2019	Growth
Index-linked annualised recurring revenue (ILARR)	£77.0m	£72.6m ²	6%
Revenue	£78.7m	£82.9m	(5%)
Depreciation-adjusted cost of sales ³	(£5.2m)	(£5.9m)	(12%)
Depreciation-adjusted gross profit	£73.5m	£77.0m	(5%)
Depreciation-adjusted gross margin	93%	93%	Flat
Capex on meters	£40.3m	£95.2m	

1 2020 measures only include the financial performance of the disposed I&C portfolio up to the date of sale on 22 April 2020.

2 2019 ILARR is presented on a pro-forma basis for comparative purposes, excluding a net contribution of £17.6m from disposed Industrial & Commercial (I&C) meter assets.

3 Excludes depreciation on revenue-generating assets, recognised within cost of sales. Refer to the Financial review section for definitions and details of the Group's alternative performance measures.

Our focus

The Asset Management division remains focused on the growth of long-term, index-linked and sustainable revenue streams. Our primary strategic objectives are to:

- grow our core ILARR, driven by recurring rentals from the UK smart meter rollout;
- control capital costs required in deployment of revenue-generating assets through their life cycle, providing strong levels of return on investment;
- continually work to maintain a capital-efficient structure, to maximise the opportunity available to us from the UK smart meter rollout; and
- develop and grow our Half Hourly data services, both in the UK and abroad.

Through our industry-accredited services, underpinned by extensive in-house technical expertise and technology platforms, we continue to offer effective asset and data solutions to our customers. We engage closely with the Department for Business, Energy and Industrial Strategy (BEIS), the Data Communications Company (DCC) and energy suppliers to assist in the formulation and delivery of key energy policies, helping to address existing issues and future opportunities. For example, we are addressing the firmware management requirements of smart meters and supporting the enrolment and adoption of first-generation smart ('SMETS1') meters into the DCC platform.

The UK smart meter rollout continues to present significant opportunities for growth in our ILARR from capital deployment into meter assets, an increasingly mature and proven asset class, over the next five years. We are also able to grow our ILARR by supporting both I&C customers and energy suppliers to collect, settle and benefit from the Half Hourly and real-time data enabled by our smart meters, and our ADM™ data logger solutions. Through our assets and data services we continue to play a critical role in the realisation of the smart energy grid, and a greener, low-carbon energy network.

Market conditions

The global pandemic had a significant impact on the UK energy system, resulting in a severe slowdown of the UK smart meter rollout.

It was encouraging however to see the UK Government continue in its drive to increase smart metering awareness through its Smart Energy GB campaign, which is helping the public understand the benefits of smart meters by showing how they can lead to more efficient energy usage and enable a more flexible, low-carbon energy system.

We have also seen continued growth in the independent energy supplier market, which now supplies nearly 30% of households in the UK. This independent market segment, with which SMS is heavily engaged, benefits the most from our turnkey approach, including installation, data and active asset management.

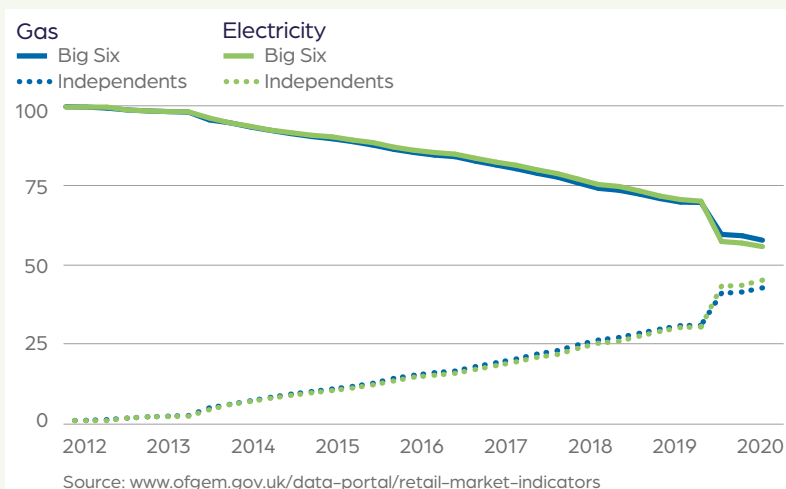
Approximately 40% of energy supplies have currently been converted to smart so, in addition to our contracted order pipeline, there remain significant opportunities for us to continue to grow our market share through a focus on provision of this turnkey service.

The competitive energy supply market continues to expose some smaller energy suppliers to financial risk. Over recent years, a number of small independent energy suppliers have entered the Office of Gas and Electricity Markets (Ofgem)'s Supplier of Last Resort (SoLR) scheme and it is reasonable to expect this to remain a feature of the market, with continued rapid growth of some suppliers and challenges for others. We manage the short-term credit risk this presents very closely; however, the SoLR industry process has proven to be effective, ensuring continuity of service and revenue collection.

Positive progress has been made in the maturity of the DCC second-generation smart ('SMETS2') solution and platform, with the initial industry-wide radio frequency technical issues now resolved and energy suppliers introducing SMETS2 prepayment solutions. As at 4 March 2021, c.3.7 million SMETS1 meters had also been migrated to the DCC systems through the Enrolment and Adoption programme, with the cohorts of meter types which form the Group's SMETS1 portfolio commencing migration in August 2020. This process is expected to continue through to the end of 2021.

OPERATIONAL REVIEW continued

Supply market shares by company: Domestic (GB)



Case study: SMS data services in action

In 2020, SMS continued to develop new data solutions aimed at serving the rapidly changing needs of the energy industry. One of these was for our customer Social Energy, whose Artificial Intelligence (AI)-powered platform allows its customers to trade or sell the power that they generate and store, empowering homes and businesses to take control of their power supply and maximise savings. Key to facilitating this kind of service is elective half-hourly (EHH) data settlement, made possible by smart meters that record the amount of energy consumed or exported within every half-hour of the day.

There are an increasing number of UK energy suppliers facing greater consumer demand and market competition for 'smart' supply services. Our dedicated offering in this area is therefore critical in helping facilitate the development and competitiveness of these low-carbon energy solutions.

Performance summary

- ILARR increased by £4.4m¹, a 6% increase to £77m, providing a stable foundation for the business.
- Our owned smart meter portfolio grew 10% to over 1.3 million meters.
- Sale of c.£17.6m net ILARR for c.£291m, representing 16.4x net EBITDA.
- Growth in contracted smart meter order pipeline to c.2.5 million meters at March 2021.
- Strong capital position ensures sufficient funding for future contracted pipeline.
- Development of our Half Hourly data settlement and firmware management services.

Throughout the COVID-19 national and local lockdowns, the cloud-based asset management and data platforms we own enabled seamless continuity of services for our customers – continuing to track our assets from installation, through customer churn, to ensure accurate billing and management. We continued to collect and process over 5.1 billion Half Hourly data packets during the year, again with complete continuity of services throughout the year.

¹ 2019 ILARR is presented on a pro-forma basis for comparative purposes, excluding a net contribution of £17.6m from disposed I&C meter assets.

The resilience of our business model was further demonstrated as we delivered strong growth in our ILARR in line with expectations, despite the impact of COVID-19. The pandemic did slow capital deployment into new smart meter assets, but the corollary was that the Group's portfolio of traditional meters has remained on the wall for longer than expected and has continued to generate revenue over the period through both meter rental and transactional emergency work. The slowdown in meter installations and associated capital deployment also conversely demonstrated the cash-generative nature of our asset base and the strength of our long-term underlying recurring revenues.

The sale of c.187,000 I&C meter assets (representing c.£18.4m gross ILARR; or c.£17.6m net ILARR including £0.8m of RPI-linked recurring management fees to be earned by the Group for the ongoing management of the portfolio of disposed assets) in April 2020, with an average age of 4.7 years, for gross proceeds of c.£291m demonstrated the inherent value of the Group's meter assets. Further details on the disposal can be found on page 67. We exited 2020 with £77m ILARR and high expectations for accelerated growth as we continue to deliver our contracted smart meter order pipeline for our customers.

Our metering and data assets provide us with a solid platform for the future, enabling us to focus on continued investment in our people, our technology and our products and services.

Asset Installation division

Summary	2020	2019	Growth
Revenue (external)	£19.7m	£22.4m	(12%)
Pre-exceptional cost of sales	(£16.6m)	(£28.0m)	(41%)
Pre-exceptional gross profit	£3.1m	(£5.6m)	155%
Pre-exceptional gross margin	16%	(25%)	41%
Net portfolio additions – smart and I&C meters ¹	139,000	313,000	(56%)

¹ 2020 net portfolio additions of 139,000 exclude the disposal of c.187,000 I&C meters to a third party in April 2020. 2019 net portfolio additions of 313,000 exclude 69,000 smart meters acquired from a customer during the year.

Our focus

The Asset Installation division is focused on operational excellence and efficiency. Our primary strategic objectives are to:

- safely deliver the installation of meter assets which provide long-term recurring revenue to our business;
- align our engineering capacity and installation profile over the extended BEIS rollout period, using technology to drive both efficiency improvements and an improved customer experience/appointment booking process;
- expand installation services into non-metering utility infrastructure and energy services activities, in support of new CaRe assets; and
- reduce the carbon footprint of our delivery – in particular from our fleet – in line with our 'net-zero by 2030' carbon target.

Our nationwide installation business, supported by our in-house training academy, has 25 years' experience in the design and delivery of a range of utility infrastructure and metering solutions.

Leveraging this experience, it is focused on efficiently delivering the UK smart meter rollout, and is working with our customers, and our other divisions, to trial the installation of next-generation asset classes, in particular smart home and domestic EV charging point devices which can be installed at the same time as smart meters.

Market conditions

The COVID-19 crisis has had a direct impact on the Asset Installation division, impeding its ability to deploy meter assets (in particular between 24 March and 1 June 2020), due to the temporary cessation of all non-essential meter works between these dates. Even since this date, whilst the division has been able to resume installation activities in a phased and progressive manner, ongoing national and regional restrictions have presented continued logistical and operational challenges.

The UK Government's new four-year regulatory framework for the UK smart meter rollout, extending the deadline to 1 July 2025 (which includes a 6-month extension due to COVID-19), reaffirms the importance of the smart meter rollout to the future of the UK energy system. Crucially, the previous requirement on energy suppliers for all 'reasonable steps' to be taken by 30 June 2021 has been replaced with the introduction of annual binding installation targets from 1 July 2021. With increasing pressure being applied to energy suppliers, it is critical that we continue to invest to help our customers achieve their targets. We have taken steps to ensure the efficiency of our delivery, with a focus on technology solutions and optimisation of engineering resources to allow flexibility in delivering our contracted meter installation pipeline.

Through our skills and expertise, we are engaged in industry-wide initiatives to continually improve health and safety performance, with smart meter installations providing an ideal opportunity to identify any existing quality issues in the meter or the

incoming electrical/gas supply at the sites we visit. We are engaged in a number of BEIS and regulatory forums, as detailed on pages 41 to 42, to share best practice across the industry.

Performance summary

- Maintained critical energy supplies to vulnerable and off-supply customers, and supported critical national infrastructure, throughout the pandemic.
- Implemented new safe working practices to protect our team and customers, with increased levels of investment in procedures, Personal Protection Equipment (PPE) and our training academy.
- Continued to drive productivity and efficiency through investment in people and systems.
- Implemented new technologies such as consumer-direct digital bookings and a new scheduling system to drive improved levels of service, efficiency and reduce carbon.
- Maintained a reliable engineering resource base, supported by our in-house training academy, which was expanded in the year to cover new asset classes such as EV charging points and batteries.
- Effectively positioned the business for the remainder of the UK smart meter rollout, to maximise delivery and volume in the most efficient way.
- Installed the first live polyphase smart meter in the UK.

In line with the wider industry, we commenced 2020 gathering momentum and growth in our installation run rates. However, when the COVID-19 crisis came to the fore, just hours before the national

OPERATIONAL REVIEW continued

lockdown was announced by the UK Government on 24 March we led the industry in deciding to cease all non-essential works. Protecting the safety and wellbeing of our people, our customers and the end consumers was, and remains, paramount. See the section Our response to COVID-19 on pages 4 to 7 for further details on what we did next and how we addressed the various related challenges during the year.

As we exited the national lockdown in June, through a phased remobilisation plan – implemented with the health and safety of our people and customers at front of mind – we slowly began to return to normalised levels of installation. Although we still had to navigate ongoing local and regional restrictions, by December 2020 our installation levels had recovered to c.80% of our pre-COVID-19 levels; an extraordinary achievement, especially with the continued and rapidly changing restrictions and lockdowns in force.

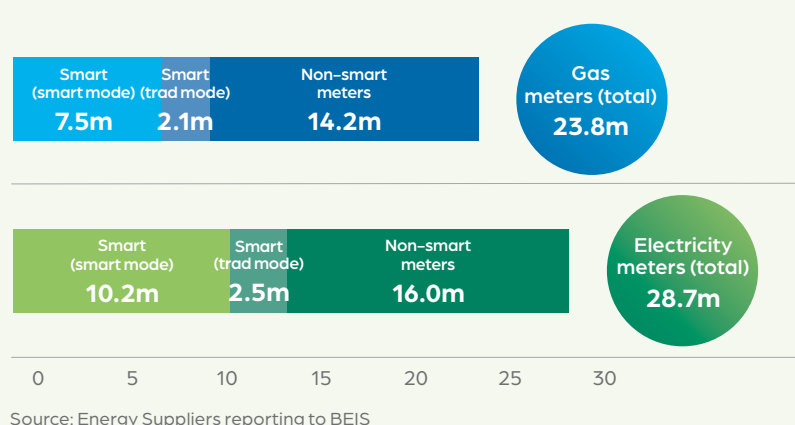
Whilst March through to July saw most of our engineering workforce stood down, we used the time to improve the customer journey and experience, and to drive innovation. We implemented two-way texting and new consumer booking portals, which saw self-serve (consumer control) bookings increase to over 60% of all domestic smart meter appointments generated. New route scheduling software was also implemented during the year, following significant in-house development and integration with existing systems. We are already seeing early signs of reduced levels of travel and improved efficiency of engineers as a result of these innovations.

SMS also installed the industry's first three-phase SMETS2 meter, in August 2020, which will enable smart meters to be used for large domestic and small I&C properties for the first time. This is a significant milestone for the industry and demonstrates the Group's leading position in developing and delivering innovative market solutions in partnership with its customers and supply chain. See the Our markets section on page 18 for further details.

Number of domestic smart meters installed by large energy suppliers, by fuel type and quarter



Number of domestic meters operated by all energy suppliers to end of 2020



Following the national lockdown, we ensured all our engineers were trained in our COVID-19 Business Risk Assessment and associated enhanced processes and protocols through our in-house training academy. In support of ongoing development in CaRe assets within

the Energy Management division, we also built new facilities in the training academy to support EV charging and domestic battery installation. This positions the business to be at the forefront of the changes happening in the energy industry.

Energy Management division

Summary	2020	2019	Growth
Revenue	£4.6m	£9.0m	(49%)
Cost of sales	(£3.6m)	(£6.8m)	(47%)
Gross profit	£1.0m	£2.2m	(55%)
Gross margin	22%	24%	(2%)
Value of utilities under management ¹	£334m	£320m	4%

¹ Based on value of utility bills validated on behalf of customers.

Our focus

Our well-established Energy Management division is focused on deploying carbon reduction ('CaRe') assets and solutions which reduce energy consumption and carbon emissions, and enable a low-carbon, more flexible energy system. Our primary strategic objectives are to:

- build and deliver capital projects to deploy services and assets to reduce our customers' carbon footprints; and
- generate long-term, secure recurring returns by originating and managing assets and services in:
 - Grid-scale battery storage and distributed generation
 - Behind-the-meter smart solar and storage solutions (Solopower)
 - EV charging infrastructure
 - Heat meters and networks
 - Energy efficiency measures such as LED lighting and smart energy controls.

Whilst COVID-19 has impacted some of our traditional retail and hospitality customers, we have extended our business focus to the opportunities presented by the low-carbon transition. To this end, we are focused on specific low-carbon technologies and applications including grid-scale battery storage, Solopower, EV infrastructure, heat and energy efficiency. Each of these technologies will play a big role in decarbonisation, provide a very significant market opportunity and enable us to make use of our existing skills and capabilities, data and knowledge of sustainability technologies.

Market conditions

The shutdown of large parts of the economy due to COVID-19 has affected the large hospitality and retail estates which have traditionally provided much of the demand for energy and sustainability services, and this had a short-term impact on some of our activities in the year.

Conversely, however, the UK Government's climate change agenda supports a range of substantial market opportunities. This includes the UK's commitment to net zero by 2050, the acceleration of the deadline for ceasing the sale of petrol and diesel cars to 2030, and the proposals contained in the Energy White Paper published in December 2020. The UK Government's policy for economic recovery from the COVID-19 crisis is also aimed particularly at green recovery, reinforcing the need to focus on low-carbon technologies and improving the potential scope for deployment of CaRe assets. See the Our markets section on pages 16 to 21 for further details.

Performance summary

The priority during this difficult year has been, where possible, to provide an uninterrupted service to existing customers. Despite the economic effect of COVID-19, we have been able to maintain service delivery for all of our customers and service lines. We continue to provide bureau, energy management and environmental consultancy services to a range of blue-chip, typically multi-site, large energy users.

Whilst most of these consultancy and energy management services proceeded seamlessly, COVID-19 had a significant impact in forcing the temporary suspension of all site works between March and June 2020.

The majority of works successfully resumed from August onwards but progressed at a slower pace whilst ongoing local and regional restrictions continued to be navigated. This impacted the ability to deploy energy-saving solutions to customers, most notably the delivery of an LED lighting and heating controls project for a large hotel chain. Revenue in this division declined in the year as a result. Fundamentally, however, our contracts have remained intact and management is confident that in-progress projects will successfully continue in 2021.

In addition, we have made progress in the origination of CaRe assets, developing our propositions and customer base in several new low-carbon technologies and applications.

Most notably, we are now actively operating within the grid-scale battery storage sector.

10%

EV sales 10% of market share in 2020

38,200

EV charging points in the UK at 24 February 2021

14GW

Of planned battery projects across 700+ sites in the UK

OPERATIONAL REVIEW continued

Decision-making in practice:

Investment in grid-scale battery storage

The Board's decision to invest in grid-scale battery storage – as a new asset class – was made in the knowledge that it complements the Group's strategy of investment in assets that have a long-term life and generate predictable recurring revenues. It also aligns with the Group's wider purpose of investing capital in assets that help create a better environment by reducing overall carbon footprint, because the benefits of grid-scale battery storage are central pillars of the Government's 'net-zero by 2050' target, and our business strategy is to deliver the network of low-carbon assets needed to reach that goal as soon as possible.

The Board made its decision following review and discussion of the market opportunity, why grid-scale battery storage is a good fit for SMS, the outline economics and the future expected returns from the investment.

The Executive Directors presented a proposal to the full Board to start originating 'shovel-ready' sites in August 2020, following which the decision was made to proceed with the Burwell and Barnsley projects detailed on page 37. A complementary approval was sought from the Board for up to c.£33m of working capital funding to develop the acquired sites over

the next 12 months, to be funded from the Group's existing financial resources.

In making this particular investment decision, the Board gave consideration to our key stakeholders, in particular:

Shareholders – our shareholders want us to maximise returns in a responsible way. Analysis demonstrated the attractive returns anticipated from this type of asset, which fits well within SMS's business model as we have existing expertise within the utility connections business to enable us to develop the projects through to maturity. The assets contribute strongly to our low-carbon strategy, and there is the opportunity over time to build another significant asset portfolio with long-term asset management recurring revenues.

Employees – in making its decision, the Board understood that there was a dedicated team established within the business to manage this new area of investment, enhanced through recruitment of subject-matter experts. The wider workforce is kept updated on key developments such as this one via the Company newsletter and intranet page. It is also important to the Board that the employees see strategic growth and direction aligned to the purpose of the Group.



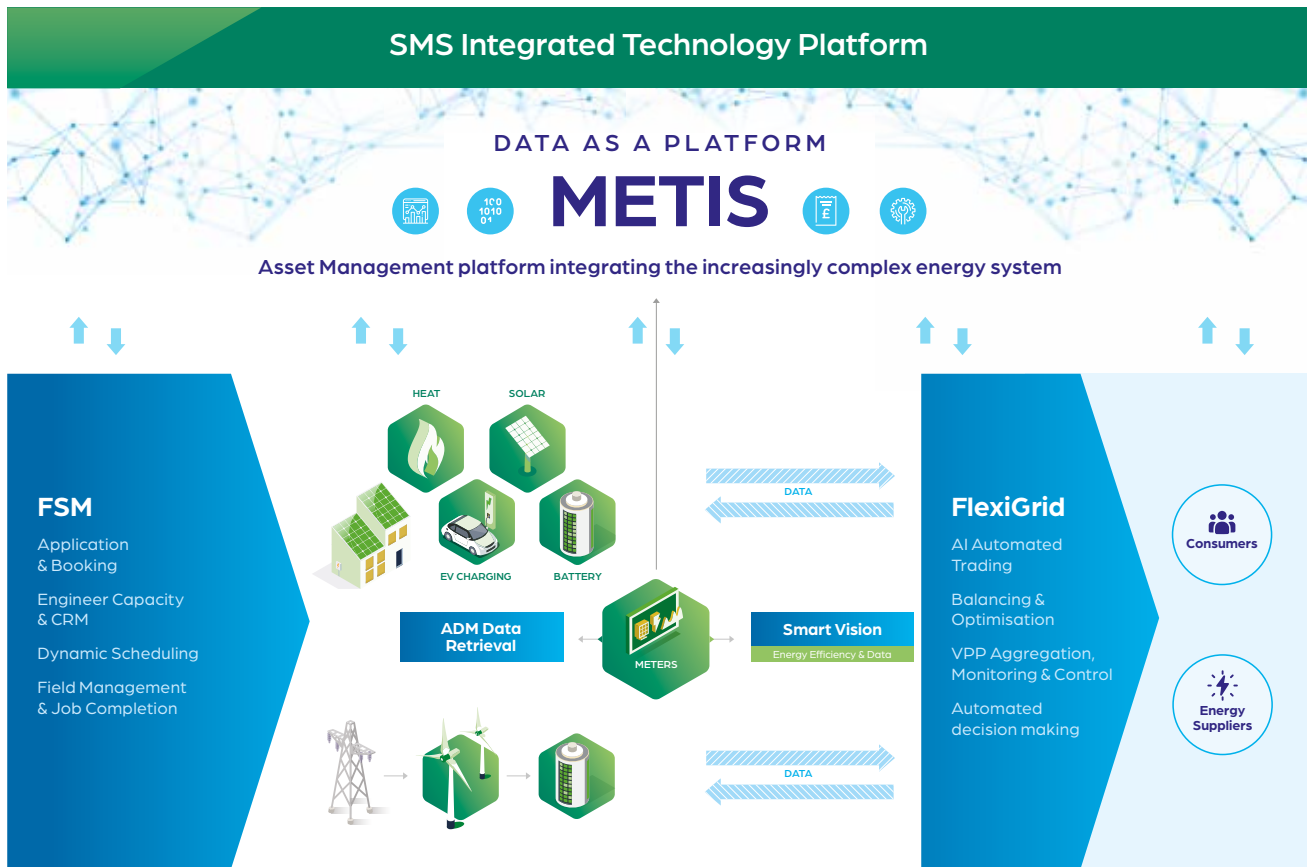
SMS Managing Director John Hall (left) and Head of Supply Chain Phil Norrish (right) break ground at the new 50MW battery storage development in Burwell, Cambridgeshire.

Grid-scale battery storage

The case for battery storage and the wider benefits this technology delivers to the grid is undoubted. Grid-scale battery storage technology enables power system operators and utilities to collect energy from the grid (i.e. charge) and then discharge this energy at a later time, when required. It is a critical part of the changing face of the electricity network, becoming a practical alternative to new-build electricity generation or network reinforcement, as it enables greater flexibility to connect larger amounts of renewable energy's intermittent generation. An increased capacity of batteries on the grid will, in many ways, also contribute to a more affordable energy system for consumers. It is estimated that between 2015 and 2050 the renewables market will grow by 249%, whilst the flexible capacity market, the segment in which battery storage sits, is predicted to grow by 545%. National Grid forecasts a need for c.30GW of electricity storage by 2050¹ to help reach net-zero. We have over 25 years' experience in the design and delivery of large-scale electrical infrastructure projects, and are accredited for design up to 132kV under the National Electricity Registration Scheme (NERS). SMS therefore has the end-to-end capability to originate, design, build and operate grid-scale battery projects.

The economics of this asset class are attractive with an initial EBITDA yield of c.11-14%, and margin of c.75%, against a build cost of c.£380,000 per MW, from an asset whose base electrical infrastructure has an expected life in excess of 40 years (with battery cell replacement around every 10 years). These forecasts are supported by independent industry modelling, both of the revenue and the long-term growth in system demand for the asset class to support the transition to a net-zero electricity network, and are considered to be a conservative baseline. The economic profile of these assets thus provides secure long-term returns after a relatively quick construction phase of typically one year or less.

¹ Calculated as the average of National Grid's four forecast scenarios in its Future Energy Scenarios 2020.



Following the business acquisitions detailed in note 20 to the Financial statements, we have two projects, in Burwell and Barnsley, totalling an initial 90MW storage capacity, that will be constructed and are forecast to be energised by the end of 2021. We will deliver the projects in their entirety, from initial construction through to ongoing operation, trading, maintenance, and asset management for the 40-year lifespan of the batteries. In addition, the Group obtained the rights to acquire 100MW of grid-scale battery storage projects post year-end and is in exclusivity to acquire a further 280MW, giving a total pipeline of 470MW. The Group expects this pipeline to continue to grow over the coming years.

In addition, continued development has been made in the verticals below:

- **Solopower (behind-the-meter smart solar and storage):** focused initially on the domestic social housing and I&C market, and backed by long-term secured revenues, Solopower uses a combination of roof-mounted solar panels and battery storage, supported by our

FlexiGrid™ technology platform, to deliver both low-carbon energy (up to 90% of electricity supply) and reduced energy costs (up to 25%). See the Our markets section on pages 16 to 21 for further details. We have been successfully delivering pilots for up to 1,500 homes, working with local authorities and housing associations, and the Group intends to launch its fully funded Solopower solution in 2021.

- **EV infrastructure:** SMS is an accredited EV charger installer from the Office for Low Emission Vehicles and has been consulting industry-wide to build upon existing car charging contracts, and to develop disruptive models that align with the UK Government mandate to ban internal combustion engines whilst requiring charging infrastructure to encourage the uptake of electric vehicles. SMS is also lead co-ordinator in the Virgin Media Park and Charge ('VPACH') project. We are in the process of developing funding models for both the domestic and destination charging sectors, and expanding our installation capability.

- **Heat meters and networks:** SMS is working with customers to develop alternative heat solutions that include heating controls, air-sourced heat pumps, waste to energy, and combined heat and power. Heat represents a huge challenge across the UK, with gas as a source of heat being phased out domestically and lower-carbon sources of heat needing to prove they are economically attractive alternatives. SMS is also delivering a smart heating controls project for a nationwide hotel chain together with addressing the need, legislated via the Heat Network (Metering and Billing) Regulations, for heat meters to be installed on existing and new heat networks.
- **Energy efficiency:** a range of energy efficiency projects are in development with our telecoms, hospitality, banking and retail customers, from LED projects to smart energy controls. Whilst COVID-19 has impacted on the development and delivery of these projects, we confidently expect acceleration of progress in 2021.

Tim Mortlock
Chief Operating Officer

16 March 2021

SUSTAINABILITY

Creating a sustainable and safe environment for all

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

We have prioritised our sustainability reporting into the following main areas:

1 Stakeholder engagement



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

► Find out more on page 39

2 The environment



As a major energy solutions company, we are acutely sensitive to the environmental climate in which we operate and the impact we have, both through our customers and in building our own sustainable energy infrastructure. In support of delivering on our purpose, we have set ourselves a new ambition to become a net-zero company by 2030 or sooner.

► Find out more on page 43

3 Our people



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

► Find out more on page 49

4 Health and safety



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

► Find out more on page 54

5 Ethical business practices



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

► Find out more on page 56

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

Through the above sections, we share more details on these key areas, highlighting our developments throughout 2020 and future priorities as the UK's energy system continues its transformation.

► For more information on our sustainability performance, see also the SMS Sustainability Report 2020 at www.sms-plc.com/corporate/sustainability

1 Stakeholder engagement

Engaging our stakeholders

Effective stakeholder engagement is critical to the long-term success of our business. It is the process by which we develop our knowledge and understanding of each stakeholder group, and the key drivers for each of them in their interaction with our business, so that we can make better decisions in both our day-to-day operations and when setting strategy and making business decisions.

Our key stakeholder groups are set out on pages 39 to 42 along with how the business engages and key topics of discussion during 2020, above and beyond COVID-19, together with any specific outcomes. SMS's response to the COVID-19 pandemic and its management of key stakeholders in this context can be found on pages 4 to 7. Further Board engagement is outlined on pages 82 to 83.



Section 172 statement

The Group has complied with the requirements of section 414CZA of the Companies Act 2006 by including certain information within the Strategic and Governance Reports, that informs 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 Board 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.

Shareholders

See the Corporate governance report for further information.

[▶ Pages 76 to 87](#)

Why effective engagement is important

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

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

We ultimately seek to promote an investor base that is interested in a long-term holding in the Company. In turn, we endeavour to foster an open and transparent relationship with our shareholders to enable them to make effective investment decisions.

Form of engagement

- Discussions at the Annual General Meeting.
- Investor roadshows following results announcements.
- Continuous availability of the Chairman to discuss matters of concern.
- Ad-hoc meetings between institutional shareholders and the Chief Executive Officer, Chief Financial Officer and Chief Operating Officer.

Our programme for investor engagement is detailed in the Corporate governance report on pages 76 to 87.

Key topics of engagement during 2020

- The Group's minority meter asset disposal, detailed further on page 67.
- Our smart meter installation run rate and index-linked annualised recurring revenue (ILARR) progression, which are key measure for the business.
- The development of carbon reduction ('CaRe') assets, an exciting growth area that has generated significant interest amongst investors.
- Our 2030 net-zero target, detailed further on page 45. In addition, responding to our investors' focus on corporates' environmental, social and governance (ESG) credentials, we have published our first Sustainability Report.



SUSTAINABILITY continued

1 Stakeholder engagement

Customers

See the Operational review for further information.

▶ [Pages 30 to 37](#)



Why effective engagement is important

Serving our customers is a key component of our purpose and we aim to provide an exceptional customer experience. To deliver on this, we need to listen and engage. We need to be a partner in whom they can trust.

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

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

Form of engagement

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

Key topics of engagement during 2020

The pandemic has provided more time for us to work with our customers on their consumer conversion programmes and the enhancement of the consumer's digital journey. Through virtual workshops we have explored new ways of interacting with the end consumer digitally, successfully implementing new functions such as web chat and two-way texting.

Engagement around information technology remains crucial to effectively delivering our customers' installation plans. We have worked closely with our customers to implement three-way integration between our own systems, our customers' and the Data Communications Company (DCC).

Employees

See the Our people section.

▶ [Pages 49 to 53](#)



Why effective engagement is important

Our experienced and dedicated workforce is a key asset to the business.

We believe that engaged, healthy and safe employees encourage creativity and productivity, resulting in enhanced financial performance, which is paramount in enabling us to deliver our strategy and achieve our mission.

It is therefore crucial that we create the appropriate culture, leading by example and providing suitable development and promotional opportunities for employees at all levels.

Form of engagement

- An open and collaborative management structure with tone set from the top.
- A designated Non-executive Director provides independent oversight over employee engagement, working in tandem with the Group HR Director.
- Use of an intranet site.
- Issuance of regular newsletters.
- Ad-hoc Company presentations by the executive management team together with regular videos and email communications.
- Various wellbeing initiatives.
- Employee surveys.

Key topics of engagement during 2020

Our employees were engaged on several significant projects during the year. Through discussion forums, their thoughts and feedback were collated and evaluated, and they directly influenced the key outputs.

2020 projects included:

- establishment of a new, Groupwide pay and reward structure;
- additional benefits including enhanced maternity, cycle scheme and annual leave provision; and
- creation of a bespoke internal wellbeing intranet page.



**WE ARE NOT JUST AN
OUTSOURCE PARTNER;
WE SEEK TO BECOME
AN EXTENSION OF OUR
CUSTOMERS' BUSINESSES."**

Suppliers

See the Operational review for further information.

▶ Pages 30 to 37



Why effective engagement is important

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

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

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

Form of engagement

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

Key topics of engagement during 2020

Continuous engagement with our suppliers through 2020 has been critical in maintaining comfort that delivery of the goods and services needed for us to operate is secure.

Regular performance reviews of our key vendors were carried out, with no significant deficiencies or concerns to note. On the contrary, service levels generally remained high despite the added pressure of the pandemic.

Policies and procedures around onboarding and prompt payment have been adhered to without exception, with the Group's procurement team able to continue to manage the Group's supplier relationships remotely.

Regulatory bodies

See the Operational review for further information.

▶ Pages 30 to 37



Why effective engagement is important

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

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

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

Form of engagement

- Attendance at regular meetings.
- Active participation in consultations and workshops.
- Representation on several boards and panels, including: Meter Asset Managers Code of Practice (MAMCoP) and Meter Operation Code of Practice Agreement (MOCOPA) panels, the Supply Point Administration Agreement (SPAA) panel, 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 MAMCoP and MOCOPA, amongst others.

Key topics of engagement during 2020

Discussions in the year have focused on the effective and efficient installation of second-generation smart ('SMETS2') meters, following the technical challenges overcome by the industry in the prior year.

Through a working group chaired by the Company's Operations Director, a new Metering Code of Practice has been established, which consolidates the existing MAMCoP and Approved Meter Installers Code of Practice (AMICoP) into a single new code of practice. The demand for a unified code of practice, used by all types of meter agents, has been felt in the industry for several years and the new code is a significant achievement led by SMS.

Representing the Institute of Gas Engineers and Managers (IGEM), SMS was selected as an industry expert to participate in a review of certain technical standards requiring enhancement.

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

SUSTAINABILITY continued

1 Stakeholder engagement

Lenders/ financiers

See the Financial review section for further information.

► [Pages 65 to 71](#)



Why effective engagement is important

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

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

Form of engagement

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

Key topics of engagement during 2020

Meetings were held with the Group's syndicate of banks to provide an update on the 2020 budget and performance and, specifically, to present the Group's financial position following the sale of a minority of its meter asset portfolio.

The Chief Financial Officer was ultimately responsible for the management of the facility refinancing in April 2020, together with the voluntary prepayment detailed on page 70.

Government bodies

See the Our markets section for further information.

► [Pages 16 to 21](#)



Why effective engagement is important

We engage with several government bodies including the Department for Business, Energy & Industrial Strategy (BEIS) and the 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 upon our customers and our own business.

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

Form of engagement

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

Key topics of engagement during 2020

We have continued to actively participate in discussions with BEIS regarding the technical performance of SMETS2 meters, sharing performance statistics to facilitate analysis, together with supply chain and regulation alignment.

Following our response to the DCC's consultation on the derogation mechanism, we have continued to engage with the DCC on the measures in place; specifically advising on the impact the initial timeframe for installations of 31 March 2020 would have had on our business if not extended. A further 12-month extension was subsequently granted to the industry through to 31 March 2021.

Beyond smart meters, we have been exploring smart electric vehicle (EV) charging with BEIS and, with their support, are at the forefront of designing innovative new solutions in this space.

2 The environment



In the face of climate change, an expanding global population and rapid urbanisation, achieving a cleaner, greener and more efficient energy system has become pivotal to realising a more sustainable world – particularly as growing demand is placing ever greater stress on power networks while traditional energy sources dwindle.

After international policy-makers, it is the energy sector itself, and companies like SMS, that have the greatest potential and responsibility to spearhead change. During a year of significant disruption, we remained unrelenting in our commitment to halting and reversing climate change.

Sustainability governance Environmental, social and governance (ESG) disclosures

During 2020 we have focused on improving our disclosure and data sets to better share our performance and improve internal ESG processes in accordance with industry best practice. We have sought verification through appropriate rating agencies, shared our climate-related risk processes and aligned our reporting with global philanthropy organisations and frameworks.

We are also proud to present our first stand-alone Sustainability Report, available for download at www.sms-plc.com/corporate/sustainability which brings together our achievements, monitoring and targeting across the full spectrum of our ESG activities.

Supported by our strategic focus in 2020 we have:

- already achieved an 'A' rating from Morgan Stanley Capital International (MSCI), a leading independent ESG rating agency;
- achieved a 'B' rating from our Carbon Disclosure Project (CDP) submission, which recognises the management of climate and carbon impacts and opportunities across operational and service activities;
- registered as a Task Force on Climate-Related Financial Disclosures (TCFD) supporter which develops voluntary, consistent, climate-related financial risk disclosure frameworks for use by companies in providing information to stakeholders. Following this registration, we have commenced our journey to full TCFD compliance and have a framework in place to ensure future mandatory reporting requirements will be met in the required timeframes; and
- signed the United Nations Global Compact, which represents our commitment to upholding and disclosing ethical principles across human rights, labour, environment and anti-corruption.

As our ESG strategy continues to mature we will look to develop our disclosure and increase our ratings, to ensure accurate representation of our organisation's activities and achievements in these areas.

Health, Safety and Sustainability (HSS) Committee

Our new HSS Committee, including its role and responsibilities and key activities in the year, is detailed on

page 77. The Committee is supported by our ESG Working Group, which comprises members of senior management across key supporting functions and ensures our objectives and activities are relevant and achievable. It also facilitates sharing of best practices across the Group and ensures we have the capacity and capabilities to deliver on our goals.

Assessing and addressing climate-related risks and opportunities

Our climate-related risks are integrated into both our business continuity and our integrated management system (IMS) risk registers, which facilitates ongoing monitoring. Through our well-defined climate change risk and opportunity process, all relevant aspects of sustainability impacts are evaluated, including sales, margins, costs, reputation, regulations and continuity of goods and operations. Full details of our supporting processes, current risks and related opportunities can be found within our Sustainability Report at www.sms-plc.com/corporate/sustainability which has been prepared in line with TCFD reporting recommendations.

Climate-related scenario analysis

SMS conducts qualitative scenario analysis in order to gain insight into the potential risks and opportunities posed by climate change. These impacts span a wide range of areas including technology, policy, weather and many more, with varying severity. The analysis therefore generates a broad view of possible outcomes, allowing SMS to understand and act upon the likely impacts of climate change, across its operations and services.

Key climate-related risks and opportunities

Our services are a direct response to climate-related opportunities within our sector, and the Company has a significant focus on providing the crucial assets and services needed to transition away from carbon-heavy power systems to renewable sources. Key climate-related risks include weather disruption, with potential safety implications for employees, and the possibility of fossil fuel taxes increasing operational costs.

SUSTAINABILITY continued

2 The environment

Our contribution to the United Nations Sustainable Development Goals

Our operations and key services contribute to a number of the United Nations Sustainable Development Goals, and we feel we are strongly positioned to make a positive difference, as summarised below:



SMS RESPONSE

We are committed to being a safe, secure and reliable organisation and will act diligently to protect our employees' health and safety and that of others who may be affected by our activities, at all times.



SMS RESPONSE

SMS supports and encourages gender diversity in its workforce.



SMS RESPONSE

SMS services are centred on delivering a full range of energy assets that enable affordable, reliable, sustainable and modern energy for all.



SMS RESPONSE

Our wide range of partners provide us with the goods and services we rely on to deliver for our customers. Reliable supplier relationships are crucial in delivering our strategy.



SMS RESPONSE

We are acting to reduce our climate impact, taking responsibility for the carbon emissions generated by our operations.



SMS RESPONSE

SMS has a culture of strong and transparent governance and our culture and principles are driven from the top.

► Further information is available throughout this Sustainability section on pages 38 to 57

However, we have a comprehensive range of mitigating procedures in place, and the risk rating after these interventions is deemed as 'low'.

Living our values and reducing our footprint Impact of COVID-19

During 2020, we have felt the impact of COVID-19 restrictions and subsequent changes in business operations across both our buildings and fleet. This has, in turn, impacted on our ability to progress our sustainability plans for the Company due to closure of sites, reduction in fleet movement and the temporary standing-down of staff. Our energy and carbon consumption has, however, significantly reduced, reflecting the realities of having fewer staff, offices, and vehicles active during the ongoing periods of restriction. We have continued our fleet operational control initiatives where possible, as a rolling action plan under our ISO 50001 management system, and have controlled building energy consumption using site closure check lists for vacated buildings.

COVID-19 has also forced a significant, accelerated evolution of work practices with the rapid transition to working from home for our office-based staff, bringing with it the opportunity to reimagine how we work in the future. We embrace the benefits of the flexibility and adaptability that have been brought to the fore over the past year.

2020's performance means we have a challenging benchmark for 2021 reduction targets, but we will be working hard to leverage our learnings and 'build back better' as we navigate out of the pandemic.

Beyond the immediate COVID-19 impacts, however, 2020 marked a significant achievement for the Group in the context of its sustainability strategy: the development and announcement of our new net-zero target. This is the result of months of rigorous planning, collaboration and communication with a broad range of stakeholders.

Delivering net positive sustainability through our products and services

See information on our 'handprint' on page 48.

In addition, we have continued our support of global research and learning initiatives, contributing to the following programmes:

- The UK Research and Innovation (UKRI) 'Project REMeDY', which is focused on creating a new energy business model using local microgrids, with the aim to reduce grid constraints, cut costs and reduce carbon. Focused primarily in Southend-on-Sea to begin with, the plan is to have a fully scalable and replicable solution for use across the whole of the UK.
- The European Union-funded 'Horizon 2020' research and innovation project, which is focused on exploiting thermal inertia in buildings to enable higher levels of energy flexibility through the use of on-site renewable generation and storage assets.

Our net-zero ambition

Driven by the need for urgent action to reverse climate change, we have launched an ambitious target to become a carbon-neutral business by 2030 – two decades ahead of the UK Government's target. This is a hugely significant and positive decision for the Company. With our vision to be at the heart of a low-carbon, smart energy revolution, the commitment means that we can now confidently say we are fully living up to our core value of sustainability.

What does 'net-zero' mean?

Our 'net-zero by 2030' target will see us drastically reduce our organisational carbon emissions to a point where our buildings and vehicles remove as much greenhouse gas from the atmosphere as they create.

How will we get there?

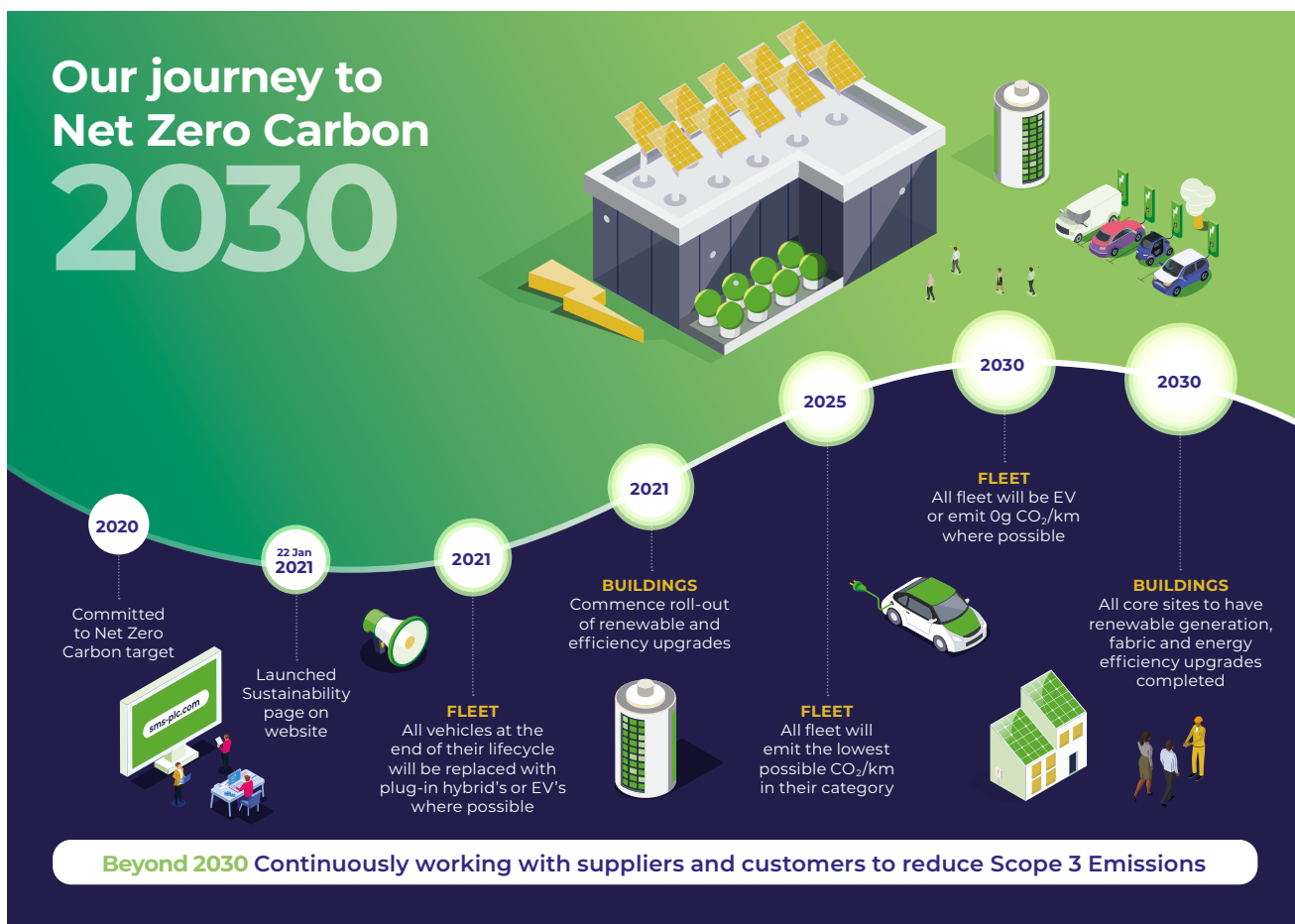
Our net-zero roadmap, outlined below, will be carried out in line with the World Resources Institute's Greenhouse Gas (GHG) Protocol and the Institute of Environmental Management and Assessment (IEMA) GHG Management Hierarchy (Avoid, Reduce, Substitute, Compensate), with clear objectives set. The target will be realised through a variety of sustainability measures, including increased adoption of renewable on-site generation and battery storage to power the Group's

UK and Ireland estate, and the transition of our entire fleet to electric vehicles (EVs). As well as utilising these low-carbon technologies, over coming years we'll also gradually be giving our core sites full fabric upgrades to ensure they're using energy as efficiently and sustainably as possible.

The HSS Committee will be responsible for the ongoing monitoring of our performance against these objectives. Regular performance reviews will be carried out, and updates shared with the Board.



WE WILL DRASTICALLY REDUCE OUR CARBON EMISSIONS TO A POINT WHERE OUR BUILDINGS AND VEHICLES REMOVE AS MUCH GREENHOUSE GASES FROM THE ATMOSPHERE AS THEY CREATE."



SUSTAINABILITY continued

2 The environment

Case study:

Decision-making in practice: net-zero carbon target



The Board's decision to target net-zero carbon by 2030 or sooner represents a significant commitment for the Group. Through its regular engagement with shareholders at both Executive and Non-executive level, the Board was aware of the ever-increasing number of investors for whom sustainability – and broader ESG issues – plays a large role in driving investment decisions. Equally, the Board operates with the Group's mission to deliver the future of smart energy at front of mind. It was thus recognised that the decision aligns with the Group's purpose and strategy, which in turn underpin the long-term success of the Company.

Following months of work by the business, supported by the HSS Committee, the Board was presented with a detailed proposal and plan in November 2020, focused on the optimisation of the Group's two key sources of emissions: its fleet of vehicles and its buildings.

In reaching its approval of the plan presented, the Board discussed the following aspects with management:

- the incremental costs for the business of achieving the net-zero carbon target and any associated funding requirements as a result;
- the communication and implementation strategy, recognising that in order to have coherence and credibility the target needed to be embraced and driven forward by the entire business, at every level;
- how implementation of the target will affect employees – for example by potentially introducing a hybrid model of home and office working;

- the role our customers can play in helping us achieve this target, by sharing best practice to deliver strong outcomes; and conversely, the positive message the target conveys alongside our business objective of delivering net-zero carbon emissions for our customers; and
- how to ensure visibility of progress to key stakeholders, including customers, employees and investors through market announcements, internal communications, the Company website and the Group's dedicated ESG reporting via its Sustainability Report.

Following on from its decision, the Board agreed with management a communication plan and materials for both internal and external stakeholders. Monitoring of the implementation plan will be the responsibility of the HSS Committee, which will report to the main Board regularly to ensure Directors are up to date on progress against the target.



Our environmental performance

We take a holistic view of our Company sustainability, which includes quantifying both the positive impacts from our products and services, and the negative impacts from our business estate and fleet (our footprint), to reach an overarching understanding of our total sustainability.

We use this 'net positive' perspective to align our strategy for business growth, financial benefits and sustainability gains; investing in the

development of assets which deliver carbon reductions, including smart meters and other carbon reduction ('CaRe') assets.

In 2020, the positive impact we were able to deliver via our products and services significantly surpassed the footprint we left behind.

Emissions reporting

Our footprint is the carbon produced by our operational activities and we utilise the internationally recognised GHG Protocol to ensure we provide standardised data and calculations.

Our Scope 1 footprint covers the energy consumed by our fleet vehicles and the gas and oil consumed across our offices, warehouses and training centres, as well as fugitive emissions from air conditioning. Our Scope 2 footprint covers our electricity consumption.

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

	2020	2019	2018	Commentary
Total Scope 1 (TCO₂e)	1,761.5	2,977.3	2,683.4	Scope 1 covers the direct emissions from our operations.
Company-owned vehicles (TCO ₂ e)	1,690.0	2,879.7	2,628.4	Our owned and tracked fleet vehicles.
Gas (TCO ₂ e)	42.0	50.5	55.0	Gas heating serves four of our office buildings across the UK.
Gas Oil (TCO ₂ e) ¹	1.6	—	—	A new building utilising oil heating was added to our estate in 2020.
F-Gas (TCO ₂ e) ¹	27.9	47.1	—	F-Gas is the refrigerant used within air conditioning for cooling workspaces and server rooms.
Scope 2 (TCO₂e)				Scope 2 covers indirect emissions from our operations.
Location-based (TCO₂e)	153.7	205.1	167.3	Electricity lights, heats and powers our operations across warehouses, offices and training centres in the UK.
Market based ¹ (TCO ₂ e) (including green energy contracts)	91.9	93.9	38.3	We source green contracts for our electricity where possible. This excludes shared-lease spaces, where contracts are controlled by the landlord, and new sites.
Total Scope 3 (TCO₂e)	533.8	1,164.3	—	Scope 3 covers emissions from up and down our value chain, including those of suppliers and service providers.
Vehicle business travel	104.3	444.5	—	Travel in employee-owned vehicles.
Diesel upstream supply ¹	405.0	685.0	—	Upstream production of diesel to supply our vans with fuel.
Transport and distribution electricity ¹	13.2	17.4	—	Upstream production of electricity for use on our sites.
'Well to tank' water supply ¹	3.1	7.9	—	The utilities required to provide our warehouses, offices and training centres with water emit carbon through their supply and treatment operations.
'Well to tank' Gas ¹	5.5	6.6	—	Upstream production of gas for use on our sites.
'Well to tank' Gas Oil ¹	0.4	—	—	Upstream production of gas oil for use on a site.
Waste ¹	2.3	2.9	—	The processing of waste generated by our sites.
Total Scope 1, 2 & 3 (TCO₂e) (Scope 2 location-based)	2,449.0	4,346.7	2,850.7	
Carbon intensity Scope 1, 2 & 3 (TCO ₂ e/£m)	23.8	38.0	28.9	'Carbon intensity' shows how many tonnes of GHG gas emissions are produced per £m of revenue realised.
Operational energy consumption (MWh)	8,128.7	13,177.0	11,840.5	This is the total energy consumption of our operations, spanning activities included in Scopes 1 and 2 (excluding F-Gas).

¹ Data is voluntary under SECR but included here for completeness of scope reporting under the GHG Protocol. See our Sustainability Report at www.sms-plc.com/corporate/sustainability for a full breakdown of all metrics.

SUSTAINABILITY continued

2 The environment

Other highlights

Our 'handprint'

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

	2020	2019	2018
Tonnes of carbon mitigated by smart meters (TCO ₂ e) ¹	9,718	21,337	20,376
Tonnes of carbon mitigated by energy efficiency projects (TCO ₂ e) ²	5,291	3,444	1,055

1 Derived from annual savings on domestic property consumption as a result of the installation of a smart meter. Calculated based on the number of smart meters installed by SMS each year.

2 Derived from energy savings achieved by customers as a result of energy efficiency projects delivered by SMS. This measure records total energy savings in a given year, including the flow-through impact of projects delivered in a previous period.

Other metrics

60%

Renewable electricity purchased

17%

Further reduction in energy consumption per vehicle

44%

Reduction in total emissions (Scopes 1, 2 & 3)

Recognition



3 Our people



Health and wellbeing

At SMS we 'put our people first'. This is a phrase with strong sentiment, embedded within our core values. In 2020, we continued our strong focus on employee wellbeing through the provision of dedicated mental, financial and physical wellbeing resources, and improved reward and benefit initiatives.

There were several significant milestones in the year:

March

We launched regular internal communications to keep our employees informed about our business response to COVID-19, at a time when providing clarity was key to helping them maintain a positive state of mind. These communications were maintained on a regular basis throughout 2020, and included:

- weekly COVID-19 updates providing advice on a broad range of practical topics;
- video and email messages from the executive management team to communicate our business response to the pandemic and offer thanks for the levels of dedication, resilience and professionalism shown by employees during a difficult situation;

- information on coping mechanisms for stress and anxiety, supported by our external Medical Director and occupational health services;
- a Frequently Asked Questions document;
- information about our external Employee Assistance service managed by a trained counsellor; and
- dedicated e-learning modules on resilience, wellbeing and home working.

April

We introduced a bespoke Company wellbeing intranet page, developed with feedback from employees and making it easier for employees to access help and support while working remotely or in the field. The wellbeing page is regularly updated and curated to include the leading and latest content on mental, financial and physical wellbeing, including online and offline resources intended to help employees keep a positive mindset. Topics include home schooling, bereavement and domestic violence support, suicide awareness and remote working.

April also marked our voluntary signing of the C-19 Business Pledge, founded by former UK Cabinet Minister the Rt Hon. Justine Greening and UK entrepreneur David Harrison, with the aim of creating a coalition of organisations to deliver international support throughout the pandemic. The C-19 Business Pledge extends beyond just mobilising an immediate response to considering future recovery and we have a crucial role to play in helping to rebuild the economy.

May

We continued our commitment to deliver accredited mental health first aid training and now have 26 mental health first aiders among our staff. We also achieved the Healthy Working Lives Award (bronze) awarded by Public Health Scotland – a programme which helps improve health, safety and wellbeing in a structured and productive way.

We also participated in Pieta House's sunrise competition to support mental health and suicide awareness and to raise funds for the 'Darkness into Light Sunrise Appeal'. In addition to a Company donation, we encouraged our employees to participate in this year's alternative appeal, holding an internal competition for the best sunrise photo.

In the middle of the first national lockdown, we created a 'Lockdown Stories' campaign to encourage employees to share the positives they had uncovered during a difficult and unfamiliar period, including the benefits of working alongside family and pets, together with extra time for leisure activities and new hobbies. We were sent many submissions featuring a range of inspiring stories, which we shared internally via our newsletter and externally through a social media campaign.

£20,000

We donated £20,000 each to Beatson Cancer Care, Velindre Cancer Centre and Prostate Cancer UK

SUSTAINABILITY continued

3 Our people



DURING LOCKDOWN MY HUSBAND AND I HAVE BEEN USING OUR LOVE OF BOTH PHOTOGRAPHY AND CRAFT BEER AS INSPIRATION FOR OUR CREATIVE PROJECT. AS WE HAVE NOT BEEN ABLE TO GET OUT AND ABOUT TO TAKE OUR USUAL STYLE OF PHOTOS, IT HAS BEEN A GREAT WAY TO CONTINUE OUR CREATIVE PHOTOGRAPHY INDOORS AND ALSO SAMPLE A RANGE OF DIFFERENT BEERS!"

Lisa Jenkins, Delivery Project Manager

July

We were recognised by 'Working Mums' as a 'Top Employer' and were added to their Top Employer Charter. This demonstrates our commitment to flexible working, to building a diverse and inclusive workforce, and to enabling employees to develop and build their careers whatever their working pattern.

September

We made a voluntary pledge to Mindful Employer's 'Mindful Employer' charter and, in doing so, making a public declaration of our ambition to support the mental wellbeing of our staff. This reinforces our commitment to creating a supportive and open culture, where our people feel able to talk about mental health confidently.



ALL OUR EMPLOYEES PLAY A CRUCIAL ROLE IN DELIVERING BUSINESS SUCCESS."

September also saw several enhancements to our benefits package including:

- the introduction of a Group cycle scheme, available to all employees;
- an enhanced maternity scheme; and
- an increase to the standard holiday entitlement to 25 days plus bank holidays, with a further five days on achievement of five years' continuous service.

We were also re-accredited by the Tommy's Pregnancy Scheme.

December

SMS was nominated as an 'Employer of the Year' finalist at the Utility Week Awards 2020, which recognises companies that have demonstrated a commitment to investing in their employees, and to championing diversity and inclusion. Whilst we did not win on this occasion, we are proud of this external recognition of our people initiatives, and specifically our wellbeing initiatives and our response to the pandemic.

We were also shortlisted for the 'Best for Mental Health' award via Working Mums and its Top Employer awards. This award celebrates employers who have been exemplary in the way they have sought to protect their employees' mental health during the pandemic and, whilst we did not win, we were delighted to have our efforts for our people recognised externally.

Employee engagement

This is an ongoing focus for SMS as we continue to build on and enable a high-performance, reward and engagement culture. We look at our business not only in terms of financial success but also in terms of how it benefits all our stakeholders, including employees, local communities and our shareholders. In this way we can more effectively deliver our long-term objectives.

A designated Non-executive Director has ultimate responsibility on the Board for engaging with the workforce in a structured way, supported by the Group Human Resources (HR) Director, to ensure that the importance of, and plans for culture, reward and the employee voice are highlighted. We have undertaken various projects through 2020 which have helped to support and embed this approach.

Most significantly, in August we launched our first ever external Group employee engagement survey with the help of Best Companies, an independent workplace engagement specialist. Half our employee population participated in this initial survey, answering a range of questions tailored to help us better understand the current feelings of our people – to enable us to be aware of and thus improve how we look after our people.

Several strengths were highlighted by employees, including our net-zero ambitions, our potential for future growth, our effective response to the pandemic and our enhanced employee benefits package.

Equally, however, several areas requiring focus were identified. These included our corporate communications, particularly with regard to Group strategy, and a lack of standardisation across career levels and rewards. Based on the survey findings, an action plan was created and is currently being implemented. We intend to conduct these surveys at least annually, allowing us to assess progress against feedback on a regular basis and reassure our people that they are being listened to.

Talent management and development

As we continue to invest in our people, we are reinforcing our culture of 'putting our people first'.

All of our employees play a crucial role in delivering business success, and to facilitate this we encourage continuing professional development by offering employees opportunities to learn, grow, have fun along the way, and utilise their skills more fully to better achieve their potential.

We continued to expand our learning and development programme in 2020 with the introduction of 19 new training courses and the expansion of our Modern Apprenticeships programme to include the areas of customer service, management, warehousing and storage, and project management.

At the beginning of 2020, the Group HR team held employee workshops in all locations with the support of an external provider, Verditer, to gather employee feedback on how we recognise and reward our employees. Following this, we undertook an extensive project to develop and introduce a unified pay and reward framework across the business. We continued to work with Verditer, who helped us benchmark salaries and benefits. The new framework, which

was rolled out from 1 February 2021, governs a Groupwide set of career levels, job families and supporting pay scales, with the aim of embedding a consistent approach to the way we organise our job roles and ensure that pay decisions and promotions are made fairly and equitably.

In December, we launched our inaugural externally-accredited Management Development Programme within the Operations department, following which it is now being rolled out across the business. This programme supports new and promoted managers, ensuring a consistent approach to learning and development at manager level.

The SMS training academy, as our centre of excellence, has continued its growth and supports all the gas and electrical training needs for both SMS and certain clients' field operatives and management. Various enhancements have been made to the academy in the year, facilitating bespoke gas maintenance training and assessment, and new facilities have been built to support the new asset classes originating from our Energy Management division. The academy continues to offer technical inductions for our engineers alongside industry-update training, and also houses our smart meter test facility.

Diversity and inclusion

As an organisation we are dedicated to ensuring a diverse, inclusive work environment that promotes wellbeing and supports our communities and wider society.

We expect our people to live our values and treat each other with kindness and respect. All employees are responsible for their own behaviour and are expected to consistently demonstrate our values. Our key policies, which promote fairness to all, include:

- equal opportunities, diversity and inclusion;
- dignity at work; and
- our Code of Conduct.

There have been several notable developments in the year:

- We made our voluntary 'Scottish Business Pledge', which promotes fairness, equality and opportunity.
- We continued our 'Disability Confident' journey and successfully achieved the Level 2 Disability Confident Employer status, which affirms our intent to ensure that disabled people and those with long-term health conditions have the opportunities to fulfil their potential and realise their aspirations.
- In support of Black History Month in October, we ran a month-long social media campaign to spread awareness and understanding of Black history, directing our followers to educational resources where they could find out more.
- We signed the 'Tomorrow's Engineers Code', which is a framework for organisations hoping to increase the number and diversity of young people pursuing engineering careers.

Throughout 2020 we also recognised and supported various awareness days, including: National No Smoking, Suicide Prevention, World Mental Health, Fuel Poverty, and Baby Loss Awareness.



WE MADE A VOLUNTARY PLEDGE TO MINDFUL EMPLOYER'S 'MINDFUL EMPLOYER' CHARTER AND, IN DOING SO, MAKING A PUBLIC DECLARATION OF OUR AMBITION TO SUPPORT THE MENTAL WELLBEING OF OUR STAFF."



SUSTAINABILITY continued

3 Our people

Giving something back

Offering practical support to our communities has never been more important, with COVID-19 increasing feelings of isolation and loneliness and placing financial pressures on many. Throughout the pandemic we have actively encouraged our employees, especially those who were temporarily stood down from service, to volunteer and help where possible – including with food deliveries, collections and financial assistance for organisations that specialise in supporting vulnerable people.

With our ethos of goodwill and integrity forming a key part of our Company culture, a continued commitment to charity is important to us. More than ever, charities have become critically dependent on the generosity of the public and businesses to continue to support their respective causes. At SMS, we took the decision to maintain our charitable efforts in full, despite the challenging circumstances. We continued to support our three nominated regional cancer charities as part of an overall three-year commitment from 2019 to 2021. These are: Beatson Cancer Care, Velindre Cancer Centre and Prostate Cancer UK. We donate £20,000 a year directly to each of these amazing charities. We have also supported a variety of other 'staff matching' fundraising, giving rise to c.£15,000 in additional donations.

The Group HR Director has also become a mentor within the Aleto Foundation, which is focused on identifying and developing the next generation of leaders from communities which may have historically found it challenging to access jobs, and we continue to participate in the national 'Career Ready' mentoring programme, working with high-school students to help them decide on their future career and study choices.

Awards, memberships and accreditations

Awards/memberships/accreditations obtained in 2020



Memberships/accreditations retained in 2020



Gender pay gap reporting¹

SMS supports and encourages gender diversity amongst its workforce. It is the contributions of our people from all backgrounds that ensure we are successful, as only a diverse and engaged workforce will produce the solutions we need to tackle the varying challenges faced by our business. Industry-leading thinking will diversify and transition the energy market and therefore SMS welcomes and supports gender pay gap reporting and is committed to equal opportunities, diversity and inclusion throughout the business.

We are prioritising the utilisation of tools, including our new pay and reward framework, to monitor pay and ensure there is no bias towards either gender at any point from recruitment through to salary conversations and progression opportunities. We continue to actively promote gender balance within the Group.

Being part of the historically male-dominated engineering industry, it is no surprise that SMS currently has a wide gender split between men and women, and that a gender pay gap exists. Overall, SMS has a 33% female and 67% male workforce. We continue to explore how we can attract women into our organisation to create a more even gender balance, although, as an equal opportunities employer, we firmly believe in appointing the best candidate to each role regardless of gender or other protected characteristics as specified by the Equality Act.

The mean gender pay gap for the consolidated group is 23.3%, and the median gender pay gap is 34.5%. This can be explained within SMS by the following:

- There are more men than women within the engineering industry, from which we source most of our employees.
- There are more men than women in senior roles.
- There are more women in part-time roles.
- There are more women in lower-paying roles.
- Engineers are eligible for a monthly health-and-safety-related performance bonus.

There are significantly more male employees in senior roles (i.e. in the upper-middle and top pay quartiles), which contributes to our gender pay gap. However, the percentage of female employees in the lowest pay quartile of the organisation has decreased by 7% compared to the prior year, and there has been an increase of 6% in the percentage of female employees in the top quartile, which is positive.

Most of these issues are, however, prevalent throughout the UK and indeed globally. They are therefore not unique to SMS, as can be seen via workforce statistics provided by EngineeringUK. In 2020, overall, 14.5% of those working in engineering occupations, across all industries, were women. Encouragingly, this represented a 2.5% increase on the 12% reported in 2018. Just 11.2% of those in engineering occupations within the engineering workforce² were women, compared to 22.0% of those in engineering occupations outside the engineering workforce².

Importantly, SMS has taken positive action in 2020 which includes:

- the appointment of a woman – Miriam Greenwood – as Chairman of the Board;
- the introduction of a new, unified Groupwide pay and reward structure, which ensures equality and consistency across the Group based on career levels and performance;
- the appointment of women into three senior roles including New Energy Director, Energy Sector Specialist and Head of Marketing, and the appointment of two women into the management-level roles of Business Architect and HR Business Partner. In addition, 2020 saw the internal promotion of five women to management and senior level; and
- membership of the 'Tomorrow's Engineers Code', as detailed above.

¹ All statistics calculated using data at 5 April 2020.

² Engineering workforce is defined as all those included in the EngineeringUK Standard Industry Classification (SIC) footprint (engineering industries) working in any occupation. Non-engineers working in engineering industries are included in the engineering workforce, for example Human Resource professionals working for manufacturing companies.

Gender breakdown¹

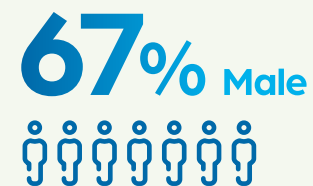
Board of Directors



Senior Management



Other Employees



SUSTAINABILITY continued

4 Health and safety



We are committed to being a safe, secure and reliable organisation which protects the safety and wellbeing of our people, our customers and the end consumer.

Introduction

Protecting the health and safety of those that matter most to SMS has never been more important than in 2020, in the face of COVID-19. The year began with preparations for the pandemic and resultant national lockdown, and we were able to lay foundations for the business to continue to operate safely during the crisis. A series of mandatory training courses were developed and delivered to mitigate the risk of COVID-19 infection, along with critical adaptations to our workplaces to ensure our employees, customers and other stakeholders were safe. See pages 4 to 7 for further details. This focus remained steadfast as we navigated our way through ever-changing government guidance – and continue to do so.

Our scheduled Safety, Health, Environment and Quality (SHEQ) training programme was curtailed due to COVID-19; however, we still managed to deliver numerous high-quality courses and briefings via our virtual platforms. This increased staff awareness at a critical point in the development of the business and further embedded the engagement and ownership of health and safety that we have worked on in recent years. The various SHEQ forums across the business continued to operate throughout the pandemic and we were able to deliver consistently on our SHEQ strategy and messaging.

Overall, performance has been excellent, with ongoing progress made towards our objectives and targets whilst at the same time strengthening our customer relationships. We continue to invest in SHEQ to meet current and future needs.

Occupational health

Our focus during 2020 has been on the wellbeing of our people, particularly those who have spent a significant period working from home.

Throughout the year we have distributed training material and guidance on topics related to personal wellbeing. We have supplemented these offerings with bespoke information from the Company's Medical Director on COVID-19-related issues, whilst maintaining our normal support for occupational health needs.

ISO certifications

The business maintained all its ISO certifications in 2020 with no major non-conformances recorded during the audit processes. In July, SMS achieved the International Standard for Health & Safety at Work, ISO 45001. ISO 45001 replaces the current standard (BS OHSAS 18001) and is awarded to organisations who are serious about improving employee safety, reducing workplace risks and creating better, healthier working conditions. One of the key differences is a focus not just on safety, but on employee health and wellness and on the importance of leadership in owning all aspects of health and safety. As an organisation, we have worked hard to improve our free resources and promotion of this approach.

Industry campaigns

We supported industry campaigns, including 2020's Gas Safety Week which addressed a whole range of gas safety matters with a focus on community safety in these difficult times. We provided advice on how to stay gas-safe, and raised awareness of the requirement to use a Gas-Safe-registered engineer to ensure consumers do not suffer from the effects of illegal gas work. We utilised our training academy and our digital training platforms to run gas safety awareness training and encourage everyone to promote gas safety.

2020 provided a new challenge, not only to consumers but to the industry as a whole, with many people unable or reluctant to invite engineers into their properties to carry out routine maintenance operations due to concerns or restrictions related to the pandemic.

Key highlights

- Adopted and implemented the C-19 Business Pledge
- Maintained business-critical operations and emergency cover during all national lockdowns
- Delivered the COVID-19-specific training package 'A Safe and Healthy Return to Work' to all employees
- All health and safety key performance indicators are ahead of target
- Certification for ISO accreditations 9001, 14001 and 27001 maintained
- Successful transition from OHSAS 18001 to ISO 45001
- Healthy Working Lives Bronze Award, awarded by Public Health Scotland

For this reason, we felt Gas Safety Week had never been more important, so we ran internal communication and social media campaigns to further promote good gas safety.

Systems

Our electronic quality management system (EQMS) is evolving well, with three modules now operational. EQMS is the cornerstone of our risk management and quality processes and we are already experiencing improved reporting and record-keeping, better action tracking and the centralisation of our SHEQ documentation.

Competence

The training delivered in our academy and regional offices continues to be supplemented by the Company's e-learning platform, Nimble. Several new training modules were created this year and the platform's flexibility and user-friendly software enabled the business to react swiftly to the pandemic and resultant protocols. All staff were kept up to date on the requirements for working safely, in our workplaces and on our customers' premises, with refresher training available and ongoing as the situation changed.

Our SHEQ training programme was amended due to COVID-19 restrictions, with many courses moving to virtual delivery. Over 50 staff members completed the National Compliance and Risk Qualifications (NCRQ) Safety for Managers course early in the year, and the virtual method was also used for various other courses.

Accidents and incidents

Our performance over the year was excellent and we have met all our improvement targets. The Accident Frequency Rate (AFR) has decreased to 0.05 RIDDORs per 100,000 hours worked (December 2019: 0.19). Our Lost Time Incident Frequency Rate (LTIFR) has decreased to 0.24 per 100,000 hours worked (December 2019: 0.75). We regret to have to report one injury under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 (RIDDOR); however, the injury was not serious, and the injured party returned to work with no long-term effects expected.

Operational road risk continues to be monitored closely and all improvement targets were achieved in the year. A new automated scheduling system, along with other ongoing initiatives, has contributed to improved driver safety, behaviour and performance.

Health and safety policy

Our health and safety policy and associated arrangements are reviewed annually and published on the Company's Intranet in June each year. Our ISO 45001-accredited management system and risk management processes ensure all key risks are identified and suitably controlled. All employees undergo a corporate induction, in which safety is emphasised as a core value. A thorough health and safety induction is also delivered, and this is supplemented by ongoing refresher training.

The Company's annual SHEQ targets and objectives are endorsed by the Health, Safety and Sustainability Committee, with performance updates published in a monthly Board report. New and emerging risks are identified through regional health and safety forums and addressed in the business risk register.

2021 and beyond

Our immediate focus remains on navigating our way through the changing requirements of COVID-19. This will continue for the foreseeable future as the UK Government's vaccination programme is rolled out. Our people, systems and procedures have coped well to date, but we will not drop our guard and let the crisis impact on our pursuit of excellence in health, safety and wellbeing.

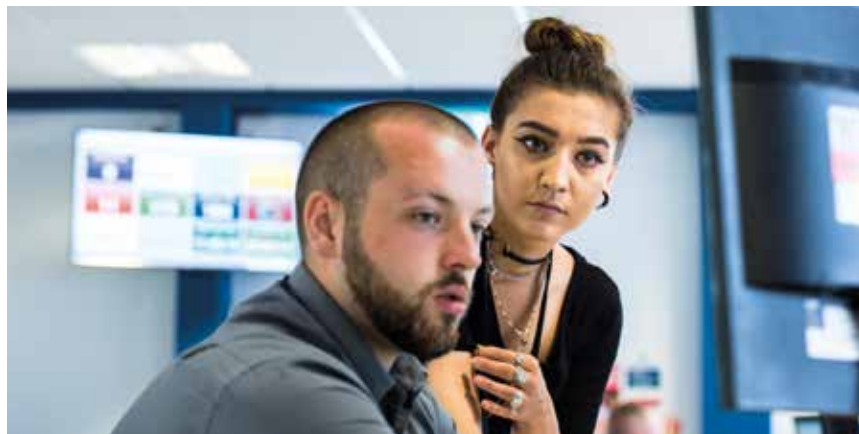
We continue to evolve our SHEQ policies and processes in line with the ongoing growth of the business. Our new business streams in the smart homes sector and grid battery storage bring different challenges, and we are adjusting our systems and procedures to ensure that we have robust measures in place to manage new and emerging risks. There is also a strong focus on sustainability as we move to align our SHEQ work with our environmental, social and governance (ESG) principles.

We are now seeing the benefits of our investment in SHEQ over the past few years, with sophisticated processes and modern systems in place to support the needs of the business. We remain committed to being a safe, secure and reliable organisation and look forward confidently to 2021.



SUSTAINABILITY continued

5 Ethical business practices



Our five core values – Safety, Customer Excellence, Innovation, Pride and Sustainability – capture who we are and what we believe in, and they underpin our commitment to ‘putting our people first’.

These values drive the behaviours we wish to see demonstrated throughout our business practices. We strive to provide an environment and experience that embed these values on a consistent basis, and to ensure that all employees take responsibility

for their own behaviour in the workplace. A shared understanding of what is expected and what is acceptable to others, and consistency of approach from all employees, is essential.

Our Code of Conduct further strengthens the foundations on which our standards are built and our approach to ESG, detailed further on our website at www.sms-plc.com/corporate/sustainability, sets out clear expectations of how to conduct

business in an ethical way. Ethical, fair and diligent governance underpins all our business activities.

This is supported by extensive training and the continuous education of our people, from a full corporate induction through to ongoing learning and development.

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

- anti-bribery and corruption
- modern slavery
- whistleblowing (detailed further on page 87)
- data protection
- equal opportunities, diversity and inclusion (detailed further on page 51)
- health and safety (detailed further on pages 54 to 55)
- discipline
- grievance
- dignity at work.



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

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

RISK REPORT

Risk governance and management

Our robust risk management approach continues to evolve in keeping with our growing business and the developing macroeconomic environment.

The Board has overall responsibility for risk management. In support of this, we operate robust risk management processes, which are embedded within everyday business activities throughout the Group. The risk management framework below highlights the main responsibilities for the management and oversight of risk within the Group.

The evolving COVID-19 pandemic has had an impact on the risk environment within which the Group operates. SMS has continued to operate despite unprecedented circumstances; however, it has been necessary to adapt our approach to delivering business activities, with the majority of our workforce continuing to either operate in the field under more strict safety requirements, or to support business operations from home. In response to this, an enhanced control framework has been implemented and is working well. A comprehensive description of the Group's response to the risks arising from the COVID-19 pandemic is provided on pages 4 to 7.

Group Internal Audit has continued to work closely with the Audit Committee, executive management team and departmental teams throughout 2020 to support the continuous improvement of risk management processes within the Group. This work has included facilitation of regular risk workshops, which are used to:

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

The Board and Audit Committee receive regular reporting on the outputs from risk management activities. During 2020, Group Internal Audit performed several internal audit reviews of specific risk areas within the business, which have assisted risk management in those areas. These included reviews of cyber security, procurement and vendor management, sub-contractor management and oversight, and Human Resources (HR) data compliance.

Risk management framework

Board/Audit Committee

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

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

Executive management team

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

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

Group Internal Audit

Group Internal Audit develops and delivers the annual risk-based Group Internal Audit Plan, aligned to the strategic risks contained within the corporate risk register. This annual plan is approved by the Audit Committee.

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

Safety, Health, Environment and Quality (SHEQ) and compliance teams

The SHEQ and compliance teams are responsible for ensuring compliance with codes of practice such as Meter Asset Managers Code of Practice (MAMCoP) and Meter Operation Code of Practice Agreement (MOCOPA).

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

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

Departmental management

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

The Group's Electronic Quality Management Software (EQMS) system was launched in 2020 and has been an effective tool in helping the business to centrally track internal audit, compliance and SHEQ incidents and issues should they arise. Continued development of the EQMS tool is planned for 2021 to optimise its use across the Group's full range of activities. This supports our longer-term goal of enhancing accountabilities for risk management activities across our business.

Understanding our risks

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

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

These principal risks and uncertainties have been scored and placed on the risk heat map below, which is a matrix of probability and impact.

Our model considers each risk from two different perspectives:

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

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

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

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

Our principal risks

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

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

- ① Potential breach of cyber security
- ② Major health and safety incident
- ③ Speed of organisational change (near term)
- ④ Business continuity and disaster recovery

- ⑤ Critical supplier dependency
- ⑥ Funding and working capital management
- ⑦ Brexit
- ⑧ Loss of environmental, social and governance (ESG)-related and regulatory accreditations

- ⑨ Potential breach of General Data Protection Regulation (GDPR)
- ⑩ COVID-19
- ⑪ Our people

All risks are assigned mitigating actions with an appropriate business owner and are supported by an executive sponsor to ensure accountability. The risks captured in the heat map above are in line with those identified in the prior year, with the addition of two new risks as follows:

- COVID-19**, disclosed as an emerging risk in the prior year, is now reported as a principal risk in light of the ongoing pandemic and the challenges that have arisen as a result.
- Our people**, in recognition of the material adverse effect a loss of key staff, or the failure to attract and retain strong people for core business roles, could have on the business.



RISK REPORT continued

Our principal risks and uncertainties



Set out below are the principal risks and uncertainties which could have a material impact on the Group. The numbers correspond to the net mitigated risk identified on the heat map. These risks are continually monitored by the Board. The degree to which the Board considers that the

likelihood or impact of the risks materialising is increasing, decreasing or unchanged is shown and the table also sets out the mitigating actions that have been taken by the Group.

1 Potential breach of cyber security

Detailed Risk	Potential Impact	Existing Mitigating Controls
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.	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> ISO 27001 accreditation achieved across the Group in October 2020 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) arrangement has provided a dedicated Security Operation Centre (SOC) from November 2020
Risk level  Risk exposure trend 		



2 Major health and safety incident

Detailed Risk	Potential Impact	Existing Mitigating Controls
An incident could occur, leading to significant injury, illness or loss of life to an employee or third party.	<ul style="list-style-type: none"> Injury or loss of life Financial penalties Increased scrutiny from regulatory and oversight bodies 	<ul style="list-style-type: none"> ISO 45001 accreditation achieved for Glasgow- and Cardiff-based businesses in June 2020 (further accreditation work is planned for 2021) The Board has overall accountability for compliance with health and safety standards and is provided with regular management reporting Board and senior management health and safety training Maintenance of high-quality and mandatory training standards, driven by job roles Rolling internal technical assurance audit programme Independent regulatory reviews
Risk level  Risk exposure trend 		



Risk exposure key

 Risk unchanged
  Risk decreased
  Risk increased



3 Speed of organisational change (near term)

Detailed Risk	Potential Impact	Existing Mitigating Controls
<p>Speed of organisational growth in the short term without sufficient and appropriate growth in infrastructure.</p> <p>Risk level </p> <p>Risk exposure trend </p>	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> New capacity planning system introduced in 2020 to support the Group's engineering workforce Robust forecasting processes closely aligned to 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

4 Business continuity and disaster recovery – resilience of IT infrastructure and failure of critical business systems and processes

Detailed Risk	Potential Impact	Existing Mitigating Controls
<p>Failure of core and/or critical information technology systems could result in operational interruption.</p> <p>Risk level </p> <p>Risk exposure trend </p>	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Business continuity plan in place across Group Monitoring of industry data flows and escalation of issues should they arise Disaster recovery plans in place for critical IT systems Failover facility available for immediate redeployment of staff, enabling key operations to be serviced Alternative UK sites available to manage core business operations Most of the workforce are able to work from home to support the Group's customers



5 Critical supplier dependency

Detailed Risk	Potential Impact	Existing Mitigating Controls
<p>The Group relies on a limited number of critical suppliers, including meter manufacturers, and failure of one critical supplier could have significant operational and financial implications.</p> <p>Risk level </p> <p>Risk exposure trend </p>	<ul style="list-style-type: none"> Unable to fulfil customer orders Business continuity issues Legal and financial exposure 	<ul style="list-style-type: none"> Growth in the Group's supplier base continues to mitigate the risk of over-reliance on critical suppliers Business continuity arrangements in place Centralised 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



RISK REPORT continued

Our principal risks and uncertainties continued

6 Funding and working capital management

Detailed Risk	Potential Impact	Existing Mitigating Controls
<p>Suitable funding arrangements are critical to enable the continued growth of our asset portfolio, particularly in relation to carbon reduction ('CaRe') assets. Poor management of core elements of working capital, particularly during peak activity periods, could lead to inability to meet creditor requirements and cause a negative financial impact.</p>	<ul style="list-style-type: none"> • 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) 	<ul style="list-style-type: none"> • Credit control facility and robust commercial billing arrangements • Regular and formal review of key management information in relation to cash and debt positions • Asset portfolio sale in March 2020 reset leverage to zero • Revolving credit facility of £300m remains undrawn and accessible • Partnership agreement signed with the Colombia Threadneedle Sustainable Infrastructure Fund (ESIF)
<p>Risk level </p> <p>Risk exposure trend </p>		



7 Brexit

Detailed Risk	Potential Impact	Existing Mitigating Controls
<p>Potential disruption to the business as a result of the UK's withdrawal from the European Union (EU) on 31 December 2020.</p>	<ul style="list-style-type: none"> • Loss of specialism in workforce, particularly amongst engineering and information technology staff • Interruptions or delays to the supply chain for goods sourced from within the EU, delays to customer orders and potential increased supplier costs • Falling value of Sterling leads to higher import costs • Increase in interest rates and higher cost of borrowing 	<ul style="list-style-type: none"> • The Group continues to monitor and assess the impact of Brexit on the Group • SMS has reviewed the number of EU employees within its business and considers the potential impact to be minimal • We have performed a partner review with our critical suppliers who source supplies from outside the UK to ensure there are robust continuity arrangements in place • We have sufficient coverage in our supply chain and inventory arrangements to withstand significant delays and to honour outstanding customer commitments • £300m revolving credit facility with banking consortium • Continual review of hedging arrangements
<p>Risk level </p> <p>Risk exposure trend </p>		



Risk exposure key

 Risk unchanged
  Risk decreased
  Risk increased

8 Loss of ESG-related and regulatory accreditations

Detailed Risk	Potential Impact	Existing Mitigating Controls
<p>Loss of accreditations or failure to comply with key regulatory requirements could lead to an inability to deliver our core services, leading to a loss of revenue or reduction in banking facilities.</p> <p>Risk level </p> <p>Risk exposure trend </p>	<ul style="list-style-type: none"> • Inability to conduct business • Financial penalties • Reputational damage • Loss of trained and qualified engineers • External investigation(s) and/or audits 	<ul style="list-style-type: none"> • The Board has overall accountability for compliance with safety, health and environmental standards and is provided with regular management reporting • 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


9 Potential breach of the General Data Protection Regulation (GDPR)

Detailed Risk	Potential Impact	Existing Mitigating Controls
<p>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.</p> <p>Risk level </p> <p>Risk exposure trend </p>	<ul style="list-style-type: none"> • Financial penalties under GDPR • External investigation(s) by the Information Commissioner's Office • Loss of customer and/or supplier confidence 	<ul style="list-style-type: none"> • The General Counsel is an expert in data protection and is the appointed Data Protection Officer (DPO) • 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 Security Operation Centre and Netskope monitoring of external communications


RISK REPORT continued

Our principal risks and uncertainties continued

10 COVID-19

Detailed Risk	Potential Impact	Existing Mitigating Controls
The ongoing spread and development of COVID-19 globally presents a potentially significant risk to the business, with the Group's primary concern being the welfare of its people, customers and the end consumer.	<ul style="list-style-type: none"> • Health and wellbeing of workforce, customers and consumers • Short-term financial constraints • Business continuity issues • Non-essential travel ceases • Potential detrimental impact on the supply chain • Counterparties could default on contractual obligations 	<ul style="list-style-type: none"> • Recurring revenue streams on the Group's existing meter and data asset base provide a resilient business operating model able to withstand short-term economic shock • Most of the workforce are able to continue to work and support the Group's customers from home • Temporary closure of offices and warehouses, in periods where this is necessary • Maintenance of gas and electricity supply on an emergency basis for customers • Engineer pre-visit risk assessments carried out • Personal Protection Equipment (PPE), regular cleaning and temperature control checks across sites • Regular communications with employees and customers • Credit control function with regular counterparty monitoring
<p>Risk level </p> <p>Risk exposure trend – n/a new risk</p>		

11 Our people

Detailed Risk	Potential Impact	Existing Mitigating Controls
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.	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • 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 • 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
<p>Risk level </p> <p>Risk exposure trend – n/a new risk</p>		

Risk exposure key

 Risk unchanged
  Risk decreased
  Risk increased

FINANCIAL REVIEW

Ahead of market expectations

We have delivered financial results ahead of market expectations despite unprecedented conditions, demonstrating the strength of our underlying business model.



THE STRENGTH AND FLEXIBILITY OF OUR RECURRING INVESTMENT MODEL WAS MADE CLEAR IN 2020."



Financial highlights

Alternative performance measures¹

Index-linked annualised recurring revenue (ILARR)^{2,3}

£77.0m **6% increase**
(2019: £72.6m)²

Pre-exceptional EBITDA²

£49.9m **15% decrease**
(2019: £58.9m)

Underlying profit before taxation²

£15.2m **2% decrease**
(2019: £15.6m)

Underlying basic earnings per share²

9.56p **15% decrease**
(2019: 11.30p)

Statutory performance measures¹

Revenue

£103.0m **10% decrease**
(2019: £114.3m)

Statutory EBITDA

£231.6m **360% increase**
(2019: £50.4m)

Statutory profit before taxation

£195.0m **>500% increase**
(2019: £5.5m)

Statutory basic earnings per share

171.65p **>500% increase**
(2019: 3.56p)

¹ 2020 measures only include the financial performance of the disposed Industrial & Commercial (I&C) up to the date of sale on 22 April 2020.

² Refer to page 70 for definitions and details of the Group's alternative performance measures, which includes index-linked annualised recurring revenue, pre-exceptional EBITDA, underlying profit before taxation and underlying basic earnings per share.

³ 2019 ILARR is presented on a pro-forma basis for comparative purposes, excluding a net contribution of £17.6m from disposed I&C meter assets.

FINANCIAL REVIEW continued

We are pleased to report financial results ahead of market expectations following an exceptionally challenging year. Throughout the ongoing global pandemic we have had to remain agile and alert to the changing restrictions and environment in which we operate, while supporting our customers, our supply chain and our highly dedicated and talented teams.

The careful monitoring of our cash flows has never been more important. With a concentrated effort to improve working capital and manage our costs prudently, we have maintained operational flexibility while navigating through this uncertain time and have still managed to grow the business into new areas of carbon reduction assets.

The pandemic curtailed the planned growth in the business in FY 2020. However, the strength and flexibility of our recurring investment model was made clear; this is a resilient business. The Group continued to generate ILARR from its 3.81 million revenue-generating assets under management, demonstrating the robust nature of the metering infrastructure asset class and the resilience of our investment strategy in assets with a long-term income stream.

Our liquidity was also significantly strengthened in the year as the £290.6m gross cash proceeds from the sale of a minority of meter assets were used to repay the entirety of the Group's debt, leaving the business in a cash-positive position and with access to a £300m revolving credit facility. The Group's strong cash position during the 2020 lockdown period enabled the Board to take the decision in June to return furlough grants covering the earlier part of the furlough scheme, and we were one of the first companies in the UK to do so.

Revenue

	31 December 2020 £m	31 December 2019 £m	Percentage change
Asset Management	78.7	82.9	(5%)
Asset Installation	19.7	22.4	(12%)
Energy Management	4.6	9.0	(49%)
Group revenue	103.0	114.3	(10%)

The disposal of c.187,000 of the Group's meter assets in April 2020 has resulted in a net ILARR adjustment of £17.6m, presented on a pro-forma basis as £72.6m at 31 December 2019 for comparative purposes. Like-for-like ILARR therefore grew 6% to £77.0m as at 31 December 2020, despite the temporary suspension of all non-essential site work between 24 March and 1 June in response to COVID-19. This reflects continued growth in the meter estate from Q1 smart meter installations, together with the effect of an annual RPI increase effected in April. The Group's remobilisation plan progressed well through the second half of the year, despite ongoing and varying local restrictions, and during Q4 2020 we reached operating levels of c.80% of the pre-COVID-19 run rate.

Asset Management revenues are down on the prior year due to the loss of revenue from the asset disposal. Growth in revenue in the year was also lower with the cumulative

impact of lower meter installations through Q2 and Q3. The decrease has, in part, been mitigated by the flow-through effect of installations in 2019 and Q1 2020, together with an annual RPI increase in April. Whilst COVID-19 restrictions have slowed growth in the short term, the Group's installed portfolio of 3.81 million revenue-generating assets continues to provide financial resilience.

Asset Installation revenue has decreased 12% to £19.7m as compared with the prior year. This is in part due to legacy installation-only work for third parties coming to an end, as planned, in the first quarter of 2019 as we focused our workforce on installing our own smart meter portfolio. The suspension of all non-essential field work for part of the year also brought a reduction in revenues from utility connections and infrastructure services. Despite remobilisation, there have been ongoing project delays as we navigate local restrictions; however, customer contracts remain intact as we head into 2021. The adverse impact on revenues due to COVID-19 has, in part, been mitigated by the continued delivery of emergency jobs during the outbreak.

Of the Group's operating segments, Energy Management has experienced the largest decrease in revenue as a result of COVID-19, with a reduction of 49% to £4.6m (2019: £9.0m). This is attributable to the suspension of all site work from mid-March, most notably the suspension of work associated with the energy-efficient lighting and heating control project for a large hotel chain. Projects started to resume in the second half of the year but, as anticipated, site work continues to run at a lower capacity as the broader economy recovers.

Gross margins

Overall, the depreciation-adjusted gross margin at the Group level has increased 7% to 71% (2019: 64%). SMS includes depreciation on revenue-generating assets within cost of sales, and removing this from the gross margin provides a better comparison of the Group's underlying trading performance year on year.

Depreciation-adjusted gross profit, in absolute terms, has decreased by £0.8m due to reduced activity and revenues. However, a reduction of £17.3m in cost of sales year on year has favourably offset the £11.3m reduction in revenues, giving rise to the 7% increase in depreciation-adjusted gross margin. Although revenues have decreased, the flow-through impact of the Group's ILARR has provided protection against the impacts of COVID-19. Cost of sales, which includes a substantial variable component, has decreased due to the initial suspension of non-essential field work, together with ongoing project delays, and improved efficiency in our engineering model through greater use of sub-contractors.

The depreciation-adjusted gross margin for Asset Management has stayed flat at 93%, with the reduction in revenues detailed above offset by a reduction in cost of sales due to lower contractor costs incurred in the data business as a result of COVID-19. The gross margin for Asset Management, including depreciation, has increased by 9% from 55% to 62%, primarily as a result of a change to

a depreciation-related accounting estimate, made with effect from 1 January 2020, in relation to SMS's traditional meter assets. With the smart meter exchange programme being extended to 1 July 2025, management has extended the estimated economic life of the traditional meters to match and the depreciation charge therefore reduces. As a result, there has been a £4.8m reduction recognised within depreciation in cost of sales – see note 1(a) to the Financial statements for further details.

The Asset Installation business reported a positive gross profit margin of 16% (2019: negative 25%). The low margin in 2019, driven largely by H1 with a negative gross margin of 48%, was due to the Group's decision to retain its installation capacity to ensure the business was appropriately positioned to benefit from the run rates initially anticipated from progression to the main second-generation ('SMETS2') phase of the smart meter rollout. As initial installation targets in the market started to look increasingly challenging, attention was turned to controlling the Group's operating cost base in order to increase efficiency in the labour force. As a result, the gross profit margin improved to negative 6% in H2 2019.

The significant improvement to positive 16% in 2020 reflects a continued, dedicated focus on cost control, adapting the Group's engineer capacity to meet customer demand efficiently. An increased use of subcontractors has provided greater operational and financial flexibility during a very uncertain time. Management has also reduced operating costs where possible, with staff costs from March to August that would ordinarily be capitalised recognised within exceptional costs arising from the effect of the pandemic (detailed below).

The Energy Management gross margin has decreased to 22% (2019: 24%) due to a project delivered by Solo Energy in the year at a slightly lower margin. With a predominantly variable cost of sales base, reductions in revenue have been largely offset by equivalent reductions in cost of sales.

EBITDA

Statutory EBITDA increased to £231.6m (2019: £50.4m) largely as a result of the gain of £194.7m recognised upon disposal of a minority of the Group's meter assets.

Pre-exceptional EBITDA provides a clearer comparison of trading, year on year, showing a decrease of c.15%, or £9.0m, to £49.9m (2019: £58.9m). This, however, does not readily illustrate the underlying growth on a like-for-like basis, particularly from the flow-through of the recurring metering and data asset portfolio, after taking account of the minority asset disposal. Excluding the effect of the disposal, we would expect an increase due to the compounding effect of RPI increases and flow-through of full-year revenue from previously installed assets.

The Group's performance fundamentally demonstrates the financial resilience of the Group's business model, with strong ILARR and a dedicated focus on cost control. Up to March 2020 cost control was focused on right-sizing the Group's internal installation capacity, as detailed above.

Towards the end of March, as the pandemic worsened, management turned its attention to ensuring the Group's operating cost base was as streamlined as possible, suspending any non-critical business spend. This focus has held strong all the way through the year with cost savings maximised where possible, mitigating the impact of COVID-19 on our bottom line.

Disposal of a minority of the Group's I&C portfolio ('the Disposal')

As previously announced, on 12 March 2020, the Group conditionally signed an agreement to dispose of a minority of the Group's meter assets through the sale of the entire share capital of Crail Meters Limited (Crail), a wholly owned subsidiary of the Group. This transaction completed on 22 April 2020.

The meter asset provider (MAP) business that was transferred comprised c.187,000 I&C meter assets, representing c.£18.4m gross ILARR.

Total gross cash consideration received by the Group on 22 April 2020 was £290.6m, representing x16.4 net EBITDA and reinforcing the inherent value of the Group's meter assets, which generate highly stable and long-term index-linked cash flows with limited maintenance requirements. These proceeds have allowed the Group to reset its leverage, supporting a £270m voluntary prepayment of the Group's revolving credit facility and resulting in a net cash position of £40.2m at 31 December 2020. Strengthening the balance sheet significantly, the transaction has enhanced our investment capacity to accelerate growth of an already-secure asset base.

Overall, the Disposal has given rise to a gross gain of £201.6m in the year. After the deduction of £6.9m transaction costs, noting certain transaction costs were recognised in the prior year as exceptional items, a net gain on disposal of £194.7m has been recognised separately in the consolidated statement of comprehensive income as exceptional. Of this net gain, £6.2m relates to the transfer of a deferred tax liability on the transferred assets. Further details can be found in note 4 to the Financial statements.

The Disposal does not constitute a discontinued operation, as the minority portfolio of I&C assets disposed does not represent the loss of a separate, major line of business and, whilst I&C activities have been significantly reduced, they have not been entirely discontinued. The Group will continue to pursue new contracts.

The disposed portfolio of assets generates a new recurring revenue stream for the Group in the form of management fees. The Group will continue to manage the portfolio of disposed assets for the new owners, generating annual RPI-linked recurring management fees of £0.8m for these services.

Other exceptional items

The operating charge to the income statement in respect of other exceptional items of £13.1m (2019: £8.5m) is driven largely by £6.9m of costs attributable to COVID-19 that management has deemed appropriate to classify as exceptional in line with the Group's accounting policy.

FINANCIAL REVIEW continued

As a result of reduced engineering activity in periods of lockdown due to COVID-19, management has estimated that £6.4m of costs that would have ordinarily been capitalised as directly attributable to the installation of meter assets – consisting primarily of staff costs – have remained in underlying profit. As these are material costs, attributable to a rare macroeconomic event, management has taken the judgement to recognise these costs as exceptional. In addition, management has recognised an exceptional bad debt charge of £0.5m in relation to a subset of trade receivables which have been identified as having a potentially elevated credit risk as a direct consequence of COVID-19, and have been provided for on a specific basis. This judgement will be revisited as the economy recovers.

Excluding COVID-19 costs, other operating exceptional items total £6.1m and primarily comprise £6.0m of losses on the traditional and first-generation smart ('SMETS1') meter portfolio, a similar charge to prior years. With the Enrolment and Adoption programme for SMETS1 meters into the DCC extended into 2021, consistent with 2019 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 taken the judgement to recognise losses arising on the disposal of these meters as exceptional.

Operational and pre-tax profits

Depreciation costs on general property, plant and equipment, excluding meter assets, have increased by £0.8m to £4.4m (2019: £3.6m) due to net additions across the various asset classes.

Depreciation costs on meter assets have decreased by £6.8m to £24.7m (2019: £31.5m). This is predominantly due to management's revision of the useful economic life of traditional meter assets through to 1 July 2025 following the UK Government's confirmation in June 2020 that it will introduce a new four-year regulatory framework for the next phase of the UK smart meter rollout, to be implemented from 1 July 2021. As a result of this change in estimate, the depreciation charge in the income statement for the year ended 31 December 2020 was reduced by £4.8m. The additional depreciation charged in relation to newly installed meters has been offset by a decrease in depreciation as a result of removals, making up the remaining net £2.0m difference.

The net interest charge in the period is £4.6m (2019: £8.3m), reflecting the overall lower leveraged position of the Group following the Disposal.

Underlying profit before taxation has decreased slightly by 2% to £15.2m due to a flow-through of the above points. As we navigate out of COVID-19, management is optimistic that results will start to show an upward trajectory as the UK Government's vaccination programme progresses.

Effective tax rate

The effective tax rate on statutory profits was 1% (2019: 27%). The effective tax rate on pre-exceptional profits was 31% (2019: 18%) driven primarily by an increase

in the deferred tax rate from 17% to 19%, which has been applied to the Group's brought-forward deferred tax liabilities on its portfolio of meter assets. Excluding the impact of this rate change, the effective tax rate on pre-exceptional profits is 19%, which is broadly in line with the prior year.

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

The Group's deferred tax balance of £8.5m is primarily made up of £7.1m in respect of accelerated capital allowances.

Earnings per share (EPS)

Underlying basic EPS, which excludes exceptional costs, amortisation of certain intangibles and their associated tax effect, is 9.56p (2019: 11.30p), reflecting the underlying profitability of the Group. Statutory earnings per share increased to 171.65p (2019: 3.56p) as a result of higher statutory profits for the reasons detailed above.

Diluted EPS does not vary significantly from basic EPS; a small decrease is seen as a result of the dilutive impact of shares issuable in the future to settle the Group's share scheme obligations.

Dividend

As detailed below, the Group's liquidity position has remained strong since the end of the year, despite the challenges COVID-19 has presented. The second interim dividend for 2019 of 4.58p per share (£5.2m) was paid to shareholders on 4 June 2020.

The Group has a growing, sustainable dividend and, as previously announced, in line with the Board's policy SMS proposes to pay a 25p per share dividend in respect of FY 2020 (representing an increase of 3.6x over FY 2019). The first two (of three) interim dividend instalments were paid in October 2020 and January 2021 respectively, in line with the provisional dividend timetable previously reported. The third instalment is intended to be paid in April 2021 with a final dividend in July 2021.

The Board intends to grow the dividend annually, with a 10% annual increase for each of the financial years FY 2021, FY 2022, FY 2023 and FY 2024. SMS thus intends to pay a 27.5p per share dividend in respect of FY 2021. The Board will review this regularly with shareholder value in mind, taking into account a range of factors including expected business performance.

Future dividend payment amounts are covered by income from the Group's existing metering and data asset base and their long-term index-linked cash flows.

Decision-making in practice:

New, enhanced dividend policy



When completion of the Group's minority asset disposal became virtually certain, the Board turned its attention to evaluating the best use of the £291m gross cash proceeds due to be received into the business. With the global pandemic in its early stages, the Board recognised that this decision was a sensitive one and therefore needed careful consideration in the context of key stakeholder groups. Maintaining a sustainable business was at the centre of the Board's decision-making here.

Returning the full value from the disposal to shareholders, for example via a one-off special dividend, was quickly concluded as inappropriate given the £270m debt drawn down and the future financial uncertainties prevailing as a result of COVID-19. It was critical that our employees felt secure and a large upfront dividend to shareholders, at an already volatile time, would have impaired this.

An in-depth analysis was conducted with our advisers to investigate an effective capital allocation of the transaction returns to balance the interests of all stakeholders. The results of this analysis were presented to the wider Board in early 2020 and it was agreed that:

1. the proceeds be initially used to de-lever the business, establishing a debt-free company with a robust balance sheet capable of supporting anticipated growth in the meter estate as we headed into unknown territory with the pandemic and;
2. the remaining returns be distributed to shareholders over five years through an enhanced annual dividend of 25p per share, subject to 10% growth per annum through to the end of the UK smart meter rollout.

In this way, an increase in shareholder return was balanced with the need to retain sufficient capital in the business to fund future growth and fulfil the smart meter rollout needs of our customers. Our employees also remained satisfied in the knowledge that their jobs were safe and that they would continue to receive the necessary financial support from the business.

Cash flow

Operating cash inflow in 2020 was £43.9m (2019: £42.4m), supported by robust operational performance and a continued focus on cash collection despite the challenges of COVID-19. This operating cash flow is net of a restricted cash balance of £1.6m that has been recognised in 2020 in relation to amounts received from energy suppliers on the I&C assets disposed of. Cash collection forms part of the Group's ongoing management of the portfolio of disposed assets for the new owners and, until this cash has been allocated, it is held in a restricted trust account. As per IAS 7, this movement in restricted cash has been classified as an operating cash flow in line with the operational nature of the management service being delivered.

Of the £5.6m increase in inventories since 31 December 2019, £4.7m relates to work-in-progress on the Group's grid-scale battery storage projects. In H2 2020 the Group acquired 100% of the share capital of two special purpose vehicles for £2.9m, enabling SMS to obtain control over the rights required to develop and commission two grid-scale battery storage sites totalling 90MW. The acquired sites are forecast to be energised by the end of 2021. See note 20 to the Financial statements for further details. The remaining £0.9m increase, net of provisions, relates to meter stock in order to fulfil forecast SMETS2 installations.

Capital expenditure on property, plant and equipment was £41.8m (2019: £101.7m), excluding right-of-use asset additions of £2.2m in relation to the land leases secured as part of the acquisitions detailed above. Of this, £40.3m (2019: £95.2m) has been used to invest in revenue-generating assets. This capital expenditure is significantly lower than the prior year as a result of the disruption caused by COVID-19; predominantly the temporary suspension of non-essential field work, including smart meter installations, from 24 March 2020 to 1 June 2020. Capital expenditure increased through H2 in conjunction with the Group's progressive remobilisation plan, but installations still lagged behind pre-COVID-19 rates. However, with the UK Government's vaccination programme progressing well, management is confident that installations will recover as consumers become more willing to permit access to properties and, therefore, capital expenditure should increase from Q2 2021 onwards.

A further £4.1m (2019: £6.9m) investment has been made in intangible assets. This includes development of software to support the installations business, together with investment in a Groupwide Enterprise Resource Planning system that went live across the Group in H1 2020 and consolidates, integrates and updates various business support systems.

Dividend per share (full year)

25p

(2019: 6.88p)

263%
increase

Net cash balance

£40.2m

(2019: net debt of £219.2m)

FINANCIAL REVIEW continued

As detailed above, gross proceeds from the Disposal were used to make a voluntary prepayment under the Group's revolving credit facility, and the total outstanding principal value at 22 April 2020 of £270m, together with outstanding interest and commitment fees of £0.6m, was settled. Drawdowns made since this date were fully repaid by 31 December 2020. In total, £6.3m of interest and loan costs have been paid (2019: £9.2m), including £0.1m of transaction costs incurred in modifying the total commitments available under the facility.

The Group continues to manage its cash flows carefully amidst the ongoing disruptions of COVID-19, with a continued concentrated effort to collect debt from customers and manage business costs prudently so that operational flexibility is maintained in this uncertain time.

Financial resources

Concurrent with the voluntary facility prepayment detailed above, the total available funding under the loan facility was reduced from £420m to £300m on the same terms through to the end of 2023. Commencement of any repayment of the principal by way of a limited excess cash sweeping mechanism is not required until the end of 2022. At the end of 2021, the London Inter-Bank Offered Rate (LIBOR) will be replaced by Sterling Overnight Index Average (SONIA) but we do not expect any material change in the overall cost of borrowing as a result. The Group has not required any new or extended facilities as a result of COVID-19, nor has it needed to renegotiate or waive any of its bank covenants. The Group was fully compliant with all its bank covenants at 31 December 2020.

Throughout the second half of the year the Group operated entirely within its own cash resources. At 31 December 2020, the Group had no drawn debt with availability of the full £300m commitment. Arrangement fees of £1.9m continue to be amortised over the term of the facility and have been reclassified to other assets on the consolidated statement of financial position at 31 December 2020, in line with the Group's accounting policy.

As a result of the Disposal, together with lower capital expenditure on revenue-generating assets through the year, the Group was in a net cash position of £40.2m at 31 December 2020 (31 December 2019: net debt of £219.2m). This excludes lease liabilities accounted for under IFRS 16. Reported net cash at 31 December 2020 also excludes restricted cash as detailed above. The Group's available cash and unutilised element of the revolving credit facility stood at £340.2m (2019: £200.8m) and the Group had cash in bank of £40.2m at 31 December 2020 (31 December 2019: £50.1m), again excluding restricted cash.

There is significant headroom to manage the business going forward on a prudent leveraged basis. The liquidity of the Group remains strong and provides critical financial flexibility as the Group navigates out of the pandemic.

The Strategic report on pages 1 to 71 was approved by the Board of Directors on 16 March 2021 and signed on its behalf below.

On behalf of the Board

David Thompson

Chief Financial Officer

16 March 2021

Definitions of alternative performance measures

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

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

Reconciliation of statutory to underlying results

SMS uses alternative performance measures, defined on page 70, 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 2020 £m	Year ended 31 December 2019 £m	Percentage change
Annualised recurring revenue¹	77.0	72.6	6%
Group revenue	103.0	114.3	(10%)
Statutory profit from operations	199.6	13.8	
Amortisation of intangibles	3.0	1.5	
Depreciation	29.1	35.1	
Statutory EBITDA	231.6	50.4	360%
Exceptional items ² (EBITDA-related)	(181.7)	8.5	
Pre-exceptional EBITDA	49.9	58.9	(15%)
Net interest (excl. exceptional)	(4.5)	(8.2)	
Depreciation	(29.1)	(35.1)	
Amortisation of intangibles included in underlying profit before taxation ³	(1.1)	—	
Underlying profit before taxation	15.2	15.6	(2%)
Exceptional items ² (EBITDA)	181.7	(8.5)	
Exceptional items ² (interest)	(0.1)	(0.1)	
Amortisation of intangibles excluded in underlying profit before taxation	(1.9)	(1.5)	
Statutory profit before taxation	195.0	5.5	>500%
Taxation	(1.5)	(1.5)	
Statutory profit after taxation	193.5	4.0	>500%
Amortisation of intangibles excluded in underlying profit after taxation	1.9	1.5	
Exceptional items ² (EBITDA and interest)	(181.6)	8.6	
Tax effect of adjustments	(3.0)	(1.4)	
Underlying profit after taxation	10.8	12.7	(15%)
Weighted average number of ordinary shares (basic)	112,715,328	112,446,154	
Underlying basic EPS (pence)	9.56	11.30	
Weighted average number of ordinary shares (diluted)	113,637,882	113,269,412	
Underlying diluted EPS (pence)	9.49	11.22	

1 ILARR for the year ended 31 December 2019 is presented on a pro-forma basis for comparative purposes, excluding a net contribution of £17.6m from disposed I&C meter assets.

2 Exceptional 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.

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

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CHAIRMAN'S INTRODUCTION TO GOVERNANCE

Creating a culture of strong corporate governance



EFFECTIVE LEADERSHIP HAS NEVER BEEN MORE IMPORTANT."

Whilst the Company does not currently adopt the UK Corporate Governance Code (most recently updated in 2018), it endeavours to stay up to date with its requirements and continues to adopt elements of it, where appropriate.

During the year, key governance activities included:

- regular meetings with discussion on the Group's response to COVID-19, including providing oversight of and approving several key decisions, new measures and updates to the market. See pages 4 to 7 for further details;
- approval of the decision in June 2020 to return furlough grants received from the UK Government under the Coronavirus Job Retention Scheme and to withdraw from the scheme altogether;
- review and approval of the Group's new, enhanced dividend policy;
- evolution of our strategy, including the introduction of a fourth strategic pillar focused on sustainable and socially responsible business practices;
- monitoring and oversight of the Group's disposal of a minority of its meter assets through to completion in April 2020;
- nomination and appointment of Miriam Greenwood as Chairman and Jamie Richards as a new Non-executive Director;
- review of the output from the Group's first formal employee engagement survey and relevant action planning as a result; and
- commitment to a net-zero carbon target by 2030, or sooner, under our environmental, social and governance (ESG) strategy and the establishment of the Health, Safety and Sustainability sub-committee of the Board.

Closing thanks

I would like to express my gratitude to the executive management team, our employees and my board colleagues for their hard work, commitment and dedication to the Company and to the health, safety and wellbeing of our key stakeholders. I look forward to the next chapter of our journey together.

Miriam Greenwood

Non-executive Chairman

16 March 2021

Dear Shareholder

The past year has seen us face unprecedented challenges caused by the worldwide COVID-19 pandemic. Effective leadership has never been more important, and, as Chairman, it falls to me to ensure that the Board discharges its responsibilities appropriately, adhering to a robust corporate governance regime.

2020 has been an exceptionally difficult year for everyone and SMS has, of course, been affected by the pandemic. However, the business and its people have shown considerable resilience. We successfully completed our largest commercial transaction to date, repaid our revolving credit facility, made our first investment in grid-scale battery storage, and announced our net-zero carbon target. These are all hugely significant events, marking a successful year. Both my predecessor and I have focused on ensuring that these important strategic matters, amongst others, have received adequate time and attention at Board meetings and that key decisions have been made effectively and efficiently, taking full account of the requirements of our many stakeholders.

On behalf of the Board, and in my role as Chairman, I am pleased to introduce our Governance Report for the year ended 31 December 2020.

Governance

Consistent with prior years, we adopt the Quoted Companies Alliance's Corporate Governance Code (the QCA Code), published in April 2018.

I am delighted to confirm that the Board has applied the principles and complied with all the provisions of the QCA Code throughout FY 2020. Our Corporate governance report on pages 76 to 87 sets this out.

BOARD OF DIRECTORS



Miriam Greenwood OBE DL
Non-executive Chairman



Date of appointment

3 February 2014,
Chairman 23 June 2020

Background and experience

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

External appointments

During 2020, Miriam was appointed as a non-executive director at Gulf International Bank (UK) Limited, the UK subsidiary of Gulf International Bank. In addition, she holds non-executive director positions at Eclipse Shipping Limited and at River and Mercantile Group plc, where she also chairs the remuneration committee. Beyond board roles, Miriam is an adviser to Ofgem on the current R10-2 price control and to the Mayor of London's Energy Efficiency Fund. A Deputy Lieutenant of the City of Edinburgh, Miriam was awarded an OBE for services to corporate finance.



Alan Foy
Chief Executive Officer



Date of appointment

24 December 2009

Background and experience

Alan has been Chief Executive Officer of SMS since 2007. He led the flotation of the Company on the London Stock Exchange AIM in July 2011, and since then annual turnover and profits have risen significantly through a combination of strategic acquisitions and organic growth. Prior to joining SMS in 2004, Alan worked for Scottish Power and, in 1997, gained approval to establish its regulated gas transportation and metering business, SP Gas Ltd, which under his management grew to become a major gas transporter in the UK. He was previously a director of an international energy consultancy practice and has considerable experience in utility asset ownership, supply and shipping activities.

A professionally qualified engineer, Alan places strong emphasis on team development, safety, operational performance and financial accountability within an ethos of customer satisfaction.

External appointments

None.



David Thompson
Chief Financial Officer

Date of appointment

11 September 2017

Background and experience

A Chartered Accountant, David has extensive experience in the finance and utility industries and operated at both divisional and Group Finance Director level within SMS prior to appointment as Chief Financial Officer. Before joining SMS, David held senior finance roles at Energetics Multi-Utility Group, a company owned by Macquarie Bank, and prior to that he held audit director posts at PwC LLP and Johnston Carmichael LLP.

External appointments

None.

It was announced on 8 February 2021 that David Thompson will leave the Group on 31 March 2021 to pursue another opportunity. He will be replaced by Gavin Urwin, who joined the Group on 8 February 2021 as CFO-Designate.



Tim Mortlock
Chief Operating Officer

Date of appointment

17 September 2019

Background and experience

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

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

External appointments

None.



Graeme Bissett
Senior Independent
Non-executive Director



Date of appointment
1 June 2016

Background and experience

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

External appointments

Graeme is a non-executive director of Cruden Group Limited, Calnex Solutions plc, Anderson Strathern LLP and Aberforth Split Level Income Trust plc and undertakes a number of pro bono appointments, including as a member of Court at the University of Glasgow, trustee of Citizens Advice Scotland and trustee of the Entrepreneurial Scotland Foundation.



Ruth Leak
Independent
Non-executive Director



Date of appointment
29 May 2019

Background and experience

Following a varied early career in different sectors, Ruth has specialised in business transformation through the use of technology.

Skilled in delivering scaled and usable systems that make a difference to companies and their customers, Ruth most recently served as chief information officer for the Letters and Network division of Royal Mail, an organisation where she spent ten years. Ruth also served as chair of Royal Mail's Disability Steering Group, encouraging open communication and respect for diversity at all levels as well as seeking technology-based solutions for challenges in the workplace. Prior to Royal Mail, Ruth started her career in operational roles with Procter & Gamble, and then worked in consultancy for Coopers & Lybrand. Following a period at Debenhams she was part of the start-up team behind the British online supermarket Ocado, before honing her commercial and delivery skills further with consultancy Kurt Salmon Associates.

External appointments

Ruth is an active member of the 'Women in Technology' mentoring programme operated by Reed, where she provides one-to-one coaching and support to women seeking to further their careers across a range of roles and industries.



Jamie Richards
Independent
Non-executive Director



Date of appointment
23 April 2020

Background and experience

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

External appointments

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



Craig McGinn
Group Company Secretary
and General Counsel for
the Group

Background and experience

Craig is a qualified corporate and banking lawyer with over 20 years of experience and has responsibility for the management of all legal matters affecting the Group, for ethical risk matters and for supporting the Board in setting and maintaining standards of corporate governance. He is a Qualified Solicitor in Scotland, England and Wales and a member of the International Association of Privacy Professionals (IAPP). Craig joined SMS in October 2016 having previously been a partner in the international legal firm CMS Cameron McKenna, and at Dundas & Wilson prior to its merger with CMS.

Key to Committees

- Audit
- Nomination
- Remuneration
- Information Technology
- Health, Safety and Sustainability
- Chair

CORPORATE GOVERNANCE REPORT

Board structure

Overall framework

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

Board of Directors (the Board)

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

risk management, alongside supporting the continued growth of the business, is vital in the ever-evolving corporate governance regime adhered to.

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

▶ See page 95 for more details on the Board's composition



Board Committees

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

Each Committee has its own Terms of Reference, approved by the Board, which are reviewed annually and are available on the Company's website at www.sms-plc.com/corporate/investors/aim-rule-26. The Group Company Secretary acts as Secretary to each of the Committees.



Audit Committee

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

▶ **Audit Committee report**
pages 88 to 93

Nomination Committee

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

▶ **Nomination Committee report**
pages 94 to 95

Remuneration Committee

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

▶ **Remuneration Committee report**
pages 96 to 106

Information Technology Committee

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

Comprises all Non-executive Directors. The Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and the Group's Head of Information Technology attend by invitation.

Health, Safety and Sustainability Committee

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

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

Board committee updates

During 2020, the Terms of Reference for the newly established Health, Safety and Sustainability (HSS) Committee were ratified, as detailed further below. There were no amendments to the Terms of Reference for the other Board Committees.

Upon her appointment as Chairman on 23 June 2020, Miriam Greenwood stepped down as Chair of the Remuneration Committee and was replaced by Jamie Richards, a Non-executive Director. On the same date, Miriam Greenwood was appointed as Chair of the Nomination Committee following Willie MacDiarmid's resignation.

Jamie Richards joined the Audit, Nomination and Information Technology Committees following his appointment as a Non-executive Director on 23 April 2020.

There were no other changes to the Audit, Nomination and Remuneration Committees. Further details of their activities in the year can be found in their respective reports on pages 88 to 106.

Information Technology Committee

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

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

The Committee met three times in 2020. During the year, the Committee oversaw the continued investment the Group is making in its essential IT infrastructure. The Group is heavily data-driven, with a significant number of assets being billed on a monthly basis, and it relies on IT systems to track the relevant energy supplier responsible for paying rental on Group assets in cases where end consumers switch their utility provider.

The Group has a significant IT resource internally to ensure we continue to develop and maintain our bespoke end-to-end systems, and it is a primary responsibility of the Committee to provide a governance framework around the control and deployment of that resource. The Group's

IT department made a significant contribution to the successful continuation of activities through the COVID-19 pandemic via the swift implementation of policies and infrastructure to enable widespread remote working.

A key milestone was reached in the year when the full Enterprise Resource Planning system went live, providing a new platform within the business to report performance and manage our assets.

HSS Committee

The HSS Committee was formally ratified in 2020 and was created by the Board for the purpose of ensuring that the Company's approach to health and sustainability are clearly set out and consistently monitored and adapted to suit the growing needs of the Group. The Committee is chaired by the Group's Chair, Miriam Greenwood, and comprises all the Non-executive Directors. Other individuals such as the Chief Executive Officer, Chief Financial Officer, Chief Operating Officer and external advisers may be invited by the Chair to attend, as and when appropriate and necessary.

The HSS Committee is responsible for the review and approval of the SMS health and sustainability strategy and implementation of the Group's approach to health and sustainability throughout the business, including the creation of policies and procedures. It reviews and monitors the ongoing allocation of resources and funding required to deliver the implementation of this strategy and oversees the development and implementation of those projects deemed to be of significant importance to the Group. The Committee reviews the health and sustainability performance of the Group through monitoring of key performance indicators, together with the operational, environment and legal impact on health and sustainability of decisions taken. The Committee will review and assess the quality of any public reporting to external stakeholders on health and sustainability matters, most notably reviewing and if appropriate recommending to the Board for approval the annual Sustainability Report. In close liaison with the Audit Committee, it ensures that health and sustainability risks are identified, assessed and managed with actions implemented as appropriate.

The Committee met once in 2020 following its ratification. During the year, the following key actions were taken:

- The Committee reviewed and approved the Group's proposal to implement a target of net-zero carbon by 2030. This target fundamentally supports the Group's purpose to protect the environment and aligns with SMS's objective of delivering net-zero carbon emissions for its customers, creating a cleaner and greener future. In approving this proposal, the Committee was presented with a detailed management paper outlining the Group's implementation plan to achieve this target, including key priorities and timeline. This will be subject to ongoing monitoring and scrutiny by the Committee. Further details were reported in the Sustainability section on pages 43 to 48.

CORPORATE GOVERNANCE REPORT continued

- The Committee engaged with several initiatives to strengthen the Group's environmental, social and governance (ESG) profile, including ongoing work with ESG rating agencies and a project to enhance and align the Group's disclosures of ESG information. Most recently, in March 2021, the Committee reviewed and approved the release of the Group's first Sustainability Report, available on the Company's website at www.sms-plc.com/corporate/sustainability. This is a significant achievement, demonstrating the commitment at both management and Board level to improving the quality of our reporting in this area.
- The Committee approved the Group's health and safety plan, underpinned by ten core objectives, and was updated on the changes implemented in response to COVID-19, ensuring our employees and workplaces were compliant.
- The Committee received an update from the Group Human Resources (HR) Director on the Company's approach to managing health and wellbeing and the various initiatives in place to provide support to our people, particularly in the context of home and remote working during the COVID-19 pandemic.

Roles and responsibilities

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

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

Independence of the Non-executive Directors

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

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

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

Graeme Bissett is the Senior Independent Non-executive Director (replacing Miriam Greenwood following her appointment as Chairman on 23 June 2020). He is available to shareholders if they have concerns which have not been resolved via the normal channels of Chairman, Chief Executive Officer or the other Executive Directors, or where communication through such channels would be inappropriate.

Election of Directors

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

Additional appointments

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

Independent advice

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

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

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

How the Board operates

Meetings and attendance

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

circumstances required. During 2020 several such meetings were held in consideration of the COVID-19 outbreak and the business's response.

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

In 2020, the Board held eight scheduled meetings. At each meeting the Board received reports from:

- the Chief Executive Officer on health and safety, strategic, operational and business developments, and investor relations;
- the Chief Financial Officer on the financial performance of the business: budget, funding and capital;
- each of the Board Committees on matters discussed at their meetings; and
- any additional papers on specific topics as relevant.

A part of each Board meeting is dedicated to the discussion of specific strategy matters. Any conflicts of interest are declared at the start of each Board meeting and appropriate action is taken where necessary to ensure independent judgement is not overridden. Half of the Board, excluding the Chairman, are considered independent, which helps to address any conflicts of interest that may arise. There were no registered potential conflicts during 2020.

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

The attendance of Directors at scheduled Board and Committee meetings in the year to 31 December 2020 is set out below. All of the Directors who were entitled to attend those Board meetings attended each Board meeting.

	Board Maximum 8	Audit Committee Maximum 3	Remuneration Committee Maximum 4	Nomination Committee Maximum 2	Information Technology Committee Maximum 3	Health, Safety and Sustainability Committee Maximum 1
Executive Directors						
A H Foy ¹	○○○○○○○○	○○○	○○○○	○○	○○○	○
D Thompson ¹	○○○○○○○○	○○○	—	—	○○○	○
T Mortlock ¹	○○○○○○○○	○○○	—	—	○○○	○
Non-executive Directors						
W MacDiarmid ²	○○	○	○	○	○	—
M Greenwood	○○○○○○○○	○○○	○○○○	○○	○○○	○
G Bissett	○○○○○○○○	○○○	○○○○	○○	○○○	○
R Leak	○○○○○○○○	○○○	○○○○	○○	○○○	○
J Richards ³	○○○○○○	○○	○○○	○	○○	○

1 A H Foy, D Thompson and T Mortlock attended the Audit Committee meetings and Information Technology Committee meetings by invitation. A H Foy also attended the Remuneration Committee meetings by invitation.

2 W MacDiarmid resigned as Chairman and Non-executive Director on 23 June 2020 and attended all the Board and Board Committee meetings that took place up to this date.

3 J Richards was appointed as a Non-executive Director on 23 April 2020 and attended all the Board and Board Committee meetings that took place from that date.

CORPORATE GOVERNANCE REPORT continued

Matters reserved for the Board

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

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

- the Group's annual budget;
- the Group's strategy;
- acquisitions, disposals and capital expenditure or investment projects above certain thresholds;
- the Annual report and accounts and any reports or information to be issued to shareholders of the Company;
- the Company's share-dealing policy;
- the appointment of the Company's independent auditor;
- the Company's dividend policy and borrowing powers;
- any material changes to the Company's accounting policies or insurance policies;
- remuneration of Directors, executive officers and senior employees;
- alterations to the constitutional documents of the Company;
- the adoption of any new, or amendments to, major employee benefit plans;
- legal actions brought by or against the Group above certain thresholds;
- political and charitable donations; and
- the scope of delegations and appointments to Board Committees and subsidiary boards.

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

Board activities

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

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

The information below is a non-exhaustive list of the key areas of focus for the Board's activities and topics discussed during the year to 31 December 2020:

- **Fit for growth** – the Board oversaw the preparation and approval of the 2021 budget, amendments to the dividend policy to augment total shareholder return, and discussion of business development opportunities and product strategy. During 2020, the Board has been engaged in evaluating the ongoing strategic direction for the business. Carbon reduction (CaRe) assets present an opportunity to invest significant capital in new asset classes with attractive long-term returns in the energy and utility sector that align with our core values of reducing the impact of carbon emissions on the environment. The Board has been extensively reviewing the business case for investment, to ensure that the inherent returns are accretive to overall shareholder value and add diversity to the asset portfolio in which capital is deployed.
- **Performance** – at every meeting, the Board discussed the Chief Executive Officer's report on performance of operations, the Chief Financial Officer's report on financial performance, and quarterly market metrics. Performance was assessed against the approved budget and variances understood in the context of market and industry developments.
- **Governance** – the Board discussed the full-year preliminary results, Annual report and accounts, Notice of AGM and final dividend recommendation, half-yearly results and interim dividend recommendation, Modern Slavery Act reporting, matters reserved for the Board, Committees' terms of reference, Board effectiveness review and gender pay gap reporting.
- **Risk and regulatory** – the Board received annual compliance and risk reports and the year-end assessment of internal control systems, and presentations on General Data Protection Regulation (GDPR), risk tolerance and risk.

Internal control

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

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

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

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

Board evaluation

Each year, the Company carries out a performance evaluation of the Board, its Committees and individual Directors. This process gives the Directors the opportunity to identify areas for improvement both jointly and individually using questionnaires, one-to-one sessions with the Chairman, and open discussion.

As part of the annual performance evaluation of the Board, the Senior Independent Director led an assessment of the Chairman's performance. There were also discussions between the Chairman and the Non-executive Directors, without the Executive Directors present, to discuss feedback for each Executive Director in advance of their appraisals. No significant concerns were raised.

The intention is that an external performance evaluation of the Board, the Board Committees and individual Directors will be undertaken in 2021.

FY 2020 Board evaluation

During 2020 an internally facilitated evaluation was carried out by the Company Secretary, using an online self-evaluation questionnaire. The participants were asked to score 25 statements on a scale of 1 to 5 and to provide written comments, including areas for improvement.

All Directors responded to the questionnaire, answering 80 questions through a combination of multiple-choice selections and free text, which gave Directors the opportunity to provide written comments, including on areas for improvement. The questionnaire covered all aspects of Board performance including: Board/Committee structure and composition; conduct of meetings; meeting dynamics; governance; strategy; financial reporting and risk management; health and safety; and stakeholders. The Company Secretary collated the responses from the questionnaire and initial feedback from the evaluation was presented to the Board for discussion.

The overall assessment is that the Board continues to operate effectively and it has performed well during the year, especially in light of COVID-19 and the resulting restrictions, which mean that the Board has not been able to meet in person since March 2020.

We are in the process of reviewing focus areas arising from the 2020 evaluation process. Key actions will be agreed, and these will form part of the Board's agenda for the coming year.

There were no significant additional focus areas arising from the 2019 feedback process.

CORPORATE GOVERNANCE REPORT continued

How the Board engages with stakeholders

Engaging with our stakeholders strengthens our relationships and helps the business make better decisions, which enable it to deliver on its commitments. Much of the day-to-day decision-making and stakeholder engagement is carried out at a business level.

Further details are set out on pages 39 to 42. The Board is regularly updated on wider stakeholder engagement by the Executive Directors and via the reports it receives from senior management in the Board and Committee papers, allowing it to stay abreast of the topics that matter most to stakeholders and to the business, and to enable the Board to understand and consider these issues in its decision-making. We explain below how, during the year, the Board has engaged with our stakeholders. Details of specific engagement in response to COVID-19 can be found on pages 4 to 7.

Material matters requiring the Board's consideration are outlined on page 11. The case study on pages 84 to 85 explains how the Board considered the matters specified in section 172 of the Companies Act 2006 when approving the sale of a minority of the Group's meter assets for c.£291m, which was the Company's largest commercial transaction to date.



Shareholders

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

The Chief Executive Officer and the Chairman hosted virtual meetings with eight major shareholders in July 2020, enabling the introduction of Miriam Greenwood as Chairman and providing clearer communication around our corporate governance. Such meetings provide a more open line of engagement between Board members and key investors and its intended that these will take place again in the coming year.

The Board and management regularly receive and respond to queries from shareholders on a wide range of ESG topics. During the year, the views of investors helped inform the Board's decisions on certain ESG developments, including the release of the Group's first-ever Sustainability Report.

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



Customers

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

At the request of the Non-executive Directors, a project was undertaken in the year to corroborate the Group's contracted smart meter order pipeline. This portfolio analysis was presented by the Chief Operating Officer and Managing Director of the metering business, providing the wider Board with assurance that statistics quoted to the market are accurate and appropriate.



Employees

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

During the year, the Remuneration Committee received updates from the Group HR Director on gender pay analysis and a proposed new grading structure for staff. The wider Board also received a presentation on the results of the Group's first-ever employee engagement survey. See further details on page 50.

In 2019, the Board approved the appointment of Miriam Greenwood as Non-executive Director for workforce engagement. Following her appointment as Chairman, this responsibility has been transferred to Jamie Richards who also chairs the Remuneration Committee. COVID-19 has unfortunately meant that original intentions for Jamie to meet with employees and attend certain events have not so far come to fruition. A plan for 2021 is under review.

The wider Board has remained engaged with employees throughout the year via video updates and results presentations.



Suppliers

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

During the year, the Board was presented with an analysis of spend on professional services vendors to understand the key vendors engaged with, services delivered and typical costs. Upon feedback received from the Board following this presentation, management agreed to broaden the mix of vendors used to provide professional services to the Company, in order to mitigate concentration risk and ensure it secures the most competitive prices.

Group Internal Audit presented the results from its review of sub-contractor management and oversight.

Most recently, the Board has been engaged in reviewing and approving contracts to procure batteries as part of the Group's grid-scale battery storage projects currently under construction. The Group's Chief Operating Officer has also been heavily involved in this process.



Lenders/financiers

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

During the year, all three Executive Directors participated in meetings with the Group's syndicate of banks to provide an update on the 2020 budget and performance and, specifically, to present the Group's financial position following the sale of a minority of its meter asset portfolio. This direct engagement promotes an open and transparent relationship, which is key in supporting the continued growth of the business.

The Chief Financial Officer was ultimately responsible for the management of the facility refinancing in April 2020, together with the voluntary prepayment detailed on page 70. As part of this process, he participated in numerous meetings with our syndicate of lenders and reported back to the wider Board on discussions and developments.



Government and regulatory bodies

The UK Government issued an Energy White Paper in 2020, outlining its strategy and plan for achieving its 2050 net-zero carbon target. Our sustainability strategy is strongly aligned to this and, during the year, the newly formed HSS Committee presented to the Board the Group's own ambitious plans to achieve a net-zero carbon target by 2030 or sooner, with a detailed action plan of how we intend to achieve this. The Board was responsible for approving this target, which was subsequently ratified and announced to the market in late 2020.

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

CORPORATE GOVERNANCE REPORT continued



Board in action




One of the major decisions made by the Group in the year was to sell a minority of its meter portfolio (the 'Disposal'), consisting of Industrial & Commercial (I&C) meter assets, to funds managed by Equitix. Completing on 22 April 2020, the disposed portfolio represented £17.6m of net index-linked annualised recurring revenue (ILARR) and was sold for gross proceeds of £290.6m, following which the Group has reported a gross gain on disposal of £194.7m in the year. See page 67 for further details.

This significant transaction required Board approval and, in making its decision, the Board considered the interests

of and the impact on all stakeholders. The Board was presented with multiple papers, and given detailed briefings, on the transaction. It was recognised that, whilst the transaction was evidently an effective way of recycling capital in order to enhance long-term shareholder value, the business needed to ensure that the requirements it would place on staff were manageable, that the service delivered to existing customers would not be impaired and that the Group's relationship with its lenders was safeguarded.

To provide insight into the approach taken by the Board, a summary of relevant stakeholder views and conclusions is set out below.

Stakeholder	Stakeholder views	Conclusions
Shareholders 	<p>Our shareholders want us to maximise returns in a sustainable way and want to see us progressing our strategy, which includes a strategic focus on the efficient management of capital.</p>	<p>Due to continued growth, particularly in domestic meter assets, the Group's leverage at the end of 2019 was in excess of 3x. At this point, the Group's financing strategy looked to manage leverage by introducing either equity (via placement or realising assets) or by developing longer term financial structuring solutions. It is important for the Group to demonstrate that it has access to significant amounts of capital to deploy on behalf of energy suppliers.</p> <p>Whilst SMS has successfully raised equity through placement and has historically used the debt market to fund growth, the recycling of capital via the sale of a portfolio of assets to an infrastructure fund was another attractive way to raise capital.</p> <p>After careful consideration of the different valuation dynamics of either raising equity, structuring debt or realising the inherent value in a minority of assets, the disposal route showed the best return for shareholders. The sale of £17.6m of net ILARR for gross proceeds of £291m implies an attractive multiple of 16.4x EBITDA, which reinforced the inherent value present within our meter assets with their index-linked long-term cash flows. After the Disposal, the Group still retained £77.0m ILARR at 31 December 2020.</p> <p>The sale has also enabled SMS to increase its dividend by 3.6x to 25p per share, with the intention of 10% annual growth until 2024, thereby significantly enhancing total shareholder return. The Board's decision to increase the dividend is considered further on page 69.</p>
Customers 	<p>Our customers want the complete customer experience, with efficient and exceptional service delivery.</p>	<p>First and foremost, the Board recognised that, in completing this transaction, it was critical that our existing customers – I&C energy suppliers, some of them customers of SMS for nearly 25 years – were not impacted. Although ownership of the meters was transferring, SMS would continue to provide the same services to these meters. Therefore, significant focus was placed on ensuring a seamless transition.</p> <p>Given the ongoing asset management arrangement in place with Equitix, including the provision of additional administration and operational services, Equitix were to become a new, major customer for SMS. New teams, processes and controls were implemented to ensure SMS continues to provide the excellent customer service it is known for in the industry.</p>

Stakeholder	Stakeholder views	Conclusions
Employees 	<p>Our employees want us to engage with them and to keep them informed of any changes in the business that may affect them and their teams.</p>	<p>From an early stage in the project, key members of staff involved in the transaction – those providing support in the negotiations and finalisation of contractual, financial and operational arrangements – were engaged, ensuring they understood the strategic rationale for the transaction.</p> <p>Once full announcement was permitted, the Chief Executive Officer informed all staff of the transaction, providing reassurance that there would be no change to our operations and that we would remain 'business as usual', with SMS providing continued management of the meters on behalf of Equitix. Staff were encouraged to ask questions as needed.</p> <p>The transaction provided additional job opportunities, with the establishment of a dedicated service delivery team for the portfolio.</p> <p>In the early stages of the project, the Board approved the use of various third-party advisers to provide critical technical expertise to support the key individuals internally involved in the transaction.</p>
Lenders/financiers 	<p>Our lenders are key to our business model, providing critical financial support essential to the continued growth of the business. They want to be kept updated on the strategic direction of the Company, including any changes that may affect its debt requirements.</p>	<p>The proceeds from the sale allowed the Group to reset its leverage and return to a net cash-positive position, supporting a £270m voluntary prepayment of the Group's revolving credit facility and driving a net cash position of £40.2m at 31 December 2020. Concurrently, the total available funding under the loan facility was reduced from £420m to £300m, on the same terms, through to the end of 2023.</p> <p>As the impact on our lending arrangements was expected to be significant, the Executive Directors engaged early on with our syndicate of lenders, who were kept up to date on the transaction throughout the process. There were extensive discussions prior to the final decision to reduce the total commitments available, which received Board-wide approval alongside the decision to proceed with voluntary prepayment.</p>
Government and regulatory bodies 	<p>Governments and regulators want us to comply with laws and regulations and operate in a sustainable manner.</p>	<p>The transaction will maximise the long-term potential of the Company, which is in the public interest.</p> <p>As part of the ongoing management of the meter portfolio on behalf of Equitix, the Group will ensure that all regulatory obligations relevant to both the Company and the new owners of the assets are fulfilled.</p> <p>The transaction, which completed on 22 April 2020 – almost a month into the first national COVID-19 lockdown – enabled the Group to return grants covering the earlier part of the furlough scheme, and supported the subsequent withdrawal of the Group from the scheme altogether. Both decisions received unanimous Board approval.</p>

CORPORATE GOVERNANCE REPORT continued

	Shareholder activities in the year
March 2020	Full-year 2019 results presentation
	Full-year 2019 results online roadshow
May 2020	Private client fund manager online roadshow
	Citi Small/Mid-Cap and Growth Conference
June 2020	AGM
July 2020	Yellowstone Advisory retail investors' webinar
	H1 2020 trading update and calls with investors
Aug 2020	Proactive investors retail investors' webinar
Sept 2020	H1 2020 results presentation
	H1 2020 results online roadshow
	Citi Small/Mid-Cap and Growth Conference
Oct 2020	Peel Hunt Building, Industrials & Support Services Conference
Nov 2020	Investec Best Ideas Conference
Jan 2021	Bank of America Small/Mid-cap conference
Feb 2021	FY 2020 trading update and calls with investors

The Board's relationship with shareholders

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

During 2020 the Executive Directors, assisted by the Investor Relations team, attended several online meetings, conferences and roadshows to maintain regular communication with both institutional and private investors. The feedback from such investor engagement was regularly reported to the Board.

The Group's Non-executive Directors have also been available to meet shareholders should they wish to raise issues. During the year, the Group Chair met with eight major shareholders over video conference. A variety of topics were discussed.

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

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

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

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

Annual General Meeting

The 2020 AGM will be held in May 2021 in Glasgow, COVID-19 restrictions permitting. Full information will be provided in the Notice of AGM, to be posted separately to shareholders, and will be available to download from the Company's website at www.sms-plc.com/corporate/investors/shareholder-information.

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

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

Other matters

Promoting an ethical corporate culture

Various indicators are used to monitor and provide insight into the Group's culture, including employee engagement, health, safety and wellbeing measures and diversity indicators. See further details on pages 49 to 53. The state of the Group's culture is assessed through compliance reviews, internal audits and the provision of formal and informal channels for employees to speak up, including a whistleblowing hotline that allows employees to make disclosures in confidence. The Company ensures action is taken to address behaviour that falls short of the Company's expectations. The Board believes that in a fast-growing business like the Group, both in terms of employee numbers and overall size of the business, the mix of informal and formal channels provides a faster and more robust process to address matters raised by the workforce. If Directors have concerns about the operation of the Board or the management of the Company that cannot be resolved, their concerns are recorded in the minutes of the Board meetings. On his or her resignation, a Non-executive Director has the opportunity to provide a written statement to the Chairman, for circulation to the Board, if he or she has any concerns about the operation of the Board or the management.

Whistleblowing

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

UK withdrawal from the European Union

After months of negotiation, the UK and the European Union finally agreed an exit deal that came into effect on 31 December 2020.

The Board has followed developments through the year and maintained an active dialogue to identify and address any potential risks for the Group. Our analysis of the new rules shows that Brexit should not have a material impact on our business activities, which predominantly take place within the UK (see the detailed risk assessment on page 62).

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic report on pages 1 to 71. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial review section on pages 65 to 71 together with the impact of the asset disposal that completed on 22 April 2020 and the subsequent prepayment of the Group's facility.

The Directors confirm that, having given consideration to various outcomes of future performance and forecast capital expenditure, including further potential impacts of COVID-19 whilst the UK Government's vaccination plan is executed, they are satisfied that the Company and the Group have adequate resources to continue in business for the foreseeable future (for the period from the balance sheet date to 31 March 2022). For this reason, they consider it appropriate to adopt the going concern basis in preparing the Financial statements.

On behalf of the Board

Miriam Greenwood

Non-executive Chairman

16 March 2021

AUDIT COMMITTEE REPORT



Members and attendance	Meetings
Graeme Bissett (Chair)	○○○
Willie MacDiarmid ¹	○
Miriam Greenwood	○○○
Ruth Leak	○○○
Jamie Richards ²	○○
Attending by invitation	
Chief Executive Officer	○○○
Chief Financial Officer	○○○
Chief Operating Officer	○○○
Head of Internal Audit ³	○
External auditor	○○○

1 Willie MacDiarmid resigned on 23 June 2020 and attended all Audit Committee meetings up to his resignation.

2 Jamie Richards was appointed on 23 April 2020 and attended all Audit Committee meetings following his appointment.

3 The Senior Internal Audit Manager attended the remaining two meetings.

Role of the Committee

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

Main activities in 2020

- Review and approval of interim and year-end financial statements and supporting schedules, including management papers on significant areas of judgement.
- Review of reports prepared by the external auditor, including its annual audit plan and a report on the year-end financial statements.
- Review and approval of the Group's annual Internal Audit Plan and oversight of the evolution of the Group's risk management and internal audit policies and procedures.
- Review of the recognition and reporting of the Group's disposal of a minority of its assets in April 2020, including relevant tax matters.
- Monitoring of the impact of COVID-19 on the Group, including management's reporting of this through market communications, the Interim Report and the Annual report and accounts.

Audit Committee membership

The Committee comprises all the independent Non-executive Directors. It was chaired during the year under review by Graeme Bissett, who is a Chartered Accountant with recent and relevant financial experience. Jamie Richards, appointed to the Committee on 23 April 2020, is also a Chartered Accountant and has held senior executive positions, which included financial responsibility. The other independent Non-executive Directors who served during the year are all deemed to have the necessary ability and experience to understand financial statements.

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

Objectives and responsibilities

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

In fulfilment of these objectives the Committee:

- reviews the effectiveness of the Group's internal financial, operational and compliance controls and risk management processes, including arrangements for employees to raise concerns (in confidence);
- reviews the annual internal audit programme and the consideration of findings of any internal investigations and management's response;

- reviews SMS's financial statements and announcements and considers whether these statements and announcements provide a fair, balanced and understandable view of the strategy, business model and performance of the Group and of the associated risks;
- considers the appropriateness of accounting policies and significant accounting judgements and the disclosure of these in the financial statements; and
- recommends the appointment of the external auditor, approves their remuneration and oversees their work and overall effectiveness, including their relationship with management.

Internal control and risk management

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

The Group has in place an internal control environment to protect the business from the material risks which have been identified. Policies and procedures, including clearly defined levels of delegated authority, are clearly communicated across the Group. Management is responsible for establishing and maintaining adequate internal controls and the Committee has responsibility for monitoring the effectiveness of these controls. It achieves this through reports received from the Company, along with those from both the internal and external auditors.

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

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

During the year, the Committee has not identified, nor been advised of, any failings or weaknesses in the internal control systems or risk management processes that are determined to be significant.

Whistleblowing

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

The Committee is satisfied that the Group's whistleblowing policies and procedures, detailed further on page 87, are effective, facilitate the independent investigation of reported matters and allow appropriate follow-up action to be taken.

During the year, there were no incidents reported.

Internal audit

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

Throughout 2020, Group Internal Audit has worked with the Board, the executive management team and members of management to support the continued development of a robust risk management framework upon which it can place reliance for identifying areas of risk to be considered for inclusion in the annual Internal Audit Plan.

A full risk-based annual Internal Audit Plan for 2020 was reviewed and approved by the Committee in November 2019. The programme was focused on addressing several key risk areas including cyber security, sub-contractor management and oversight, inventory, and the implementation of the Group's new Enterprise Resource Planning system. Reviews were carried out, findings reported to the Committee, recommendations tracked and their close-out monitored. No significant weaknesses were identified from the reviews undertaken by Group Internal Audit during the reporting period and throughout the financial year.

The Audit Plan for 2021 was approved by the Committee at the end of 2020.

The Committee has remained in active discussion with Group Internal Audit about the existing risks the Group faces as it continues to grow, including the impact of industry and regulatory changes, systems development and pervasive external risks such as cyber and data security. During 2020, Group Internal Audit was also heavily involved in assessing the risk posed by COVID-19, and its associated business impact. See further details in the Principal risks and uncertainties section on page 64.

AUDIT COMMITTEE REPORT continued

Financial reporting

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

In particular, the Committee considered the impact of COVID-19 on the Group and the reporting of these impacts throughout the Annual report and accounts. To assist in this process, the Committee reviewed comments arising from the review of the Financial statements by the Executive Directors and comments raised by the Group's external auditor.

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

Process

In reaching its conclusions the Audit Committee considered the thorough process in place to create the Annual report and accounts 2020, including:

- the involvement of the Committee in the preparation of the Annual report and accounts 2020 which enabled it to provide input into the overall messages and tone;
- the input provided by Group senior management and the process of review, evaluation and verification to ensure balance, accuracy and consistency;
- the review by the Committee of management's papers on critical accounting judgements and assumptions, including key sources of estimation uncertainty, detailing the approach taken and conclusions reached;
- the opportunity for the Non-executive Directors to meet the external auditor without any executive of the Group being present via the private sessions of the Committee;
- review of the external auditor's report on the Annual report and accounts 2020, presented to the Committee prior to final sign-off;
- review and consideration of the draft Annual report and accounts 2020 in advance of the final sign-off; and
- the final sign-off process by the Board.

Fair, balanced and understandable – what does this mean?

Below are the key considerations the Committee makes when assessing these three components:

Fair

- Is the whole story presented?
- Is the narrative reporting in the front of the Annual report and accounts 2020 consistent with the reporting in the Financial statements?
- Are the key messages in the narrative reporting reflective of the financial reporting?
- Is there sufficient information included to understand the underlying performance of the Group and its divisions?

Balanced

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

Understandable

- Is there a clear and understandable structure to the report?
- Are the important messages highlighted appropriately and consistently throughout the document?
- Is the narrative within the Annual report and accounts 2020 straightforward and transparent?
- Is the layout clear with good linkage throughout?

Going concern

The Committee reviewed management's paper on going concern. The Committee assessed and challenged the Group's forecasts and cash flow projections, including consideration of various possible outcomes of future performance and forecast capital expenditure and the potential impact of uncertainties including the COVID-19 pandemic. The Committee also considered the Group's financing facilities and future funding plans. Based on this, the Committee is satisfied that the Financial statements should be prepared on a going concern basis.

Significant matters considered in relation to the Annual report and accounts 2020

Significant areas considered by the Committee in relation to the 2020 Financial statements are set out in the below table:

Area of judgement	Matter considered	Action
Impact of COVID-19	The presentation of costs attributable to COVID-19 as exceptional. This includes costs that would ordinarily be capitalised as directly attributable to the installation of meters, together with additional reasonably expected credit losses arising on trade receivables as a result of the pandemic.	<p>During the year and throughout the Group's year-end processes, the Committee gave particular focus to the impact of COVID-19 on the business. This is explained here and through the significant matters set out below.</p> <p>Where relevant, the Committee received papers from management setting out its approach and recommendations. The Committee reviewed and challenged management's approach, analysis and recommendations, taking into account input from the external auditor in order to conclude on the appropriateness of the treatment in the Financial statements.</p> <p>All matters reviewed were concluded to the satisfaction of the Committee. The classification of certain costs as exceptional was deemed to be consistent with the Group's accounting policy as material costs attributable to a rare macroeconomic event.</p>
Appropriateness of capitalisation of overheads and other expenses within meter assets	SMS continues to carry out a significant level of in-house installation of meter assets, certain costs of which are capitalised and depreciated as part of fixed asset depreciation.	<p>The Committee considered management's capitalisation process and the assumptions and judgements used when determining which costs are directly attributable to bringing the meter assets into use and therefore eligible for capitalisation.</p> <p>The impact of COVID-19 on management's capitalisation process was also assessed, and the Committee reviewed management's analysis of costs that would ordinarily be capitalised as directly attributable to the installation of meter assets, but have remained in the consolidated income statement as a result of the lower installation volumes caused by the pandemic.</p> <p>The Committee was satisfied that the costs identified by management for capitalisation were appropriate, being directly attributable labour costs and an appropriate allocation of overheads. In addition, the Committee was satisfied that the decision to classify costs recorded in the consolidated income statement, that would ordinarily be capitalised, as exceptional, was appropriate.</p>

AUDIT COMMITTEE REPORT continued

Significant matters considered in relation to the Annual report and accounts 2020 continued

Area of judgement	Matter considered	Action
<p>Identification of indicators of impairment of the meter asset portfolio in accordance with IAS 36 and assumptions applied in determining the carrying value of the portfolio of meter assets</p>	<p>Due to the uncertainties associated with the timing of the domestic smart meter rollout, the expected useful life and carrying value of traditional meters requires significant judgement, as does the level of recoverability of termination income. These assumptions are used in deriving the depreciation rates applied and the impairment calculation performed on carrying value.</p> <p>Several factors are considered in assessing the expected pace of the smart meter replacement programme, including the number of smart meters still to be installed and the churn of assets.</p> <p>The new regulatory framework for the next phase of the UK smart meter rollout, to be implemented from 1 July 2021, has been assessed by the Group in relation to these carrying value considerations.</p>	<p>The Committee considered the judgements made by management, including the quantum and disclosure of relevant amounts.</p> <p>The Committee confirmed with management that the Financial statements include a reduced charge for depreciation on the domestic traditional meter asset portfolio, as a result of a change in estimate to extend the useful life of all opening assets from 31 December 2022 to 1 July 2025. The Committee is satisfied that this change is consistent with the UK Government's confirmation in the year that a new four-year framework will be implemented from 1 July 2021, effectively extending the smart meter rollout to 1 July 2025. This extension also supports the installation delays caused by COVID-19 restrictions. The Committee considered that judgements and estimates used in support of this revised estimate were reasonable. It was confirmed with management that there have been no other changes to accounting estimates with regard to property, plant and equipment.</p> <p>The Committee considered the accounting estimates and judgements used to arrive at the expected useful economic life of the traditional meter assets and their carrying value at 31 December 2020.</p> <p>The Committee understands, and agrees with, management's view that no impairment review was considered necessary at 31 December 2020 as the previous impairment review at 31 December 2019 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 material events during the year that would eliminate this excess. As a result of COVID-19, and the temporary suspension of all smart meter installation activity, there has been a lower volume of traditional meter asset removals. In addition, as detailed above, the useful economic life of traditional meter assets has been extended to 1 July 2025.</p> <p>The Financial statements provide appropriate commentary on this and the Committee considers that the position presented in the Financial statements provides a reasonable view of the carrying value of traditional meter assets.</p> <p>The Committee is satisfied that charges for losses on disposal, net of termination income, and for impairment of this asset class, should be recorded as exceptional items, as this classification will assist understanding of the performance of the continuing meter estate comprising Industrial & Commercial (I&C) meters and domestic smart meters (as distinct from the effect of discontinued traditional meter assets). The Committee is also satisfied that amounts arising in relation to the loss of first-generation smart meter assets ('SMETS1' meter assets) should be recorded as exceptional items, on the basis that these disposals are attributable to the temporary industry transition period.</p> <p>Overall, the Committee is satisfied that the approach taken by management to review the expected useful life and estimate the carrying value of meter assets is appropriate and the assumptions applied are sensible and supportable.</p>

External auditor

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

External auditor appointment, independence and effectiveness

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

Every year, the Committee assesses the effectiveness of the audit process and the external auditor. In carrying out its assessment in 2020 it considered:

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

The Committee also reviewed the proposed audit fee and terms of engagement for FY 2020. Details of the fees paid to the external auditor during the financial year can be found in note 3 to the Financial statements.

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

Having completed this review, the Committee concluded that the audit process, independence and quality of the external auditor was satisfactory, and has recommended to the Board that EY be reappointed as the Company's auditor for FY 2021. Accordingly, a resolution proposing EY's reappointment will be tabled at the forthcoming Annual General Meeting.

Graeme Bissett

Chair of the Audit Committee

16 March 2021

NOMINATION COMMITTEE REPORT



Members and attendance	Meetings
Willie MacDiarmid (Chair) ¹	○
Miriam Greenwood (Chair) ²	○○
Graeme Bissett	○○
Ruth Leak	○○
Jamie Richards ³	○
Alan Foy	○○

1 Willie MacDiarmid resigned on 23 June 2020. He chaired the Nomination Committee, and attended all Nomination Committee meetings, up to his resignation.

2 Miriam Greenwood was appointed Chair of the Nomination Committee on 23 June 2020.

3 Jamie Richards was appointed on 23 April 2020 and attended all Nomination Committee meetings following his appointment.

Role of the Committee

- To review the structure, size and composition (including skills, knowledge, experience, diversity and balance of Executive and Non-executive Directors) of the Board and its Committees and make recommendations to the Board with regard to any changes.
- Identify and nominate, for the approval of the Board, candidates to fill Board vacancies or expand the Board.
- Keep under review the time commitment expected from the Chairman and the Non-executive Directors.

Main activities in 2020

- The appointment of Miriam Greenwood, an existing Non-executive Director, as Chairman to succeed Willie MacDiarmid from 23 June 2020.
- The appointment of Jamie Richards as a new Non-executive Director from 23 April 2020.

Nomination Committee membership

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

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

The Committee generally meets at least twice a year, with additional meetings where necessary. During 2020, the Committee met on two occasions. However, in addition, several informal meetings and discussions were held with the Chief Executive Officer and others as part of the key appointment processes that took place in the year.

Chairman succession

Willie MacDiarmid was appointed to the position of Chairman in May 2016, having joined the Board as a Non-executive Director in April 2014. Over the past five years he has chaired SMS through a period of sustained growth, overseeing the development of the Group's strategy against a backdrop of extensive change in the UK energy market. Following the completion of the Group's sale of a minority of its meter portfolio and the announcement of its new, enhanced dividend policy and investment plan into carbon reduction ('CaRe') assets, the Annual General Meeting felt like an appropriate time to step down.

Having been a member of the Board of the Company for over six years in a Non-executive Director capacity, I was recommended to the Board as Willie's successor and I am pleased to confirm that my proposed appointment received unanimous agreement. I am delighted to be stepping up as Chairman at such a pivotal point in the Company's journey and hope that, through my extensive knowledge of the business and the industry, and my experience outside SMS, I can bring value to the role.

Appointment of new Non-executive Director

With the continued success of the business in investing in long-term infrastructure assets, the Board wished to further strengthen the Non-executive directorship with an experienced infrastructure investment background. After discussion, the Committee therefore agreed that the appointment of a new Non-executive Director with relevant capabilities would be appropriate and would both enhance and preserve the Board's collective experience.

A rigorous search process was initiated, which resulted in the recommendation to appoint Jamie Richards with effect from 23 April 2020. Jamie's biographical details are set out on page 75.

Board inclusion and diversity

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

We do not set any specific targets, but we fully recognise the benefits of greater diversity and will continue to take account of this when considering any particular appointment. We will continue to ensure that we appoint the best people for the relevant roles.

As the Group continues to develop, all Directors will be consulted on the composition of the Board in the context of this growth. This includes its size, the appropriate range of skills and the balance between Executive and Non-executive Directors, all of which are assessed as part of the annual Board evaluation process.

Miriam Greenwood

Chair of the Nomination Committee

16 March 2021

Non-executive Director search and appointment timeline

November 2019

- Nomination Committee confirmed the rationale for the appointment of an additional Non-executive Director to the Board.
- Sapphire Partners¹ was engaged to support the search process and a detailed candidate specification was agreed.

January 2020

- Sapphire Partners conducted a search against the candidate specification.
- Discussions were held with prospective candidates to generate a long-list for Committee review.
- Through Committee discussion, and with views invited from the Executive Directors, a shortlist was agreed for interview.

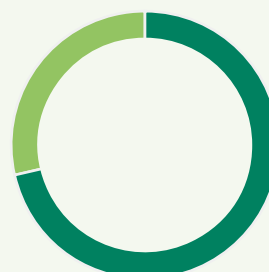
March 2020

- Shortlisted individuals were initially interviewed by the members of the Committee and the Executive Directors.
- Three individuals were selected for a final-stage interview with a panel of other Directors (Executive and Non-executive). Jamie Richards was identified to be a strong fit for the role specification, with considerable experience in the infrastructure and solar sectors.
- Directors who had not yet met Jamie were invited to do so, following which the Committee agreed an appropriate recommendation for the Board.
- After confirmation that Jamie was able to devote the required time to the role and had no actual or potential conflicts of interest to declare, the Committee recommended, and the Board approved, his appointment with effect from 23 April 2020. Jamie joined all the Group's Board committees and was appointed Chair of the Remuneration Committee at the same time.

¹ Sapphire Partners, an external recruitment consultancy, have no other connection with the Group, or with other individual Directors, except for the provision of Non-executive Director recruitment services.

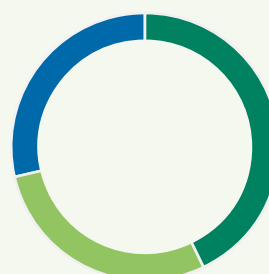
Board composition

Gender



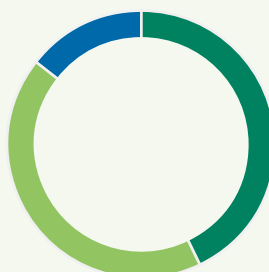
5
Male
2
Female

Tenure



3
1-3 years
2
3-6 years
2
>6 years

Board composition



3
Executive Directors
3
Independent
Non-executive
Directors
1
Independent
Non-executive
Chairman

Sector experience

Technology	4
Finance	3
Mergers and acquisitions	4
Marketing	2
Sales	3

REMUNERATION COMMITTEE REPORT



Members and attendance	Meetings
Jamie Richards (Chair) ¹	○○○
Miriam Greenwood ²	○○○○
Graeme Bissett	○○○○
Ruth Leak	○○○○
Willie MacDiarmid ³	○

1 Jamie Richards was appointed on 23 April 2020 and chaired all Remuneration Committee meetings following his appointment as Chair on 23 June 2020.

2 Miriam Greenwood chaired all Remuneration Committee meetings until she stepped down as Chair on 23 June 2020.

3 Willie MacDiarmid attended all Remuneration Committee meetings until his resignation on 23 June 2020.

Miriam Greenwood stepped down as Chair of the Remuneration Committee on 23 June 2020 to assume the duties of Chair of the Company. I replaced Miriam as Chair of the Remuneration Committee from this date and I would like to thank her for both her contribution to the Remuneration Committee over the years and her support during the handover.

As Chair of the Remuneration Committee, I am pleased to present the Directors' Remuneration Report (the Report) for the financial year ended 31 December 2020. The report has been prepared by the Committee and approved by the Board of Directors (the Board).

The Committee endeavours to ensure transparency in respect of the Company's policies for Executive Director and senior management remuneration and aims to provide clear reporting on both past remuneration and future policy.

The report has been arranged in the following three parts:

- The **Annual statement from the Chair of the Remuneration Committee**, summarising and explaining the major decisions on, and any substantial changes to, Executive Directors' remuneration in the year.

- The **Directors' remuneration policy ('the Policy')**, which sets out the Group's forward-looking policy for Executive, Non-executive Directors and senior management and the key factors which were taken into account in setting the Executive Directors' and senior management remuneration policy.
- The **Annual report on remuneration**, which sets out details of Executive Directors' remuneration for the financial year ended 31 December 2020. The Annual report on remuneration is subject to an advisory shareholder vote at the Annual General Meeting (AGM), due to be held in May 2021.

Membership of the Committee and attendance

The Committee comprises independent Non-executive Directors and is chaired by Jamie Richards, with Graeme Bissett, Miriam Greenwood and Ruth Leak also being members. The Remuneration Committee met four times during the year and the attendance at those meetings is shown on page 79. The Company Secretary attends all the Committee meetings as Secretary to the Committee and, by invitation, they are also attended by the Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Group Human Resources (HR) Director and external professional advisers, for all or part of any meeting as and when appropriate and necessary. No Executive Director is involved in any decision relating to their own remuneration.

Role and responsibilities of the Committee

The Committee is primarily responsible for determining and making recommendations to the Board on the policy for the remuneration and employment terms of the Executive Directors, and for the effective implementation of that policy. The Committee has a formal and transparent procedure for developing policy on remuneration, taking into account all relevant factors such as individual and Group performance and remuneration payable by companies of a comparable size and complexity. The Committee reports to the Board on its activities and makes recommendations, all of which have been accepted under the period of review. The Committee is also responsible for the review of, and making recommendations to the Board in connection with, share incentive plans and performance-related pay schemes and their associated targets as well as the oversight of employee benefit structures across the Group.

Advisers

FIT Remuneration Consultants LLP (FIT) provides advice to the Committee on matters relating to Executive remuneration and all-employee share awards. The Committee also engaged Verditer Consulting Limited to assist with a Groupwide review of employee career bandings and grading structures. Both Verditer Consulting and FIT Remuneration Consultants are considered to be independent of both the Board and each of the Executive and Non-executive Directors. They have not provided any other services to the Directors or to the company and their advice is therefore considered to be objective and independent.

Annual statement from the Chair of the Remuneration Committee

The Group's strategy is designed to enable the business to continue to grow both its profitability and market share by striving to deliver smart energy solutions to realise a greener, more sustainable future. The Remuneration Committee is committed to structuring executive remuneration that is competitive, enables the Group to attract, retain and motivate Executives of the calibre required to further develop and execute the Group's strategy successfully, and which rewards good performance. A proportion of total remuneration is performance-based and linked to the achievement of current-year and longer-term performance measures. Short-term performance is incentivised via an annual bonus scheme which is based on Company financial objectives as well as personal performance objectives, which typically support strategic initiatives. Long-term performance is incentivised by a share option scheme, which is typically based on delivering strong returns for the benefit of all stakeholders.

The Committee's remit is as follows:

- To determine and recommend to the Board for approval the policy on total remuneration of the Executive Directors, and to monitor the effectiveness of the policy.
- To agree the key performance indicators (KPIs), and corresponding targets, underpinning performance-related pay schemes for the Executive Directors and senior management.
- To approve the total annual payments made under such schemes.
- To review and approve the design of all share incentive plans for approval by the Board and shareholders. For any plan, to determine each year the overall number of awards and the individual awards to Executive Directors and senior management.
- To determine the level of any payment made to the Executive Directors or members of senior management by way of compensation for, or otherwise in connection with, loss of office or employment.
- To review and approve Groupwide salary increases.
- To review any major changes in employee benefit structures throughout the Group.

Areas of activity in 2020

- Reviewed and approved the Directors' Remuneration Report in the FY 2019 Annual report and accounts.
- Reviewed the financial and strategic FY 2020 bonus metrics and targets.
- Discussed and approved the FY 2020 Executive individual cash bonus payments.
- Discussed and approved the enhanced maternity policy.
- Supported the review of employee banding and grading structures.

- Approved option award to senior management.
- Discussed and considered gender pay gap reporting.
- Discussed and considered the design of a new long-term incentive plan scheme.

Remuneration outcomes for the year ended 31 December 2020

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

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

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

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

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

REMUNERATION COMMITTEE REPORT continued

Annual statement from the Chair of the Remuneration Committee continued

The remuneration policy includes a discretionary annual bonus designed to incentivise Executive Directors to achieve demanding annual targets relating to the Company's financial and operational performance, as well as strategic and personal objectives. The policy also includes an individual cash bonus for exceptional contribution to projects outside the ordinary course of business. The Group's remuneration policies are weighted according to various financial performance, operational and strategic objectives, and the Committee continues to be of the view that the policies support the objectives of the Group and are aligned with the interests of our shareholders and the wider workforce.

As set out in detail on pages 65 to 71, the Group achieved a strong trading performance in 2020, despite Executives and senior management dealing with difficult operating conditions due to the COVID-19 pandemic. Notwithstanding these challenges, the Group continued to grow annualised recurring revenue, one of our key financial metrics, ahead of expectations. As at 31 December 2020, the Group had over 3.8 million metering and data assets under management, of which 1.3 million are domestic smart meters. Most importantly, there have been no significant health and safety incidents in the year – especially pleasing at a time when a core priority of the Group has been to provide a safe and secure operating environment for all our staff (see pages 54 to 55 for details). In addition, at the start of the year the Company completed the largest commercial transaction in its history, selling a minority portfolio of meter assets in April for over £290m. The introduction of this capital to the business has been pivotal in transforming the capital structure, as it allowed the business to repay its revolving credit facility and remain cash positive for the remainder of the year. This transaction substantially took place during FY 2019, but with the executive management team in the business investing significant effort in its successful conclusion at the start of FY 2020. This was in addition to leading the Company in the context of particularly challenging operating conditions of FY 2019 in relation to technical challenges in the smart meter market. In FY 2020 the executive management team had to manage the impact of COVID-19. Despite the continuing uncertain macroeconomic conditions, the Group delivered a strong performance in FY 2020. This is testament to the Group's growing order pipeline, continued focus on cost discipline ensuring operational excellence in delivery of the UK smart meter rollout and, increasingly, on the development of the next generation of energy transition assets.

Remuneration payable for performance in 2020

The sale of a minority portfolio of meter assets significantly changed the capital structure of the Company and enabled progress on a number of the Company's key strategic objectives. Each of the Executive Directors demonstrated considerable effort and commitment in assessing the appropriate financing structure to manage leverage and develop longer term financial structuring solutions. This was demonstrated in the sale of £17.6m of net index-linked annualised recurring revenue (ILARR) for gross proceeds of £291m with an implied multiple of 16.4x EBITDA. This has subsequently reinforced the inherent value present within our meter assets with their index-linked long-term cash flows. The proceeds from the sale allowed the Group to reset its leverage and return to a net cash-positive position. The sale also enabled SMS to increase its dividend by 3.6x to 25p per share, with the intention of 10% annual growth until 2024, thereby significantly enhancing total shareholder return. In addition, the successful completion of the transaction has provided a financial platform for the Company to begin to invest in other carbon reduction ('CaRe') asset classes, a key strategic objective as we believe our CaRe assets will accelerate the adoption of renewable energy and make the energy system more resilient. The Committee therefore felt it was appropriate to award a discretionary individual cash bonus to the Executive Directors and the senior management who were heavily involved in the transaction. The Committee awarded 40% of base salary in recognition of the significant impact the transaction has made to the Company and the exceptional contribution, commitment and effort made in the completion of this landmark transaction.

The Group delivered a performance that was slightly ahead of market expectations, despite the difficult trading conditions. Against the financial targets that were set for the annual bonus, there was strong performance across all areas. Looking at the wider context, good progress was also made on many of our KPIs, including our strategic objectives and the Executive Directors' personal objectives.

Reflecting this strong performance during the year, the annual bonuses paid to the Chief Executive Officer (CEO), Chief Operating Officer (COO) and Chief Financial Officer (CFO) were 75.0%, 80.5% and 73.5% of the maximum respectively. These were in addition to the 40% discretionary individual cash bonuses awarded in respect of the portfolio sale detailed above.

The Committee has considered whether the formula-driven payouts under the incentive plans and resultant total remuneration for Executives is appropriate, looking at the broader context within which the performance has been delivered. In particular, the Committee has noted the following points:

- Underlying profit performance represents a strong achievement, demonstrating growth in challenging conditions, coupled with the business delivering complete continuity in our services and retaining our operational capacity under an ever-developing environment as a result of COVID-19.
- A secure platform for growth has been established from both our contracted smart meter order pipeline and our other CaRe assets.
- Sound progress has been made across a number of key strategic initiatives. These include significantly strengthening the balance sheet by the disposal of a minority of meter assets allowing an optimal mix of debt, equity and capital recycling for future capital funding requirements, commitment to a net-zero carbon target by 2030, or sooner, under our environmental, social and governance (ESG) strategy, establishing an enhanced and sustainable dividend policy generating a more predictable return to shareholders. In addition in ensuring an effective cost discipline in response to COVID-19 challenges and providing full financial support (without participation in Government furlough scheme) for all our staff throughout national and regional lockdowns.

The Committee is satisfied that there has been a robust link between remuneration and performance and that there is no need to use discretion to adjust the level of remuneration payable. Full details of the annual bonus, performance against targets and the resultant payments are set out in the Annual report on remuneration.

Other Committee activities for the year

Our priority as a business throughout the impact of COVID-19 has been, and will continue to be, the safety and welfare of our colleagues and customers. It has been heartening to see our people work together over the past year to ensure this priority is met. It is in times of volatility that embracing our purpose and values is most important, and the Board has seen colleagues from across the business live the SMS values during these testing times. There is an economic impact from COVID-19, and both the Committee and the wider Board are acutely aware of the impact this unforeseen event has had on all businesses. Unlike many, however, our business has remained relatively resilient during this period. Throughout the impact of the pandemic we provided full financial support (without participation in the UK Government's furlough scheme) to all our staff and all employees were awarded a 2.5% cost of living increase on 1 October 2020, which had been delayed from 1 April 2020 due to the rapidly developing situation at this time. In terms of commitments to our colleagues, we have enabled home working for the vast

majority of our people, been flexible with our leave and working hours policies, and provided health and wellbeing support across our business. Accordingly, our remuneration policies and practices remain unchanged and the Committee is delighted that our employees will continue to be properly rewarded for their exceptional efforts at this time.

The Committee is periodically updated on wider employee matters for example our wider workforce pay and conditions, our gender pay statistics and our diversity initiatives. The Committee has reviewed these elements and is satisfied that the Executive remuneration structure remains appropriate. In the coming year the Company seeks to engage with employees as part of the process of formulating the Directors' remuneration policy or reviewing Executive pay, and during FY 2020 the Company ran several initiatives to obtain insights from the broader employee population, including an employee engagement survey. Further detail on engagement with employees is given in the Our people section on page 50. The Group HR Director supports the Committee by providing oversight of workforce remuneration and related policies, and at the July meeting of the Committee provided an overview of annual remuneration across SMS. The Committee members, as members of the Board, have oversight of the employment surveys and going forward will have direct engagement with the workforce through employee forums to enable the Committee to advise the Board whether Company policies and practices support culture and strategy.

Our current employee engagement is through the following areas:

- Share ownership – all employees across the Group are offered the opportunity to participate in our Sharesave plan.
- Pay and bonus budgets – the Committee, as members of the Board, notes the total budgeted salary and bonus expenditure for all SMS employees, ensuring reward principles are aligned throughout the business.
- Direct engagement with our people – we will communicate a link to the Annual report and accounts 2020 through our all-employee communication vehicle. Employees will be invited to comment or ask questions.

The Committee continued to focus on the Company's reporting in relation to the gender pay gap, and continued to promote equality and diversity amongst our employees. SMS employs around 1,100 people across the UK. Women make up 32% of our total workforce reflecting the historically male dominated engineering industry. We have taken positive action by becoming a member of the Tomorrow's Engineers Code, with a shared aim to increase the number and diversity of those entering engineering. We recognise we have more to do in increasing the representation of women at all levels of the business, particularly at a senior management level. Full gender pay gap reporting was achieved in 2020, and further details can be found on the Company's website.

REMUNERATION COMMITTEE REPORT continued

Annual statement from the Chair of the Remuneration Committee continued

Our ambition is to increase the number of women in our business, while continuing to pay fairly, and to this end we are committed to improving how we attract, engage and develop women, as well as other under-represented groups. During the year the Committee approved an enhanced maternity policy following feedback from employees during face-to-face values workshops and 'temperature check' sessions, coupled with analysis of the gender pay gap results. The enhanced maternity policy is one of a number of benefits and initiatives the SMS Group is developing which benefit existing employees and will provide an advantage in sourcing and attracting talented people, by encouraging them to build rewarding long-term careers with SMS.

Another key area of focus for the Company has been the structure of remuneration within the business, to ensure there is a strong competitive reward framework that has a solid foundation and is transparent and fair to all employees. During the year, an external market benchmarking exercise was conducted with Verditer Consulting Limited to assess our employment grading structure. Verditer's recommendation is for a single grading system that has clear and transparent remuneration structures and will allow us to develop a pay model to aid implementation and decision-making. In conjunction with the employee grading structure review the Committee also conducted an external benchmarking review of Executive remuneration. This exercise entailed reviewing the remuneration packages for all Executives taking into consideration the responsibilities and scope of each role, and the current and potential size of the business. Having considered comparable roles, with assistance from our advisers, the Committee concluded that all Executives were paid in line with the market and, because of the current economic environment no changes, out with a cost of living increase, were proposed to the Executives' remuneration at this time.

The Committee awarded share options to senior management in June 2020 and February 2021 under the existing Unapproved Share Option Plan. As with previous grants under the Plan, share options are subject to market capitalisation targets and non-market performance criteria, which include the achievement of financial metrics and personal objectives.

The Committee is aware that the remuneration landscape is evolving, and we will continue to monitor developments and make recommendations to the Board as required. Towards the end of FY 2020 the Committee initiated a review of the long-term incentives on offer for Executive Directors and other senior members of staff. Given the development of the business and the need to incentivise and reward long-term, sustainable performance, the Committee is currently considering the introduction of a Long-Term Incentive Plan (LTIP) to align the interests of management with those of shareholders in growing the value of the business over the long term. The final design will be agreed and presented to the Board for consideration during FY 2021.

We will continue to look for ways to enhance our proposition as an employer of choice, while ensuring that we align the interests of our staff with those of our shareholders. We believe that our approach of rewarding carefully targeted and stretching performance metrics will help deliver our full potential value. As we continue to grow the business, we will review compensation practices to ensure that we can attract the best talent to our business. We aim for our remuneration policies to encourage our staff to think and act like business owners, with a real vested interest in the success of our Company. The Committee unanimously recommends that shareholders vote to accept the Annual report on remuneration.

On behalf of the Board

Jamie Richards

Chair of the Remuneration Committee

16 March 2021

Directors' remuneration policy (the Policy)

This part of the Directors' Remuneration Report sets out the Group's remuneration policy with regard to its Executive and Non-executive Directors.

The Company welcomes dialogue with its shareholders over matters of remuneration. The Chairman of the Remuneration Committee is available for contact with institutional investors concerning the approach to remuneration. The Policy will be displayed on the Group's website (www.sms-plc.com), in the Investor Relations section.

Executive Directors' remuneration

The main components of the Policy for the year ended 31 December 2020, and how they link to and support the Company's business strategy, are summarised below. We do not disclose full details of the operational and personal strategic objectives for the Executive Directors, as we consider them to be commercially sensitive.

Our remuneration structure can be summarised as follows:

Fixed	1. Base Salary 2. Benefits 3. Pension
Variable	4. Annual Bonus 5. Discretionary Individual Cash Bonus 6. Share Options

Fixed – 1. Base Salary

Purpose and link to strategy	Operation	Link to performance
Base salaries are set to recognise individual skill, experience and performance, as well as the market value of the role, so as to attract, retain and motivate the best qualified staff to deliver against the strategy and KPIs, implement our business model, manage our risks and exploit our opportunities, while remaining disciplined about fixed cost management.	Salaries are typically reviewed annually, and take into account: <ul style="list-style-type: none"> Company performance the scope of role, and the experience and performance of the individual Director average workforce salary adjustments within the Company the size, complexity and growth rate of the Company. Limitation: Maximum increases are no greater than inflation unless: (a) there has been a material increase in industry rates; (b) changes in role have taken place with enhanced responsibility; or (c) there has been a reward for individual development.	Base Salary is not conditional on performance, any salary increases will generally be in line with those awarded to salaried employees. In certain circumstances (including, but not limited to, changes in role and responsibilities, market levels, individual and Company performance) higher increases may be made.

2020 application

Inflation-linked pay rises of 2.5% were granted to Executive Directors. Due to the developing COVID-19 situation at the time, this increase was suspended from 1 April 2020 until 1 October 2020.

Executive remuneration was reviewed in line with market trends and remained unchanged. This has been the case for the past three years, with only inflationary increases awarded.

Fixed – 2. Benefits

Purpose and link to strategy	Operation	Link to performance
To complement base salary by providing market-competitive benefits to attract and retain Executives.	Reviewed from time-to-time to ensure that benefits, when taken together with other elements of remuneration, remain market-competitive. Limitation: Benefits are set by the Committee at levels appropriate for our business relative to the market. The cost of providing these benefits varies year-on-year depending on the schemes' premiums. The Remuneration Committee monitors the overall cost of the benefits package.	Benefits are not conditional on performance, but we believe they enhance recruitment and retention of talent and improve staff wellbeing.

REMUNERATION COMMITTEE REPORT continued

Directors' remuneration policy (the Policy) continued

Fixed – 3. Pension

Purpose and link to strategy	Operation	Link to performance
To provide retirement benefits which, when taken together with other elements of the remuneration package, will enable the Company to attract and retain Executives of a high calibre.	<p>The Executive Directors (together with all other eligible staff) are able to participate in the Company's defined contribution (money purchase) pension scheme.</p> <p>Limitation: Contributions are based on percentage of salary, ranging from the statutory minimum to a maximum of 5% of salary.</p>	Pension contributions are not conditional on performance, but we believe that they enhance recruitment and retention of talent and improve staff wellbeing.

Variable – 4. Annual Bonus

Purpose and link to strategy	Operation	Link to performance
To reward Executives for achieving key financial, operational and strategic annual goals, by selecting measures that drive long-term shareholder value.	<p>The Executive Directors (together with the senior management team) participate in a discretionary, annual, performance-related bonus scheme. Targets are set at the beginning of each year based on the recommendations of the Remuneration Committee.</p> <p>For the Executive Directors, the maximum potential bonus is 100% of annual base salary.</p> <p>The Committee applies discretion to the final bonus payout, taking into account performance against targets and underlying performance of the Company.</p> <p>Bonuses are paid in cash based on the audited financial results.</p>	The Committee determines annual metrics based on approved budgets and priorities for the forthcoming year. The annual bonus is based on three weighted areas: financial performance, operational targets and strategic objectives. All three areas encompass business and personal elements. Performance measures under each area are determined annually and the Committee is able to adjust the weighting of the areas annually based on prevailing business needs.

2020 application

Details of the measures, to the extent they are not commercially sensitive, are shown below.

Financial performance

As a result of strong underlying financial performance, the Group exceeded the threshold of underlying profit before tax, ILARR and cash collection targets for the purposes of awarding the 2020 annual bonuses allocated to the Executive Directors.

	Threshold £m	Maximum £m	Actual £m	Actual payout (Maximum payout)		
Underlying profit before taxation (PBT)	14.2	15.6	15.2	CEO 20% (25%),	COO 16% (20%),	CFO 8% (10%)
ILARR	77.0	83.0	77.0	CEO 12.5% (25%),	COO 10% (20%),	CFO 5% (10%)
Working capital management	–	–	–	CEO n/a (n/a),	COO 2% (2.5%),	CFO 20% (25%)

Operational performance

The operational performance targets for each Executive Director were set against a range of strategic targets at the start of the year covering health and safety, sales development, leadership and delivery of major projects, and strategic planning. Due to differing objectives between Executive Directors, total operational results are shown below for each Executive.

Operational objectives	CEO 25% (30%),	COO 21% (22.5%),	CFO 25% (30%)
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Individual strategic performance

The personal element of the bonus is focused on the Executive Directors' individual contributions in each of the following categories: leadership, structure, team, culture and behaviour. The Committee assesses each element against targets set at the start of the year.

Individual strategic objectives	CEO 17.5% (20%),	COO 31.5% (35%),	CFO 15.5% (25%)
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Variable – 5. Discretionary Individual Cash Bonus

Purpose and link to strategy	Operation	Link to performance
Only paid to recognise an exceptional contribution to a discrete project outside the ordinary course of business, requiring the Executive Director to commit time and effort significantly over and above their normal duties.	Bonus to be paid at the discretion of the Remuneration Committee and based on the formal recommendation of the Committee. Maximum potential bonus is at the discretion of the Remuneration Committee.	The Committee evaluates the contribution of the Executive Director to any project outside the ordinary course of the business, with a particular emphasis on the level of commitment made by the Executive Director.

2020 application

An award of 40% of base salary was made to each Executive Director due to the successful completion of the disposal of a minority portfolio of our assets, which resulted in transformation of the Company's capital structure by allowing the business to repay all outstanding debt on its revolving credit facility, while demonstrating the inherent value present within our meter assets. The transaction allowed the enhancement of shareholder return by way of a revised dividend policy and also allowed the Company to invest in CaRe asset classes. The Committee also took into account the exceptional contribution, commitment and effort that this required from all three Executive Directors, over and above their normal duties during what has been an exceptional year.

Variable – 6. Share Options

Purpose and link to strategy	Operation	Link to performance
To motivate Executive Directors and incentivise the delivery of sustained performance over the long term, and to promote alignment with shareholders' interests.	Options vest in annual tranches. The vesting of each annual tranche takes place by reference to distinct annual performance period. The share options cannot be exercised for a period of five years from the grant date, other than in specific circumstances. The Committee will review the metrics, financial targets and where applicable individual objectives prior to grant to ensure they are aligned with the long-term strategic goals.	The Committee will determine market capitalisation targets, financial targets and individual objectives to ensure they are aligned with the corporate strategy.

Non-executive Directors

The remuneration of the Non-executive Directors, including the Chairman, is determined by the Executive Directors after external benchmarking. Non-executive Directors and the Chairman do not participate in incentive arrangements or receive other remuneration in addition to their fees.

Each of the Non-executive Directors has a letter of appointment stating their annual fee and that their appointment is for a term of three years. Their appointment may be terminated on three months' written notice at any time.

Purpose and link to strategy	Operation	Potential remuneration	Performance metrics
Fees To attract and retain Non-executive Directors with an appropriate degree of skills, experience, independence and knowledge of the Company and its business.	Fee levels for Non-executive Directors are generally reviewed by the Board annually. Remuneration comprises an annual fee for acting as a Non-executive Director and serving as a member of any Committees. Additional fees are paid in respect of service as Chairman of a Committee or as Senior Independent Director. When reviewing fees, reference is made to fees for the same comparator group as is used for Executive Directors, as well as information gathered from a number of remuneration surveys, and assessment of the extent of the duties performed and the size of the Company.	Any fee increases are applied in line with the outcome of the annual review. Non-executive Directors did not receive a cost-of-living increase in FY 2020.	n/a

REMUNERATION COMMITTEE REPORT continued

Directors' remuneration policy (the Policy) continued

Service contracts and policy on payment for loss of office

It is the Company's policy to provide six months' notice for termination of employment for Executive Directors, to be given by either party. The Company's policy is to limit severance payments on termination to pre-established contractual arrangements, if the Company believes this appropriate to protect its interests, it may also make additional payments in exchange for non-compete/non-solicitation or other terms which extend beyond those in the Director's contract of employment. The Committee has discretion to contribute towards outplacement services and the legal fees for any departing Director to the extent it considers appropriate. Under normal circumstances, the Company may terminate the employment of an Executive Director by making a payment in lieu of notice equivalent to basic salary and benefits for the notice period at the rate current at the date of termination. In case of gross misconduct, a provision is included in the Executive's contract for immediate dismissal with no compensation payable.

The terms applied to the Executive Directors' share options are consistent with those applied to all option holders under the rules of the Group's Unapproved Share Option Plan ('the Plan'). Options are subject to a five-year service condition, which commences from the grant date of the first tranche. The Plan rules contain provisions for good and bad leavers and an Executive Director would only retain rights to exercise share options, in respect of shares for which performance conditions have been met at the leaving date, where they are deemed a good leaver. There is no entitlement to compensation or damages for any loss or potential loss which may be suffered by reason of being or becoming unable to exercise an option as a consequence of loss of office or employment.

There were no resignations of Executive Directors during the year, however on 8 February 2021 it was announced that David Thompson (CFO) will leave the Group on 31 March 2021 to pursue another opportunity. He will be replaced by Gavin Urwin, who joined the Group on 8 February 2021 as CFO-Designate.

Treatment of annual bonus on termination of employment

The Committee has discretion to determine that in the event an Executive Director leaves the Company, bonus payments may be paid once performance has been measured and on a pro-rated basis for the time spent in active employment with the Company.

Shareholder views

The Committee welcomes the views of shareholders in respect of pay policy as well as those views expressed on behalf of shareholders by their respective proxy advisers. The Committee documents all remuneration-related comments made at the Company's AGM and within feedback received during consultation with shareholders throughout the year. Any feedback received is fully considered by the Committee and amendments may be made to the remuneration policy where thought necessary. The Committee seeks to build an active and productive dialogue with investors on developments in the remuneration aspects of corporate governance generally.

Discretion of the Committee

The Committee has discretion in various areas of policy, as set out in this report. The Committee may also exercise discretion under the rules of the Plan approved by shareholders, as set out in those rules. In addition, the Committee has the discretion to amend the implementation of the Policy with regard to minor or administrative matters where it would be, in the opinion of the Committee, disproportionate to seek or await shareholder approval.

Differences in remuneration policy for all employees

All employees of the Group are entitled to base salary and benefits. The Group also operates a pension plan for employees which it operates in line with local market practice. Some employees are entitled to participate in an annual discretionary bonus scheme. The remuneration policy for other employees is based on principles broadly consistent with those described above. Annual salary reviews across the Company take into account Company performance, market conditions and salary levels for similar roles in comparable companies. The Company operates discretionary bonus schemes for eligible groups of employees under which a bonus is payable subject to the achievement of appropriate targets. All eligible employees may participate in the Company's Share Incentive Plan on identical terms.

Annual report on remuneration

Directors' remuneration emoluments for the financial year ended 31 December 2020

	Fees/ basic salary £	Annual bonus £	Individual cash bonus £	Pension contribution £	Benefits in kind £	2020 Total £	2019 Total £
Executive							
A H Foy	360,796	275,639	140,000	—	19,371	795,805	377,097
D Thompson	222,844	166,843	86,000	8,914	1,707	486,308	231,011
T Mortlock ¹	222,844	182,733	86,000	8,914	7,825	508,316	69,454
Non-executive							
M Greenwood ²	69,968	—	—	—	—	69,968	45,900
G Bissett	45,900	—	—	—	—	45,900	45,900
R Leak ³	45,900	—	—	—	—	45,900	26,775
J Richards ⁴	31,836	—	—	—	—	31,836	—
W MacDiarmid ⁵	44,252	—	—	—	—	44,252	91,800
Total	1,044,340	625,215	312,000	17,828	28,903	2,028,286	887,937

1 T Mortlock's remuneration for 2019 is from the date of appointment as a Director, which was 17 September 2019.

2 M Greenwood's remuneration for 2020 reflects the date of appointment to Chairman, which was on 23 June 2020.

3 R Leak's remuneration for 2019 is from the date of appointment as a Director, which was 29 May 2019.

4 J Richards' remuneration for 2020 is from the date of appointment as a Director, which was 23 April 2020.

5 W MacDiarmid resigned as a Director on 23 June 2020.

With the exception of the bonuses, both annual and individual, which are discretionary as detailed in the remuneration policy on pages 102 to 103, all other elements of Directors' remuneration are fixed.

On 23 April 2020 Jamie Richards was appointed as a Non-executive Director, and he took over as Chair of the Remuneration Committee of the Board on 23 June 2020. Willie MacDiarmid resigned as a Non-executive Director and Chairman of the Company with effect from 23 June 2020. Miriam Greenwood assumed the duties of Chairman, Chair of the Nomination Committee and Chair of the Health, Safety and Sustainability Committee on 23 June 2020. This report reflects their remuneration and rewards from the date of their respective appointments/resignations.

Details of each of the elements included in the table above are as follows:

Base salary

Base salary increases across the Group are effective from 1 April each year. Executive Directors received a cost-of-living increase as at 1 April 2020, but payment was suspended until 1 October 2020. The base salary/fee numbers shown in the table therefore include twelve months' pay based on the individual Director's salary/fee from 1 January 2020 – with the exception of Jamie Richards and Willie MacDiarmid, whose figures are disclosed from the dates of their respective appointment/resignation as noted above.

Pension contributions

The Chief Executive Officer does not participate in the Company pension scheme. An amount is paid to the Eco Retirement Benefit Scheme, of which the Chief Executive Officer is a trustee. See note 22 (d) to the Financial statements for further details.

A contribution of up to 5% per annum of base salary is paid into the Company pension scheme by the Company, on behalf of the Chief Financial Officer and Chief Operating Officer.

Bonus

The amounts awarded were calculated as described below:

Awards based on financial measures

Underlying profit (which excludes exceptional items and amortisation of intangibles), ILARR, and positive cash collection through working capital management are used for the purposes of the bonus.

Awards based on operational objectives

Each of the Executive Directors has individual operational objectives, including in relation to health and safety, which is a top priority throughout the Group.

Awards based on strategic objectives

Each of the Executive Directors has individual strategic objectives, with the maximum incentive opportunity linked to performance against these objectives.

The Committee may use discretion to adjust payments where necessary.

REMUNERATION COMMITTEE REPORT continued

Annual report on remuneration continued

Benefits in kind

The Company pays for private healthcare for each Executive Director and their immediate family. The Company provides a Company car allowance for the Chief Executive Officer and Chief Operating Officer. The Executive Directors also currently participate in the Company's life assurance scheme.

Directors' interests

The Directors who held office at 31 December 2020 had the following interests in the shares of the Company:

	Ordinary shares	
	2020 £0.01 each	2019 £0.01 each
Executive		
A H Foy ¹	5,953,201	5,380,608
D Thompson	3,000	1,335
T Mortlock	5,263	5,263
Non-executive		
M Greenwood	23,350	16,661
G Bissett	15,316	5,300
J Richards	3,909	—
W MacDiarmid ²	—	5,923
	6,004,039	5,415,090

1 Includes 900,000 ordinary shares held by The Metis Trust, of which A H Foy is a trustee but not a beneficiary, and; 5,053,201 ordinary shares held by Metis Investments Limited, of which A H Foy is a director and shareholder.

2 This includes shares held by a connected person.

Directors' share options

Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire ordinary shares in the Company granted to or held by the Directors. Details of options for Directors who served during the year are as follows:

	Type	Number of shares under option	Exercise price	Date of grant	Earliest date exercisable
Executive					
A H Foy	Unapproved	500,000	700p	13/07/18	01/01/23
D Thompson	Unapproved	100,000	529p	01/09/16	01/09/21
	Unapproved	300,000	700p	13/07/18	01/01/23
T Mortlock	Unapproved	133,250	350p	12/11/14	12/11/19
	Unapproved	333,333	700p	13/07/18	01/01/23

The share price at 31 December 2020 was 711p. The range in the period 1 January to 31 December 2020 was 437p to 739p.

The plan is structured with options vesting in annual tranches. The vesting of each annual tranche takes place by reference to a distinct annual performance period and is subject to annual targets including a market capitalisation target, non-market performance criteria based on financial targets and individual objectives, which are set at the beginning of the corresponding performance period.

The share options cannot be exercised for a period of five years from the grant date, other than in specific circumstances. Tranches which did not vest due to a missed

market capitalisation target will subsequently automatically vest in future years if the market capitalisation target is met at a later point or on the occurrence of certain events which would cause all tranches to vest. The Remuneration Committee has discretion in relation to the vesting of awards where certain other criteria are not met. The Remuneration Committee additionally has the power to make changes to existing granted share options (for example in relation to the option price or number of options granted) where changes are made to the capital structure of the Company.

Further details of share options granted by the Company at 31 December 2020 are given in note 24 to the Financial statements.

DIRECTORS' REPORT

The Directors submit their Annual report on the affairs of the Group together with the Financial statements and Independent auditor's report for the year ended 31 December 2020.

Principal activities

SMS plc is the ultimate parent company of the Group and trades principally through its subsidiary undertakings. Its principal activity is that of a holding company.

The principal activities of the Group are: the installation, operation and management of meter and energy infrastructure assets and related data services; the 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 assets.

Subsidiaries of the Company are listed on page 165 of the Annual report and accounts 2020.

Statutory information

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

The Strategic report (found on pages 1 to 71) and the Corporate governance report (found on pages 76 to 87) are incorporated by reference into this Directors' report and should be read as part of this Report. The Strategic report contains details of the Group's business model and strategic priorities and enables shareholders to assess how the Directors have discharged their duty under section 172 of the Companies Act 2006.

Articles of Association

The Company's Articles of Association, which may only be amended by a special resolution at a general meeting of the shareholders, can be found on our website at www.sms-plc.com/corporate/investors/aim-rule-26.

Branches outside the UK

Two subsidiaries of the Group operate in countries outside the UK, in the Republic of Ireland and Australia respectively.

Directors and their interests

The Directors of the Company, including their biographies, are shown within the Board of Directors section of the Annual report and accounts 2020, with further details of Board Committee membership being set out in the Corporate governance report. All Directors served throughout the financial year, except as disclosed.

Other than employment contracts and interests in shares and options, none of the Directors had a material interest in any contract with the Company or any of its subsidiary undertakings. Key terms of the Directors' service contracts and their interests in shares and options are disclosed in the Directors' Remuneration Report.

Any related party interests applicable to the Directors are shown in note 22 to the Financial statements.

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

A Director may be appointed by an ordinary resolution of shareholders in a general meeting, following recommendation by the Nomination Committee in accordance with its Terms of Reference, as approved by the Board or by a member (or members) entitled to vote at such a meeting. Alternatively, a Director may be appointed following retirement by rotation if the Director chooses to seek re-election at a general meeting. In addition, the Directors may appoint a Director to fill a vacancy or act as an additional Director, provided that the individual retires at the next Annual General Meeting (AGM) and, if they are to continue, that they offer themselves for election.

A Director may be removed by the Company in circumstances set out in the Company's Articles of Association or by an ordinary resolution of the Company.

Director 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 incurred by the Directors and officers of the Group companies in the performance of their duties. The Company has also granted an indemnity to each of its Directors in relation to the Directors' exercise of their powers, duties and responsibilities as Directors of the Company, the terms of which are in accordance with the Companies Act 2006.

Dividends

As detailed on page 68, 2020 saw the introduction of a new and enhanced Group dividend policy. In line with the Board's policy, SMS intends to pay a 25p per share dividend in respect of FY 2020, with the intention of annually increasing the dividends by 10% for each of the financial years FY 2021, FY 2022, FY 2023 and FY 2024. The FY 2020 dividend is being paid in four instalments as summarised in the table below. Two instalments have already been paid at the date of this Report, with the third interim and final instalments due to be paid in April 2021 and July 2021 respectively.

FY 2020 dividend timetable:

Instalment	Ex-dividend date	Record date	Payment date	Dividend per share
1	1 October 2020	2 October 2020	29 October 2020	6.25p
2	7 January 2021	8 January 2021	28 January 2021	6.25p
3	1 April 2021	6 April 2021	29 April 2021	6.25p
4	1 July 2021	2 July 2021	29 July 2021	6.25p

DIRECTORS' REPORT continued

The Board will review this regularly, with shareholder value in mind, taking into account a range of factors. These will include expected business performance, the Company's ability to continue as a going concern and meet its debt obligations, the distributable reserves in the parent company, the availability of cash resources, the dividend and operational cash flow cover, future cash commitments and investment plans in line with the Group's overall strategy.

Further details are provided in note 9 to the Financial statements regarding the level of distributable reserves in the parent company at 31 December 2020.

Employees

The Group places considerable emphasis on the involvement of its employees and is firmly committed to the continuation and strengthening of communication lines with all its employees. The Group's policy of operating through subsidiaries helps ensure close communication and sharing of information with employees on matters likely to affect their interests. In addition, the workforce is kept up to date on the various financial and economic factors affecting the performance of the Group. Periodic updates on Group performance are circulated, typically following the announcement of both interim and annual financial results.

The marketing team manages internal communications, maintaining a steadfast and informative network throughout our national organisation which ensures our people remain up to date on all aspects of the SMS journey. Communication tools include monthly newsletters, videos, email and various forms of social media, and provide employees with industry insights and key information on Group activity, such as charitable donations and the UK smart meter rollout, as well as ensuring a consistent message of support by linking to our Wellbeing intranet page. FY 2020 also saw regular COVID-19 updates form a crucial aspect of our internal communications: from information on installations work, through to lighter engagement such as our series of 'Lockdown Stories' which aimed to highlight the positive aspects of our restricted circumstances.

Business updates are currently delivered by video, every quarter, by the executive management team.

The Group seeks to engage with employees on matters affecting them, through several channels such as employee surveys (internal and external), employee workshops, written feedback and drop-in sessions. The Stakeholder engagement section on pages 39 to 42 provides examples of projects delivered during the year, where an open dialogue was facilitated with the workforce, and further details can also be found in the Our people section on pages 49 to 53.

The involvement of employees in the Company's performance is encouraged through its Share Incentive Plan, which is open to all qualifying employees at all levels.

An HMRC-approved, tax-efficient plan, the Share Incentive Plan supports the engagement and retention of our workforce by providing returns that are driven by the performance of the Company. The terms of this arrangement are detailed further below. In addition, share options may be granted at the discretion of the Board, typically to senior management employees. Further details can be found in note 24 to the Financial statements, which is incorporated by reference into this Report.

The Group operates an equal opportunity, diversity, and inclusion policy, detailed further on page 51.

It is the policy of the Group to support the employment of people with protected characteristics and to ensure that training, career development and promotion opportunities are available to all employees. As such, SMS is a 'Disability-Confident', 'Mindful' and 'Accredited Living Wage' employer.

External auditor

As detailed on page 93, the Audit Committee recommended, and the Board approved, the proposal that the current auditor, Ernst & Young LLP, be reappointed as auditor of the Company at the AGM. Ernst & Young LLP has expressed its willingness to continue in office as auditor and a resolution to reappoint Ernst & Young LLP as the Company's auditor will therefore be proposed to shareholders at the AGM.

Directors' statement as to disclosure of information to auditor

Each of the Directors at the date of approval of the Annual report and accounts 2020 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 19 to the Financial statements contained in this Annual report and accounts 2020, 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. 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 126 to 127, which is incorporated by reference here.

Political contributions

No political contributions were made during the year (2019: £Nil).

Post balance sheet events

Relevant post balance sheet events requiring disclosure are included in note 30 to the Financial statements.

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 0.01p each which are listed on AIM, a market operated by the London Stock Exchange (AIM: SMS.L). As at 31 December 2020, the issued share capital of the Company was £1,129,463 comprising 112,946,331 ordinary shares of £0.01 each.

Details of the issued share capital of the Company, together with movements in the issued share capital during the year, can be found in note 23 to the Financial statements. All the information detailed in note 23 forms part of this Directors' report and is incorporated into it by reference.

The Company was authorised at the 2019 AGM to allot shares or grant rights to or subscribe for or convert any security into shares in the Company up to a nominal amount of £376,156. This aligns with the institutional investor guideline recommended figure of an amount equal to one-third of the total issued share capital. This authority is valid for a period expiring five years from the date the resolution was approved at the 2019 AGM; however, this authority is revised on an annual basis at each AGM, at which point the previous year's resolution is generally superseded.

Share Incentive Plan

The Group's Share Incentive Plan (SIP) is HMRC-approved and is open to all qualifying employees, including Executive Directors.

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

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

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

During the year, the Company purchased 28,354 of its own shares (2019: 67,220) from the market for the purpose of satisfying its Matching Share obligations under the SIP. The nominal value of the shares purchased was £284 (2019: £672) and the aggregate amount of consideration paid was £0.2m (2019: £0.3m).

Substantial shareholdings

On 1 February 2021, the Company had been notified, in accordance with sections 791 to 828 of the Companies Act, of the following interests in the ordinary share capital of the Company:

Name of holder	Number	% held
Liontrust Asset Management	16,562,966	14.66%
Primestone Capital LLP	13,244,160	11.72%
Fidelity Investments	8,216,967	7.27%
Hargreave Hale Ltd	6,495,030	5.75%
Alan Foy and persons closely associated ¹	5,953,201	5.27%
Steve Timoney	5,644,344	5.00%
Merian Global Investors (UK) Ltd	3,860,292	3.42%
River & Mercantile Asset Management Ltd	3,507,057	3.10%
Canaccord Genuity Wealth Management (CI)	2,888,744	2.56%
Brooks Macdonald Asset Management	2,681,855	2.37%

¹ Persons closely associated to Alan Foy include Metis Investments Ltd, of which Alan Foy is a director and shareholder, and the Metis Trust of which Alan Foy is a trustee but not a beneficiary.

Approved by the Board of Directors on 16 March 2021 and signed on its behalf below.

On behalf of the Board

David Thompson

Chief Financial Officer

16 March 2021

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN THE PREPARATION OF FINANCIAL STATEMENTS

The Directors are responsible for preparing the Directors' report, the Strategic report, the Directors' remuneration report, the separate Corporate governance statement and the Financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Company financial statements for each financial year. The Directors are required by the AIM Rules of the London Stock Exchange to prepare Group financial statements in accordance with International Financial Reporting Standards (IFRSs) in conformity with the Companies Act 2006, and have elected under company law to prepare the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 The Financial Reporting Standard Applicable in the UK and Republic of Ireland.

The Group financial statements are required by law, and by IFRSs in conformity with the Companies Act 2006, to present fairly the financial position and performance of the Group; and the Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

Under company law the Directors must not approve the Financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs in conformity with the Companies Act 2006 and, for the Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the Company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Smart Metering Systems plc website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

This responsibility statement was approved by the Board of Directors on 16 March 2021 and signed on its behalf below.

By order of the Board

Craig McGinn

Company Secretary and General Counsel

16 March 2021

Financial statements

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SMART METERING SYSTEMS PLC

Opinion

In our opinion:

- Smart Metering Systems plc's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2020 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006;

- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Smart Metering Systems plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2020 which comprise:

Group	Parent company
Consolidated statement of financial position as at 31 December 2020	Balance sheet as at 31 December 2020
Consolidated income statement and consolidated statement of comprehensive for the year then ended	Statement of changes in equity for the year then ended
Consolidated statement of changes in equity for the year then ended	Related notes 1 to 8 to the financial statements including a summary of significant accounting policies
Consolidated statement of cash flows for the year then ended	
Related notes 1 to 30 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 international accounting standards in conformity with the requirements of the Companies Act 2006. 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, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (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 in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to going concern

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

- In conjunction with our walkthrough of the Group's financial close process, we confirmed our understanding of management's Going Concern assessment process and also engaged with management early to ensure all key factors were considered in their assessment.
- We obtained management's going concern assessment, including the cash forecast and covenant calculation for the going concern period ending 31 March 2022. The Group has modelled adverse scenarios in their cash forecasts and covenant calculations in order to incorporate severe but plausible changes in key assumptions to the forecasted liquidity of the Group.
- We have tested the factors and assumptions included in each modelled scenario for the cash forecast and covenant calculation and we have tested the impact of Covid-19 included in each forecasted scenario.

- We considered the appropriateness of the methods used to calculate the cash forecasts and covenant calculations and determined through inspection and testing of the methodology and calculations that the methods utilised were appropriately sophisticated to be able to make an assessment for the entity.
- We considered the mitigating factors included in the cash forecasts and covenant calculations that are within control of the Group. This included assessing the Company's non-operating cash outflows and evaluating the Company's ability to control these outflows as mitigating actions if required. We also verified credit facilities available to the Group to signed agreements with lenders.
- We have performed reverse stress testing in order to identify what factors, either in isolation or in combination with other factors, would lead to the Group utilising all liquidity or breaching the financial covenant during the going concern period.
- 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.

The majority of the Group's revenue and profits during 2020 have not been significantly impacted by Covid-19, and therefore the continuation of this global pandemic is not expected to have a significant impact over the going concern assessment period.

Further, the Group has access to committed bank facilities of £300m, which is undrawn as at 31 December 2020, with only £70m of these facilities forecast to be used in the going concern period. The full amount of these facilities matures in 2023.

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 from when the financial statements are authorised for issue until 31 March 2022.

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	<ul style="list-style-type: none"> • We performed an audit of the complete financial information of four components and audit procedures on specific balances for a further seven components. • The components where we performed full or specific audit procedures accounted for 100% of pre-tax profit before exceptional items (our audit testing covers 100% of exceptional items), 100% of Revenue and 100% of Total assets.
Key audit matters	<ul style="list-style-type: none"> • Identification of indicators of impairment of the meter asset portfolio in accordance with IAS 36 and assumptions applied in determining the carrying value of the portfolio of meter assets if indicators are present. • Appropriateness of capitalisation of overheads and other expenses within the total of costs capitalised within meter assets.
Materiality	<ul style="list-style-type: none"> • Overall group materiality of £0.6m 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 PLC continued

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, 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 15 (2019: 14) reporting components of the group, we selected 11 (2019: 10) components covering entities which represent the principal business units within the group.

Of the eleven components selected, we performed an audit of the complete financial information of 4 (2019: 3) components ("full scope components") which were selected based on their size or risk characteristics. For the remaining 7 (2019: 7) components ("specific scope components"), we performed audit procedures on specific accounts within those components that we considered had

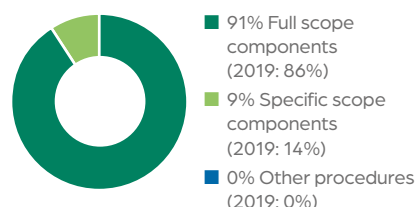
the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The reporting components where we performed audit procedures accounted for 100% (2019: 100%) of the group's PBT before exceptional items measure used to calculate materiality, 100% (2019: 100%) of the group's Revenue and 100% (2019: 99%) of the group's Total assets. We tested 100% of exceptional items (2019: 100%). For the current year, the full scope components contributed 87% (2019: 86%) of the group's PBT before exceptional items used to calculate materiality, 91% (2019: 93%) of the group's Revenue and 94% (2019: 93%) of the group's Total assets. The specific scope component contributed 13% (2019: 14%) of the group's PBT before exceptional items used to calculate materiality, 9% (2019: 7%) of the group's Revenue and 6% (2019: 6%) 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.

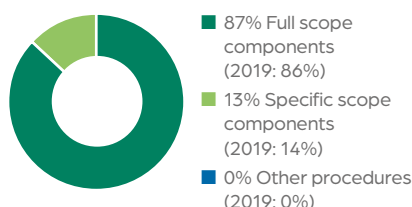
Of the remaining 4 components (2019: 4) did not contribute to the group's Profit before tax and before exceptional items. For these components, we performed other procedures, including analytical review, testing of consolidation journals and intercompany eliminations to respond to any potential risks of material misstatement to the group financial statements.

The charts below illustrate the coverage obtained from the work performed by our audit teams.

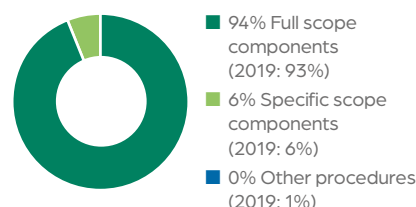
Revenue



Profit before tax and exceptional items



Assets



Involvement with component teams

- All audit work performed for the purposes of the audit was undertaken by the group audit team, with our approach to the audit being adapted to allow for fully remote working given the travel restrictions in place.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we

identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Identification of indicators of impairment of the meter asset portfolio in accordance with IAS 36 and assumptions applied in determining the carrying value of the portfolio of meter assets if impairment indicators are present (£315m value of risk, PY comparative £399m)</p> <p>Refer to the Audit Committee report (page 88); Accounting policies (page 129); and Note 11 of the Consolidated Financial Statements.</p> <p>i/ Traditional meters Management prepared an assessment of potential impairment indicators in relation to the traditional meter portfolio.</p> <p>A full impairment assessment was performed as at 31 December 2019 which indicated that there remained significant headroom in relation to the traditional meter portfolio. In line with IAS 36, management do not consider there to be any events that would eliminate the excess headroom and therefore a full review was not required in 2020.</p> <p>Management concluded that it would not be appropriate to recognise a reversal of the historical impairment charge on consideration of the declining nature of the portfolio, with the smart meter roll out still in place, albeit extended to 1 July 2025, and the uncertainty as to whether the rollout period changing will have a major impact on the behaviour of energy suppliers and the knock on impact on installation run rates. Therefore management conclude that the above noted components that triggered the impairment, remain prevalent in the current year.</p>	<p>i/ Traditional meters We obtained management's assessment of potential impairment indicators which concluded there were no indicators of impairment on traditional meters that would eliminate the excess headroom and that in line with IAS 36, a full impairment review was not required.</p> <p>We evaluated the design effectiveness of controls in relation to their impairment assessment. We did not rely on controls in our assessment.</p> <p>We challenged management's assessment, by reviewing our prior year conclusions reached on management's impairment calculation from 2019, in order to identify the assumptions that the model was most sensitive to.</p> <p>We confirmed that sensitivity testing of the key assumptions would not have a material impact on the headroom in the current year.</p> <p>Further, we performed procedures to independently identify contradictory evidence of potential impairment indicators which included research of publicly available industry information and consideration of our audit work in relation to Property, plant and equipment.</p> <p>We considered the appropriateness of the related disclosures in the group Financial Statements.</p>	<p>Based on the audit procedures performed in relation to the meter portfolio, we consider the year-end carrying value to be appropriate.</p> <p>In relation to SMETS1 meters, until the enrolment and adoption programme is completed, there may be removal of further meters which would represent a small proportion of the total portfolio of meters. We do not consider this to represent an impairment risk to the wider SMETS1 portfolio.</p> <p>We consider the disclosures made around the traditional meter assets to be adequate.</p>

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF SMART METERING SYSTEMS PLC continued

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>ii/ Other meters – smart, industrial and commercial (I&C)</p> <p>Management prepared an assessment of potential impairment indicators in relation to the smart and I&C meter portfolio. This included consideration of the temporary industry transitional issues experienced with certain SMETS1 meters.</p>	<p>ii/ Other meters – smart, industrial and commercial</p> <p>We obtained management's assessment of potential impairment indicators which concluded there were no indicators of impairment on other meters that would eliminate the excess headroom and that in line with IAS 36, a full impairment review was not required.</p> <p>We evaluated the design effectiveness of controls in relation to their impairment assessment. We did not rely on controls in our assessment.</p> <p>We challenged management on the potential impairment indicators identified. Our procedures included verifying assumptions to independent supporting evidence.</p> <p>Further, we performed procedures to independently identify any contradictory evidence of potential impairment indicators which included research of publicly available industry information and consideration of our audit work in relation to fixed assets.</p> <p>We challenged management over the losses arising on the SMETS1 meters removed from the wall during the year and whether this indicated a potential impairment indicator across the wider portfolio of SMETS1 meters.</p> <p>We obtained evidence that indicated that the meters removed earlier in the year arose due to the uncertainty surrounding the transitional issues. We confirmed that the Data Communications Company has issued a timeline for the Enrolment and Adoption programme which brought clarity to the technical issues that have been encountered to date and consideration that the meters removed from the wall can be re-used.</p> <p>The primary team performed full scope audit procedures over this risk area in two locations, which covered 100% of the risk amount.</p>	

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Appropriateness of capitalisation of overheads and other expenses within the total of costs capitalised within meter assets (£19.8m, PY comparative £39.7m)</p> <p>Refer to Audit Committee report (page 88); Accounting policies (page 128) and note 11 in the Consolidated Financial Statements.</p> <p>As at 31 December 2020, the group carried total meter assets amounting to £315m (2019: £399m). This includes internal operational costs that have been capitalised in the current year.</p> <p>As a result of Covid-19, the level of smart meter installations has significantly reduced during the year, particularly between March and August 2020, following SMS temporarily stopping all non-essential field work, which included the installation of smart meters.</p> <p>A significant proportion of the group's smart meters are fitted by its in-house engineering team, with 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, being capitalised in line with the requirements of IAS 16.</p> <p>The significant risk relates to the appropriateness of the judgements made by management when assessing the appropriate categories and proportion of direct costs of installation, overheads and other expenses directly attributable to the installation of each meter.</p>	<p>We identified controls designed by management to determine the categories and proportion of direct costs of installation, overheads and other expenses directly attributable to bringing the meter assets into use by the group's in-house engineering teams and evaluated the design effectiveness of these controls.</p> <p>We evaluated the judgement applied by management to assess the appropriate categories and proportion of direct costs of installation, overheads and other expenses directly attributable to installation of meter assets. This included:</p> <ul style="list-style-type: none"> • Assessment of the capitalisation methodology applied and testing of the mathematical integrity of the model; • Assessed the judgements made in relation to the impact of COVID-19 on the costs to be capitalised and the increase in the time taken to install meters during 2020 as a result of the additional health and safety requirements, challenging management to ensure that they had only capitalised appropriate costs; • Testing of the time recording data utilised to determine the proportion of engineer's time spent installing; • Agreement of the costs to the audited trial balance; and • On a sample basis we tested those 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. • We benchmarked the average installation cost capitalised to contracted third party installation costs to assess the reasonableness of the amount capitalised. • We assessed the classification of costs for capitalisation, costs to be included in exceptional items as a direct consequence of Covid-19 and costs remaining in the P&L. <p>We performed full and specific scope audit procedures over this risk area in one location, which covered 100% of the risk amount.</p>	<p>Based on the results of our audit procedures, we consider the amounts capitalised for meters installed by in-house engineers to be appropriate.</p>

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SMART METERING SYSTEMS PLC continued

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 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 £0.6 million (2019: £0.7 million), which is 5% (2019: 5%) of PBT before exceptional items. We believe that pre-tax profits before exceptional items provides us with an appropriate materiality threshold for the users of the financial statements as the exceptional costs are considered non-recurring costs in the normal course of business. The impact of Covid-19 did not impact the results such that no significant judgement was necessary in determining materiality.

We determined materiality for the Parent Company to be £3.7 million (2019: £3.7 million), which is 2% (2019: 2%) of total equity.

During the course of our audit, we reassessed initial materiality from forecast pre-tax profits to actual pre-tax profits after exceptional items and maintained our materiality at £0.6 million.

Performance materiality

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

On the basis of our risk assessments, together with our assessment of the group's overall control environment, our judgement was that performance materiality was 50% (2019: 50%) of our planning materiality, namely £0.3 million (2019: £0.4 million). We have set performance materiality at this percentage due to our expectation and likelihood of misstatements taking into account the internal control environment, accounting systems and level of estimation in the financial statements.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £0.1 million to £0.3 million (2019: £0.1 million to £0.3 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 £0.03 million (2019: £0.04 million), 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 set out on pages 1 to 110, 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.

In connection with our audit of the financial statements, 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 there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financials 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 110, 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 determined that the most significant are those that relate to the reporting framework (IFRS, Companies Act 2006, AIM Rules for Company; QCA Code) and the relevant tax compliance regulations in the UK and Ireland. In addition, we concluded that there are certain significant laws and regulations that may have an effect on the determination of the amounts and disclosures in the financial statements and those laws and regulations relating to health and safety, employee matters, environmental and bribery and corruption practices;
- We understood how SMS is complying with those frameworks by making enquiries of management, internal audit, those responsible for legal and compliance procedures and the Company Secretary. We corroborated our enquiries through our review of the board minutes and papers provided to the Audit Committee, as well as consideration of the results of our audit procedures across the Group to either corroborate or provide contrary evidence which was then followed up;
- We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur, by meeting with management within various parts of the business to understand where they considered there was susceptibility to fraud. We also considered performance targets and their influence on efforts made by management to manage earnings or influence the perceptions of analysts. Where this risk was considered higher, we performed audit procedures to address the fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error;

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SMART METERING SYSTEMS PLC continued

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <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.

Kevin Weston (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor
Glasgow

16 March 2021

Notes:

1. The maintenance and integrity of the Smart Metering Systems plc's website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2020

	Notes	2020 Before exceptional items £'000	2020 Exceptional items ¹ £'000	2020 Total £'000	2019 Before exceptional items £'000	2019 Exceptional items £'000	2019 Total £'000
Revenue	2	102,982	–	102,982	114,281	–	114,281
Cost of sales	3	(49,980)	(4,890)	(54,870)	(72,217)	–	(72,217)
Gross profit		53,002	(4,890)	48,112	42,064	–	42,064
Administrative expenses	3	(36,845)	(8,085)	(44,930)	(25,514)	(8,527)	(34,041)
Other operating income	3	1,723	–	1,723	5,726	–	5,726
Gain on disposal of subsidiary	4	–	194,713	194,713	–	–	–
Profit from operations	3	17,880	181,738	199,618	22,276	(8,527)	13,749
Finance costs	6	(4,705)	(115)	(4,820)	(8,461)	(104)	(8,565)
Finance income	6	166	–	166	278	–	278
Profit before taxation		13,341	181,623	194,964	14,093	(8,631)	5,462
Taxation	7	(4,103)	2,618	(1,485)	(2,584)	1,119	(1,465)
Profit for the year attributable to owners of the parent		9,238	184,241	193,479	11,509	(7,512)	3,997

¹ Refer to note 3 for details of exceptional items.

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

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

	Notes	2020	2019
Basic earnings per share (pence)	8	171.65	3.56
Diluted earnings per share (pence)	8	170.26	3.53

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	2020 Before exceptional items £'000	2020 Exceptional items £'000	2020 Total £'000	2019 Before exceptional items £'000	2019 Exceptional items £'000	2019 Total £'000
Profit for the year	9,238	184,241	193,479	11,509	(7,512)	3,997
Other comprehensive income¹						
Exchange differences on translation of foreign operations	67	—	67	(66)	—	(66)
Other comprehensive income for the year, net of tax	67	—	67	(66)	—	(66)
Total comprehensive income for the year attributable to owners of the parent	9,305	184,241	193,546	11,443	(7,512)	3,931

¹ May be reclassified to profit or loss.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Notes	2020 £'000	2019 £'000
Assets			
Non-current assets			
Intangible assets	10, 13	24,923	23,743
Property, plant and equipment	11	328,338	412,658
Investments	12	75	75
Other assets	18	1,308	–
Trade and other receivables	15	12	232
Total non-current assets		354,656	436,708
Current assets			
Inventories	14	27,650	22,061
Other assets	18	641	–
Trade and other receivables	15	37,164	48,287
Income tax recoverable		576	227
Cash and cash equivalents	16	40,236	50,092
Restricted cash	16	1,627	–
Total current assets		107,894	120,667
Total assets		462,550	557,375
Liabilities			
Current liabilities			
Trade and other payables	17	41,958	46,796
Lease liabilities	18	936	1,013
Other liabilities	18	388	–
Bank loans and overdrafts	18	–	1,724
Total current liabilities		43,282	49,533
Non-current liabilities			
Bank loans	18	–	267,536
Lease liabilities	18	4,315	2,950
Deferred tax liabilities	21	8,511	13,779
Total non-current liabilities		12,826	284,265
Total liabilities		56,108	333,798
Net assets		406,442	223,577
Equity			
Share capital	23	1,129	1,128
Share premium		160,471	160,106
Other reserve	25	9,562	9,562
Own share reserve	23	(749)	(768)
Foreign currency translation reserve		1	(66)
Retained earnings		236,028	53,615
Total equity attributable to owners of the parent		406,442	223,577

The financial statements on pages 121 to 171 were approved and authorised for issue by the Board of Directors and signed on its behalf by:

David Thompson

Director

16 March 2021

Company registration number
SC367563

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

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 2019	1,125	158,861	9,562	(588)	—	57,173	226,133
Total profit for the year	—	—	—	—	—	3,997	3,997
Total other comprehensive income for the year	—	—	—	—	(66)	—	(66)
Transactions with owners in their capacity as owners							
Dividends (note 9)	—	—	—	—	—	(7,079)	(7,079)
Shares issued (note 23)	3	1,245	—	—	—	(829)	419
Movement in own shares (note 23)	—	—	—	(180)	—	(169)	(349)
Share-based payments (note 24)	—	—	—	—	—	671	671
Income tax effect of share options	—	—	—	—	—	(149)	(149)
As at 31 December 2019	1,128	160,106	9,562	(768)	(66)	53,615	223,577
Total profit for the year	—	—	—	—	—	193,479	193,479
Total other comprehensive income for the year	—	—	—	—	67	—	67
Transactions with owners in their capacity as owners							
Dividends (note 9)	—	—	—	—	—	(12,226)	(12,226)
Shares issued (note 23)	1	365	—	—	—	—	366
Movement in own shares (note 23)	—	—	—	19	—	(180)	(161)
Share-based payments (note 24)	—	—	—	—	—	626	626
Income tax effect of share options	—	—	—	—	—	714	714
As at 31 December 2020	1,129	160,471	9,562	(749)	1	236,028	406,442

See notes 23 and 25 for details of the own share reserve and other reserve.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	2020 £'000	2019 £'000
Operating activities		
Profit before taxation	194,964	5,462
Finance costs	4,705	8,461
Finance income	(166)	(278)
Foreign exchange loss	4	—
Exceptional items: gain on disposal of subsidiary (note 4)	(194,713)	—
Exceptional items: other ¹	6,148	6,326
Depreciation	29,057	35,137
Amortisation of intangibles	2,957	1,483
Share-based payment expense	626	603
RDEC income	(536)	—
Loss on disposal of property, plant and equipment	1,028	2,280
Loss on disposal of intangible assets	12	421
Movement in inventories	(648)	(10,049)
Movement in trade and other receivables ²	6,461	(17,503)
Movement in restricted cash	(1,627)	—
Movement in trade and other payables ²	(4,361)	9,989
Cash generated from operations	43,911	42,332
Income tax received	—	56
Net cash generated from operations	43,911	42,388
Investing activities		
Proceeds on disposal of subsidiary, gross	290,615	—
Payments to dispose of subsidiary ³	(11,589)	—
Proceeds on disposal of subsidiary, net of payments to dispose	279,026	—
Payment for acquisition of subsidiary, net of cash acquired	(2,438)	(1,027)
Payments to acquire property, plant and equipment	(41,796)	(101,698)
Proceeds on disposal of property, plant and equipment	4,779	6,407
Payments to acquire intangible assets	(4,056)	(6,936)
Finance income received	166	278
Net cash generated from/(used in) investing activities	235,681	(102,976)
Financing activities		
New borrowings	15,000	270,000
Borrowings repaid	(285,000)	(172,114)
Principal elements of lease payments	(1,155)	(1,075)
Finance costs paid	(6,272)	(9,149)
Net proceeds from share issue	362	419
Purchase of own shares	(161)	(349)
Dividends paid	(12,226)	(7,079)
Net cash generated (used in)/from financing activities	(289,452)	80,653
Net (decrease)/increase in cash and cash equivalents	(9,860)	20,065
Exchange gain on cash and cash equivalents	4	—
Cash and cash equivalents at the beginning of the financial year	50,092	30,027
Cash and cash equivalents at the end of the financial year (note 16)	40,236	50,092

1 Other non-cash exceptional items include £6,033,000 for losses on our meter portfolio and the £115,000 exceptional finance cost. In 2019, non-cash exceptional items included a £6,837,000 loss on disposal on our meter portfolio, £68,000 cost relating to deferred remuneration arising on the acquisition of a subsidiary in 2016 settled in shares in April 2019, £751,000 stock write-back for returned SMETS1 meters, £93,000 acceleration of loan arrangement fees in relation to the refinancing of the loan facility and £79,000 for non-recurring impairment charges.

2 Movement in trade and other receivables includes an adjustment of £4,922,000 and movement in trade and other payables includes an adjustment of £237,000 for working capital disposed of as part of the subsidiary sale.

3 Payments to dispose of subsidiary of £11,589,000 include cash disposed of £4,681,000 and transaction costs paid in the year of £6,908,000.

ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. 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 2020 were approved and authorised for issue in accordance with a resolution of the Directors on 16 March 2021. Smart Metering Systems plc is a public limited company limited by shares and incorporated in Scotland, with its registered office at 2nd Floor, 48 St. Vincent Street, Glasgow G2 5TS. The Company's ordinary shares are traded on AIM.

Basis of preparation

The consolidated financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

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

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

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 March 2022.

Following the outbreak of COVID-19, forecasts have been reviewed in detail based on the estimated potential impact of COVID-19 restrictions and regulations, along with the Group's proposed responses. Non-essential field work, including planned installations of smart meters, was suspended from 24 March 2020. However, this was a temporary response measure and, following the UK Government's announcement detailing phased lifting of restrictions, a progressive resumption of all non-essential field work commenced from 1 June 2020. Through the second half of 2020, the Group continued to see a recovery in installation run rates, despite continued local restrictions, and by Q4 2020 was operating at c.80% of the pre-COVID-19 run rate. Where permitted under the UK Government's guidelines, installation activity has continued in the early part of 2021 through the second national lockdown. However, access to consumer properties has been limited and the Group has seen a fall in installation rates as a result. Although these events will impact Group revenues and index-linked annualised recurring revenue (ILARR) in the short term, management is of the view that, subject to no further setbacks with the pandemic, smart meter installations should return to normal levels by the end of 2021. Through all of this, the Group continued to generate ILARR from its 3.8 million revenue-generating assets already on the wall, demonstrating the robust nature of the metering infrastructure asset class.

Management has modelled several different meter installation scenarios, including an extreme downside scenario arising solely from a COVID-19 protracted national lockdown, which assumed that no new installations took place for a period of six months. The scenario proved that the business would still have sufficient cash flow to continue to operate, banking covenants would remain satisfied with adequate headroom, and adequate cash would be available to cover liabilities and operating costs. This modelling provides confidence to management that, even in extreme circumstances, the business will still have sufficient resources to continue to operate. Overall, the main impact of COVID-19 is one of timing and, longer term, management does not anticipate any significant effects on the business as a result of the pandemic.

Management has concluded that no significant structural changes to the business are needed as a result of COVID-19.

Following the disposal of a minority of the Group's meter assets, effected by the sale of a wholly owned subsidiary of the Group on 22 April 2020 (the 'Disposal'), gross cash consideration of £290.6m was received (see note 4 for further details). These proceeds were used to make a voluntary prepayment under the Group's existing loan facility of the full outstanding principal of £270m. Concurrently, the total available funding under the loan facility was reduced from £420m to £300m on the same terms through to the end of 2023 (see note 18 for further details). At the date of approving the financial statements, the Group had access to its full £300m revolving credit facility, with no amounts drawn on the facility. The Group has not required any new or extended facilities as a result of COVID-19, nor has it needed to renegotiate or waive any of its bank covenants.

The Group was compliant with all its debt covenants at 31 December 2020. The financial covenants attached to this facility are that EBITDA should be no less than 4.00x interest and net debt should be no more than 5.75x EBITDA. At 31 December 2020 these stood at 8.58x and -1.05x respectively, on account of a net cash-positive position, demonstrating significant headroom. The Group does not expect to breach these covenants in the year from the date of approval of this report.

Going concern continued

As a result of the Disposal and the subsequent voluntary prepayment of its loan facility, the Group was in a net cash position of £40.2m at 31 December 2020 (31 December 2019: net debt of £219.2m) and, at that date, undrawn facilities were £300.0m (31 December 2019: £150.0m). The Group balance sheet shows consolidated net assets of £406.4m (31 December 2019: £223.6m), of which £315.5m (31 December 2019: £398.7m) relates to revenue-generating meter and data assets. The liquidity of the Group thus remains strong and continues to provide the financial flexibility required in order to support the Group's long-term growth prospects.

The Group's cash generation over the period from 24 March to 1 June 2020, from its already installed asset portfolio, enabled the return of funds received from the UK Government under the Coronavirus Job Retention Scheme (CJRS), together with withdrawal from the scheme altogether. The Group has not had to rely on any other government support schemes as a result of COVID-19. With confidence in the Group's liquidity position, despite COVID-19, the Directors elected not to suspend payment of the second interim dividend for 2019 and £5.2m was paid out to shareholders on 4 June 2020. With significant coverage provided by existing long-term, inflation-linked and recurring cash flows, the Group also remains committed to its revised dividend policy and proposes a 25p per share annualised dividend in respect of FY 2020. The first of four cash instalments, a total of £7.1m, was paid in October 2020.

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

Basis of consolidation

The consolidated accounts of the Group include the assets, liabilities and results of the Company and subsidiary undertakings in which Smart Metering Systems plc (SMS) 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 of 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 133).

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

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

Foreign currency translation

Group companies

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

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

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

ACCOUNTING POLICIES continued

Foreign currency translation continued

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 that are 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:

- presentation of costs attributable to COVID-19 as exceptional:
 - as a result of reduced engineering activity in periods of lockdown due to COVID-19, management has estimated that £6.4m of costs that would ordinarily be capitalised as directly attributable to the installation of meter assets – consisting primarily of staff costs – have remained in underlying profit. Consistent with the Group's accounting policy on exceptional items (see below), these material costs are attributable to a rare macroeconomic event, being the COVID-19 pandemic, and therefore management has taken the judgement to recognise these costs as exceptional; and
 - at 31 December 2020, management has assessed the expected credit losses for trade receivables. COVID-19 has generated global financial uncertainty; however, the potential impact of this on the Group's credit risk is mitigated by the highly regulated nature of the utilities industry and the extensive support made available to energy – and other infrastructure – suppliers by the UK Government. As a result, management has not increased the expected loss rates for the trade receivables portfolio as a whole. Instead, a subset of trade receivables has been identified as having a potentially elevated credit risk, due to a greater risk of administration as a direct consequence of COVID-19. This subset of trade receivables has been provided for on a specific basis and has resulted in an additional £0.5m impairment loss. Given the continued uncertainty regarding the impact of COVID-19 on customer default risk, management will continue to monitor the situation and reassess its expected credit losses at each reporting period end. Management has taken the judgement to recognise this incremental impairment loss as exceptional on the same basis as that outlined above;
- capitalisation of internal installation costs:
 - a significant level of in-house installation of customers' meter assets is carried out by the Group, certain costs of which are capitalised (2020: £19.8m, 2019: £39.7m) 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; and

Use of estimates and judgements continued

Critical accounting judgements continued

- presentation of losses on disposal of certain meter assets as exceptional items:
 - as a result of the inherent volatility associated with the UK smart meter rollout, and removal of traditional meter assets as part of this, management has taken the decision to show losses arising on disposal of these meters – being the net book value less the associated termination income received representing proceeds on disposal – as exceptional administrative expenses. By disclosing these amounts separately, the traditional meter asset portfolio can be better tracked to assist the users of the financial statements to better understand this premature retirement of these revenue-generating assets that is outside the Group's control. A loss on disposal of traditional meter assets was recognised as an exceptional cost in the year ended 31 December 2020. In 2019, the change in accounting policy to reduce the residual value of the traditional meter asset portfolio to £nil (see note 11 for further details) was designed to reflect the consumption of economic benefit from installed assets, being the income earned from the provision of the meter. On disposal, the receipt of termination income, recognised as a component of the net gain or loss on the disposal of these meter assets, will vary depending on the energy supplier and is therefore not within our control. As the receipt of proceeds from disposal is inherently volatile, a loss on disposal can still arise in certain circumstances; and
 - technical communication issues for some first-generation smart meter assets (SMETS1 meters) on supplier churn have continued through 2020, with the DCC Enrolment and Adoption programme now due to extend into 2021. As a result, 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 taken the judgement to recognise losses arising on the disposal of these meters as exceptional until resolution by the Enrolment and Adoption programme is complete.

Key sources of estimation uncertainty

The key assumptions concerning the future and other 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 are discussed below:

- recoverability of carrying value of meter assets portfolio:
 - as the UK smart meter rollout progresses, our portfolio of traditional meter assets is diminishing. It is therefore crucial that the recoverability of the carrying value of 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 – given this decision lies with the end consumer and removals are largely undertaken by third parties. We thus have little control over the timing and quantity of these removals; and
 - 2) the estimated future cash flows from termination income, which are derived using historical data and analysis around the risk of churn between contracted and non-contracted customers. This 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.

No impairment review was considered necessary at 31 December 2020 for the reasons detailed within note 11. The carrying value of the traditional meter assets portfolio is thus considered recoverable and, therefore, no impairment charge has been recognised.

Revenue recognition

Refer to details in note 2.

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 understand better the elements of financial performance in that year, so as to facilitate comparison with prior periods and to assess better trends in financial performance.

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

ACCOUNTING POLICIES continued

Government grants

Grants from governments are recognised at their fair value where there is a 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 on 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 on the consolidated statement of comprehensive income. Outstanding amounts receivable or payable are recognised on the consolidated balance sheet within the corporation tax asset or corporation tax liability respectively.

Financial assets

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

Classification

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

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

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

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

Recognition and derecognition

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

Measurement

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

Trade and other receivables

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

Cash and cash equivalents

Refer to accounting policy.

Financial assets continued

Impairment

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

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

Further information about the impairment of trade receivables and accrued income, and the Group's exposure to credit risks, can be found in note 19.

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 12 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, where the change in present value of cash flows, including any transaction costs paid, exceeds 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 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 12 months after the reporting period.

ACCOUNTING POLICIES continued

Offsetting of financial instruments

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

Leases

Group as lessor

The arrangements the Group has in place to act as meter asset provider do not constitute a lease of the meter asset to the energy supplier. SMS controls the meter as the Group retains legal title and obtains substantially all the economic benefit. The assets are recognised as property, plant and equipment when in use under contract with an energy supplier and 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 in note 2, and for property, plant and equipment in note 11.

Group as a lessee

The Group leases various offices, warehouses and motor vehicles and, following the business combinations disclosed in note 20, land. For offices, warehouses and motor vehicles rental contracts are typically made for fixed periods of three to 10 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.

From 1 January 2019, 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 2020 was 4.8% (31 December 2019: 4%), representing a small increase due to the new lease liabilities recognised in the year in relation to land acquired as part of the grid-scale business acquisitions detailed in note 20.

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

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

Leases continued

Group as a lessee continued

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.

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 12 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.

Business combinations

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

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

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

Acquisition-related costs are expensed as incurred.

The excess of the:

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

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

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

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

ACCOUNTING POLICIES continued

Research and development

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

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

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

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

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

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

Capitalised IT development expenditure is disclosed within Intangible assets as part of IT development and software. Development and software were previously disclosed separately, but were combined into a single asset class for the year ended 31 December 2019 as all costs capitalised within these categories relate to information technology and, with effect from 1 January 2019, costs were amortised over the same useful economic life of five years. A new system was integrated and brought into use during 2020 and associated development costs are amortised over the remaining contract term of two years. All other costs continue to be amortised over five years.

Intangible assets

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

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

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

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

Intangible assets are amortised over their useful lives as follows:

- IT development and software 20% and 50% on cost, straight line
- Intangibles recognised upon acquisition:
 - Customer contracts 10% on cost, straight line
 - Trademarks 33% on cost, straight line

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

Goodwill

Goodwill represents the excess of the consideration transferred over the fair value of the identifiable assets and liabilities of the acquiree at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but is tested annually for impairment, or if there is an indication of impairment, and is carried at cost less accumulated impairment losses. See note 13 for detailed assumptions and methodology. Impairment losses are not subsequently reversed.

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

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

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

Detailed assumptions used in the annual impairment test for goodwill, with regard to discount, growth and inflation rates, are set out in note 13.

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

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

Impairment of tangible and intangible assets other than goodwill

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

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

Detailed assumptions used in the impairment test for meter assets, namely traditional meter assets, are set out in note 11.

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

ACCOUNTING POLICIES continued

Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and any accumulated impairment losses. 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, respectively. Pursuant to the acquisition of the meter installation businesses on 18 March 2016 certain internal costs to the Group are also capitalised where they are demonstrated as being directly attributable to bringing the meter assets into their usable condition.

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

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

- Freehold property 2%
- Short leasehold property Shorter of the lease term or 15% and 20%
- Meter assets
 - Smart meters and I&C meters 5%
 - ADM™ units 10%
 - Traditional meters to 1 July 2025
- Plant and machinery 33% on cost
- Fixtures, fittings and equipment 20% and 33% on cost
- Motor vehicles 25% on cost
- Right-of-use assets Shorter of the asset's useful life and the lease term.

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

Property, plant and equipment is initially recorded at cost.

The following changes in estimates with regard to property, plant and equipment were made with effect from 1 January 2020:

- With respect to the domestic traditional meter asset portfolio, the useful life of all opening assets has been extended from 31 December 2022 to 1 July 2025 to reflect the UK Government's confirmation on 18 June 2020 that it will introduce a new regulatory framework, first proposed in September 2019, for the next phase of the UK smart meter rollout. The new four-year framework will be implemented from 1 July 2021, effectively extending the smart meter rollout to 1 July 2025. It is accepted that the rate of meter exchange to smart meters will vary year by year as the rollout proceeds, but there is currently no reliable basis on which to predict the annual profile. Accordingly, a straight-line approach to depreciation of these assets continues to be adopted. As a result of this change in estimate, the consolidated income statement for the year ended 31 December 2020 reflected a reduced charge for depreciation of £4.8m, recognised within depreciation in Cost of sales. It is not practicable to estimate the effect of this change on future periods because the future removal profile of the domestic traditional meter asset portfolio is volatile and outside our control.

The following changes in estimates with regard to property, plant and equipment were made with effect from 1 January 2019:

- Subsequent to the impairment review carried out at 31 December 2018, the estimate of residual value on the domestic traditional meter asset portfolio has been reduced to 0% to reflect management's updated forecasts and assumptions regarding the recoverability of value on these assets. As a result, the income statement has been charged with an additional c.£7.3m, recognised within depreciation in Cost of sales.

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

Inventories

Finished goods and consumables

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

Work in progress: grid-scale batteries

Work in progress is stated at the lower of cost and net realisable value. Cost includes:

- work in progress recognised as a result of business combinations;
- direct materials, including the purchase of batteries at cost (after deducting rebates and discounts); and
- the cost of development, including direct labour and an appropriate proportion of overhead expenditure.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and 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 from cash and cash equivalents.

Any movement in restricted cash is classified as an operating cash flow in the consolidated statement of cash flows, in line with the operational nature of the management service being delivered.

Pension costs

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

Share-based payments

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

Share capital

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

Own share reserve

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

ACCOUNTING POLICIES continued

Dividends

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

Taxation

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

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

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

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

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

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

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

Standards and interpretations

New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for its annual reporting period commencing 1 January 2020:

Standard or interpretation		Effective date
IFRS 3 (amendment)	Definition of a Business	1 January 2020
IAS 1 and IAS 8 (amendment)	Definition of Material	1 January 2020
CF	Conceptual Framework for Financial Reporting	1 January 2020

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

New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been early-adopted by the Group. These 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 2020

1 Segmental reporting

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

- Asset Management, which comprises regulated management of gas meters, electric meters and ADM™ units 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 provision of energy consultancy services and, following the acquisition of Solo Energy Limited, the management of Distributed Energy Resources (DER) assets.

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

Segment performance is evaluated based on gross profit.

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

31 December 2020	Asset Management £'000	Asset Installation £'000	Energy Management £'000	Unallocated £'000	Total operations £'000
Segment revenue	78,675	49,011	4,583	–	132,269
Inter-segment revenue	–	(29,287)	–	–	(29,287)
Revenue from external customers	78,675	19,724	4,583	–	102,982
Cost of sales	(29,825)	(16,591)	(3,564)	–	(49,980)
Segment gross profit – pre-exceptional cost of sales	48,850	3,133	1,019	–	53,002
Exceptional items (cost of sales)	–	(4,890)	–	–	(4,890)
Segment gross profit/(loss)	48,850	(1,757)	1,019	–	48,112
Other operating costs/income	–	–	–	(27,780)	(27,780)
Depreciation	(1,385)	–	(21)	(2,979)	(4,385)
Amortisation of intangibles	(2,925)	–	(32)	–	(2,957)
Profit/(loss) from operations – pre-exceptional operating items	44,540	(1,757)	966	(30,759)	12,990
Exceptional items (operating)	188,612	(928)	–	(1,056)	186,628
Profit/(loss) from operations	233,152	(2,685)	966	(31,815)	199,618
Net finance costs: other	(4,399)	–	(33)	(107)	(4,539)
Net finance costs: exceptional	(115)	–	–	–	(115)
Profit/(loss) before tax	228,638	(2,685)	933	(31,922)	194,964
Tax expense	–	–	–	–	(1,485)
Profit for year					193,479

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 2020

1 Segmental reporting continued

31 December 2019	Asset Management £'000	Asset Installation £'000	Energy Management £'000	Unallocated £'000	Total operations £'000
Segment revenue	82,907	59,968	9,024	–	151,899
Inter-segment revenue	–	(37,618)	–	–	(37,618)
Revenue from external customers	82,907	22,350	9,024	–	114,281
Cost of sales	(37,389)	(27,981)	(6,847)	–	(72,217)
Segment gross profit/(loss)	45,518	(5,631)	2,177	–	42,064
Other operating costs/income	–	–	–	(14,659)	(14,659)
Depreciation	(1,347)	–	–	(2,299)	(3,646)
Amortisation of intangibles	(1,473)	–	(10)	–	(1,483)
Exceptional items	(8,085)	(51)	–	(391)	(8,527)
Profit/(loss) from operations	34,613	(5,682)	2,167	(17,349)	13,749
Net finance costs: exceptional	(104)	–	–	–	(104)
Net finance costs: other	(8,065)	–	–	(118)	(8,183)
Profit/(loss) before tax	26,444	(5,682)	2,167	(17,467)	5,462
Tax expense	–	–	–	–	(1,465)
Profit for year					3,997

Inter-segment revenue relates to installation services provided by the Asset Installation segment to the Asset Management segment.

Depreciation of £24.7m (2019: £31.5m) associated with meter assets has been reported within Cost of sales, in the Asset Management segment, as the meter assets directly drive revenue.

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

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

	2020 £'000	2019 £'000
Customer 1 – Asset Management	12,876	14,030
Customer 1 – Asset Installation	359	796
Customer 2 – Asset Management	7,816	–
Customer 2 – Asset Installation	6,251	–
	27,302	14,826

1 Segmental reporting continued

Segment assets and liabilities

	Asset Management £'000	Asset Installation £'000	Energy Management £'000	Unallocated £'000	Total operations £'000
31 December 2020					
Assets reported by segment					
Intangible assets	19,308	3,497	2,118	–	24,923
Property, plant and equipment	318,979	235	2,222	6,902	328,338
Inventories	22,676	273	4,701	–	27,650
Contract assets	–	–	47	–	47
Other assets (bank loans)	1,949	–	–	–	1,949
	362,912	4,005	9,088	6,902	382,907
Assets not by segment					79,643
Total assets					462,550
Liabilities by segment					
Contract liabilities	1,254	2,216	219	–	3,689
Lease liabilities	727	–	2,276	2,248	5,251
Bank loans	–	–	–	–	–
	1,981	2,216	2,495	2,248	8,940
Liabilities not by segment					47,168
Total liabilities					56,108
31 December 2019					
Assets reported by segment					
Intangible assets	18,417	3,493	1,833	–	23,743
Property, plant and equipment	403,948	518	–	8,192	412,658
Inventories	21,734	327	–	–	22,061
Contract assets	–	11	–	–	11
	444,099	4,349	1,833	8,192	458,473
Assets not by segment					98,902
Total assets					557,375
Liabilities by segment					
Contract liabilities	1,360	2,010	124	–	3,494
Lease liabilities	893	–	–	3,072	3,965
Other liabilities					
Bank loans	269,260	–	–	–	269,260
	271,513	2,010	124	3,072	276,719
Liabilities not by segment					57,079
Total liabilities					333,798

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

Liabilities not by segment include trade and other payables and deferred tax liabilities.

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

	Asset Management £'000	Asset Installation £'000	Energy Management £'000	Unallocated £'000	Total operations £'000
Additions to non-current assets					
2020	44,080	2	2,568	1,467	48,117
2019	106,452	509	67	6,495	113,523

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 2020

2 Revenue from contracts with customers

(a) Disaggregation of revenue from contracts with customers

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

Year ended 31 December 2020	Asset Management £'000	Asset Installation £'000	Energy Management £'000	Total operations £'000
Major service lines				
Metering	70,780	–	–	70,780
Data management	7,895	–	–	7,895
Utility connections	–	8,817	–	8,817
Transactional meter works	–	10,275	–	10,275
Energy management	–	632	4,583	5,215
	78,675	19,724	4,583	102,982
Timing of revenue recognition				
Services transferred at a point in time	–	10,275	–	10,275
Services transferred over time	78,675	9,449	4,583	92,707
	78,675	19,724	4,583	102,982

Year ended 31 December 2019	Asset Management £'000	Asset Installation £'000	Energy Management £'000	Total operations £'000
Major service lines				
Metering	75,472	–	–	75,472
Data management	7,435	–	–	7,435
Utility connections	–	8,406	–	8,406
Transactional meter works	–	13,295	–	13,295
Energy management	–	649	9,024	9,673
	82,907	22,350	9,024	114,281
Timing of revenue recognition				
Services transferred at a point in time	–	13,172	–	13,172
Services transferred over time	82,907	9,178	9,024	101,109
	82,907	22,350	9,024	114,281

(b) Assets and liabilities related to contracts with customers

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

	2020 £'000	2019 £'000
Current contract assets	47	11
Total contract assets	47	11
Current contract liabilities	3,689	3,494
Total contract liabilities	3,689	3,494

Trade receivables and unbilled receivables are disclosed in note 15.

2 Revenue from contracts with customers continued

(b) Assets and liabilities related to contracts with customers continued

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:

	2020 £'000	2019 £'000
Revenue recognised that was included in the contract liability balance at the beginning of the period	2,991	3,057

No revenue was recognised in 2020 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.

(c) Accounting policies and significant judgements

(i) Metering

Meter rental

The Group acts as a gas and electricity meter asset provider, 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 meter asset provider 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 Meter Asset Provider (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 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 recognised as a reduction to revenue in the month in which the service failure occurred. Where service levels are set based on annual targets, charges are estimated monthly and subsequently finalised at the end of the year. Uncertainty, as it pertains to these payments to customers, is thus typically resolved by the end of the reporting period.

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

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

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 2020

2 Revenue from contracts with customers continued

(c) Accounting policies and significant judgements continued

(i) Metering continued

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 daily based on the number of meters appointed and invoiced to customers monthly. As revenue from service charges is attributed to services provided daily, 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 and includes contract RPI uplifts.

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

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

Third-party management services

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

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

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

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

(ii) Data services

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

Service charges are calculated based on the number of meters/ADM™ units appointed and invoiced to customers 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.

2 Revenue from contracts with customers continued

(c) Accounting policies and significant judgements continued

(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 by 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 12 months.

(iv) Transactional meter works

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

In 2020, the Group also started to provide transactional meter works to the third party to whom the Group sold a minority of its meter asset portfolio in April 2020. In 2019, transactional meter works also included contracts with customers for installation-only services.

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.

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 2020

2 Revenue from contracts with customers continued

(c) Accounting policies and significant judgements continued

(v) Energy management services

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

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

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

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

(vi) Assets and liabilities arising from contracts with customers

Costs to fulfil a contract

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

Contract assets and liabilities

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

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

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

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

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

3 Profit from operations

The Group has identified a number of items which are material due to the significance of their nature and/or amount. These are listed separately here to provide a better understanding of the financial performance of the Group.

	2020 £'000	2019 £'000
Profit from operations is stated after (charging)/crediting:		
Cost of sales:		
Direct subcontractor costs	(7,183)	(7,195)
Depreciation of meter assets	(24,672)	(31,491)
Direct staff and other costs	(16,569)	(31,212)
Inventory costs	(1,556)	(2,319)
Total cost of sales (before exceptional items)	(49,980)	(72,217)
Administrative expenses:		
Staff costs	(18,306)	(12,380)
Depreciation:		
– owned assets	(3,403)	(2,729)
– leased assets	(982)	(917)
Amortisation of intangibles	(2,957)	(1,483)
Auditor's remuneration (note 3a)	(346)	(300)
Loss on disposal	(1,040)	(2,701)
Operating lease rentals ¹	(346)	(1,032)
Research and development costs	(76)	–
Other operating charges	(9,389)	(3,972)
Total administrative expenses (before exceptional items)	(36,845)	(25,514)
Exceptional items (note 3b)	181,738	(8,527)
Other operating income (note 3c)	1,723	5,726
Total operating costs	96,636	(100,532)

¹ 2020 operating lease rentals include £314,000 on short-term leases (2019: £1,010,000) and £32,000 on leases of low-value assets (2019: £22,000).

(a) Auditor's remuneration

Auditor's remuneration can be analysed as:

	2020 £'000	2019 £'000
Audit of the parent company and consolidated financial statements	144	95
Audit of the financial statements of the Company's subsidiaries	172	155
Other services – audit-related assurance services	30	50
	346	300

(b) Exceptional items

An exceptional gain on the disposal of a subsidiary of £194,713,000 has been recognised separately on the consolidated income statement for the year ended 31 December 2020. See note 4 for details.

There are total other exceptional items on the consolidated income statement of £13,090,000. Exceptional operating costs comprise £6,857,000 of costs directly attributable to COVID-19 (see accounting policies – Critical accounting judgements on page 128 for further details), £6,033,000 of losses on disposal of our traditional and SMETS1 meter portfolio (£9,521,000 net book value less £3,488,000 termination income) and £85,000 of other miscellaneous costs.

Exceptional finance costs of £115,000 comprise break costs incurred on full voluntary prepayment of the Group's loan facility (see note 18 for details).

In 2019, there were total exceptional items on the consolidated income statement of £8,631,000. Exceptional operating costs comprised £6,837,000 for losses on disposal of our meter portfolio (£11,819,000 net book value less £4,982,000 termination income), £1,999,000 of legal and professional fees incurred as part of the conditional sale of a minority of our assets, £751,000 SMETS1 meters stock write-back, £96,000 of redundancy costs relating to the reorganisation of subsidiaries, £92,000 of costs incurred in relation to the acquisition of Solo Energy Limited, £82,000 of costs that the Company has agreed to settle in relation to a former legacy Employee Benefit Trust, £68,000 of deferred remuneration arising on the acquisition of a subsidiary in 2016 settled in shares in April 2019 and £104,000 impairment charges.

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 2020

3 Profit from operations continued

(b) Exceptional items continued

Exceptional finance costs of £104,000 included £98,000 accelerated amortisation of loan arrangement fees in relation to the refinancing of the loan facility and £6,000 of bank break fees.

The tax effect of exceptional items charged in 2020 is a credit of £2,618,000 (2019: credit of £1,119,000).

(c) Other operating income

	2020 £'000	2019 £'000
Termination fee income	985	2,415
Other contractual charges levied on customers	—	3,301
Government grant income	738	10
	1,723	5,726

Of the government grant income of £738,000 recognised in the year ended 31 December 2020, £536,000 relates to RDECs.

4 Disposal of subsidiary

On 12 March 2020, the Group conditionally signed an agreement to dispose of a minority of the Group's meter assets through the sale of the entire share capital of Crail Meters Limited ('Crail'), a wholly owned subsidiary of the Group.

The meter asset provision (MAP) business carried on by two existing operating subsidiaries of the Group (the 'Meter Managers') was transferred to Crail on 12 March 2020. The business transferred included c.187,000 Industrial & Commercial (I&C) meter assets, amongst other working capital balances. Crail continued to trade from 12 March 2020 through to 22 April 2020.

On 22 April 2020 the entire share capital of Crail was sold to an unconnected third party. Total gross cash consideration of £290.6m was received, comprising a payment for the sale of the shares in Crail and the repayment of an intercompany debt owed by Crail to the Meter Managers. There was no contingent or non-cash consideration.

The total carrying amount of net assets disposed was £89.0m, including £86.1m of meter assets, a £9.1m net receivable of working capital balances and £6.2m of deferred tax liabilities, giving rise to a gross gain of £201.6m. After the deduction of £6.9m transaction costs, a net gain on disposal of £194.7m has been recognised separately in the consolidated income statement. Excluding deferred taxation and transaction costs, the gain is £195.4m.

Crail does not meet the definition of a discontinued operation under IFRS 5 on the basis that the minority portfolio of I&C assets disposed does not represent the loss of a separate, major line of business and, although I&C activities have been significantly reduced, they have not been entirely discontinued.

SMS will continue to manage the disposed I&C meter portfolio on behalf of the purchaser, for which it will receive annual RPI-linked management fees of £0.8m.

5 Particulars of employees

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

	2020 Number	2019 Number
Administrative staff	497	487
Operational staff	546	669
Sales staff	4	4
IT staff	73	62
Directors (excluding 4 (2019: 4) Non-executive Directors)	3	3
	1,123	1,225

The aggregate payroll costs, including Executive Directors, of the employees were:

	2020 £'000	2019 £'000
Wages and salaries	39,880	39,817
Social security costs	4,103	4,400
Staff pension costs	1,229	1,115
Share-based payment (note 24)	626	671
Director pension costs	18	11
	45,856	46,014

6 Finance costs and finance income

	2020 £'000	2019 £'000
Finance costs		
Bank loans and overdrafts	4,556	8,255
Lease liabilities	172	157
Foreign exchange (gain)/loss on intra-group borrowings	(23)	49
Total pre-exceptional finance costs	4,705	8,461
Exceptional finance costs	115	104
Total finance costs	4,820	8,565
Finance income		
Bank interest receivable	166	278
Total finance income	166	278

7 Taxation

	2020 £'000	2019 £'000
Analysis of charge in the year		
Current tax:		
Current income tax expense	331	(81)
Adjustment to tax charge in respect of previous periods	92	2
Total current income tax	423	(79)
Deferred tax:		
Origination and reversal of temporary differences	(198)	1,405
Adjustment to tax charge in respect of prior periods	(304)	–
Adjustment attributable to change in tax rates	1,564	139
Tax on profit	1,485	1,465

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

	2020 £'000	2019 £'000
Profit before tax	194,964	5,462
Tax at the UK corporation tax rate of 19.00% (2019: 19.00%)	37,043	1,038
Expenses not deductible for tax purposes	1,565	420
Income not taxable	(38,495)	–
Adjustments to tax charge in respect of previous periods	(212)	142
Impact of overseas tax rates	20	–
Change in tax rate ¹	1,564	(135)
Tax expense in the income statement	1,485	1,465

¹ See note 21 for further details.

Current tax credit through equity in the year was £nil (2019: £nil).

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 2020

8 Earnings per share (EPS)

The calculation of EPS is based on the following data and number of shares:

	2020 £'000	2019 £'000
Profit for the year used for calculation of basic EPS	193,479	3,997
Number of shares	2020	2019
Weighted average number of ordinary shares for the purposes of basic EPS	112,715,328	112,446,154
Effect of potentially dilutive ordinary shares:		
– share options	922,554	823,258
Weighted average number of ordinary shares for the purposes of diluted EPS	113,637,882	113,269,412
EPS:		
– basic (pence)	171.65	3.56
– diluted (pence)	170.26	3.53

9 Dividends

	Year ended 31 December 2020 £'000	Year ended 31 December 2020 Per share (pence)	Year ended 31 December 2019 £'000	Year ended 31 December 2019 Per share (pence)
Paid final dividend	–	–	4,485	3.98
Paid second interim dividend	5,168	4.58	–	–
Paid first interim dividend	7,058	6.25	2,594	2.30
Total dividends	12,226	10.83	7,079	6.28

The paid second interim dividend is in respect of FY 2019. The paid first interim dividend is in respect of FY 2020.

Per the Group's revised dividend policy, a 25p per share dividend is proposed in respect of FY 2020. This will be paid to shareholders in four cash instalments.

The first instalment of £7.1m was paid on 29 October 2020 to shareholders on the register at 2 October 2020, with an ex-dividend date of 1 October 2020. The remaining instalments are intended to be paid as follows:

Instalment	Ex-dividend date	Record date	Payment date
Second interim	7 January 2021	8 January 2021	28 January 2021
Third interim	1 April 2021	6 April 2021	29 April 2021
Final	1 July 2021	2 July 2021	29 July 2021

These remaining instalments will amount to c.£21m and will be accounted for in 2021.

Under the new 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 2020, the distributable profits in the parent company were adequate to cover the proposed second interim dividend of c.£7m.

10 Intangible assets

	Goodwill £'000	Intangibles recognised upon acquisition £'000	IT development and software £'000	Total £'000
Cost				
As at 1 January 2019	7,609	2,166	17,678	27,453
Additions	—	—	6,936	6,936
Acquisitions	995	96	697	1,788
Reclassifications ¹	—	—	(205)	(205)
Exchange adjustments	(57)	(5)	(22)	(84)
Disposals	—	—	(639)	(639)
As at 31 December 2019	8,547	2,257	24,445	35,249
Additions	—	—	4,056	4,056
Acquisitions	—	—	—	—
Disposals	—	—	(12)	(12)
Exchange adjustments	60	4	29	93
As at 31 December 2020	8,607	2,261	28,518	39,386
Amortisation				
As at 1 January 2019	—	2,034	8,281	10,315
Reclassifications ¹	—	—	(74)	(74)
Disposals	—	—	(218)	(218)
Charge for year	—	137	1,346	1,483
As at 31 December 2019	—	2,171	9,335	11,506
Disposals	—	—	—	—
Charge for year	—	32	2,925	2,957
As at 31 December 2020	—	2,203	12,260	14,463
Net book value				
As at 31 December 2020	8,607	58	16,258	24,923
As at 31 December 2019	8,547	86	15,110	23,743
As at 1 January 2019	7,609	132	9,397	17,138

¹ Capitalised development expenditure on ADM™ units has been reallocated from IT development and software within Intangible assets to Meter assets within Property, plant and equipment, to align with the Group's accounting policy.

No goodwill or intangible assets were recognised as a result of acquisitions during the year. The acquisition of Solo Energy Limited in September 2019 resulted in the recognition of goodwill of £995,000, which was assigned to the Energy Management operating segment. In addition, the trademarks of Solo Energy Limited and its FlexiGrid™ platform were valued at £96,000 and were recognised as additions within the acquired intangibles asset class. See note 20 for further details on business acquisitions.

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 2020

11 Property, plant and equipment

	Freehold/ leasehold property £'000	Meter assets £'000	Plant and machinery £'000	Fixtures, fittings and equipment £'000	Motor vehicles £'000	Right-of-use assets £'000	Total £'000
Cost							
As at 1 January 2019	2,536	410,128	504	4,248	2,814	—	420,230
Additions	215	95,186	520	2,498	3,279	4,889	106,587
Acquisitions	—	—	—	6	—	—	6
Reclassifications ¹	—	205	—	—	—	—	205
Impairment	—	—	—	—	—	(90)	(90)
Disposals	—	(21,991)	—	(894)	(65)	(54)	(23,004)
As at 31 December 2019	2,751	483,528	1,024	5,858	6,028	4,745	503,934
Additions	56	40,349	20	1,329	42	2,265	44,061
Acquisitions	—	—	—	—	—	—	—
Impairment	—	—	—	—	—	—	—
Disposals	—	(131,731)	—	(43)	(765)	—	(132,539)
Exchange adjustments	—	—	—	4	—	—	4
As at 31 December 2020	2,807	392,146	1,044	7,148	5,305	7,010	415,460
Depreciation							
As at 1 January 2019	519	59,766	233	2,618	362	—	63,498
Charge for year	(14)	31,491	267	1,337	1,139	917	35,137
Reclassifications ¹	—	74	—	—	—	—	74
Impairment	—	—	—	—	—	(37)	(37)
Disposals	—	(6,520)	—	(841)	(35)	—	(7,396)
As at 31 December 2019	505	84,811	500	3,114	1,466	880	91,276
Charge for year	174	24,672	290	1,639	1,300	982	29,057
Impairment	—	—	—	—	—	—	—
Disposals	—	(32,800)	—	(37)	(379)	—	(33,216)
Exchange adjustments	—	—	—	5	—	—	5
As at 31 December 2020	679	76,683	790	4,721	2,387	1,862	87,122
Net book value							
As at 31 December 2020	2,128	315,463	254	2,427	2,918	5,148	328,338
As at 31 December 2019	2,246	398,717	524	2,744	4,562	3,865	412,658
As at 1 January 2019	2,017	350,362	271	1,630	2,452	—	356,732

¹ Capitalised development expenditure on ADM™ units was reallocated in 2019 from IT development and software within Intangible assets to Meter assets within Property, plant and equipment, to align with the Group's accounting policy.

Meter assets

Meter asset disposals in the year include the c.187,000 assets disposed of as part of the sale of a subsidiary on 22 April 2020. The assets disposed of had a net book value of £86,103,000.

Included within the closing Meter assets net book value of £315,463,000 (2019: £398,717,000) is £22,627,000 (2019: £30,298,000) 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 2020 consolidated financial statements the traditional meter portfolio generated £13,140,000 (2019: £12,965,000) revenue with a corresponding £5,668,000 (2019: £11,184,000) depreciation charge. £13,333,000 (2019: £13,928,000) annualised recurring revenue as at 31 December 2020 arises from the owned traditional meter portfolio.

11 Property, plant and equipment continued

Meter assets continued

The assets are secured by a bond and floating charge (note 18).

For the purpose of impairment testing, the traditional meter asset portfolio recognised within Meter assets is assessed as a stand-alone cash-generating unit (CGU) and its carrying amount is compared with the recoverable amount. In line with IAS 36, no impairment review was considered necessary at 31 December 2020 as the previous impairment review at 31 December 2019 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 2020 that would eliminate this excess or any new material indicators of impairment in the year. As a result of COVID-19, and the reduced smart meter installation activity, there has been a lower volume of traditional meter asset removals. In addition, as detailed in the accounting policies, the useful economic life of traditional meter assets has been extended to 1 July 2025 following the UK Government's announcement of its new framework for the UK smart meter rollout.

Therefore, no impairment has been recognised in the period ended 31 December 2020 (31 December 2019: £nil). No impairment on other meter assets was recognised in 2020 or 2019.

Right-of-use assets

In 2019, right-of-use assets were recognised following the implementation of IFRS 16. Of the £4,889,000 additions reported above, £3,820,000 related to right-of-use assets recognised upon implementation on 1 January 2019.

Additions to right-of-use assets during the 2020 financial year were £2,265,000 (2019: £1,069,000, excluding right-of-use assets recognised upon implementation on 1 January 2019).

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

Carrying value	2020 £'000	2019 £'000
Properties ¹	2,918	3,846
Motor vehicles	7	19
Land	2,223	–
	5,148	3,865

¹ Properties include office and warehouse space.

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

Depreciation charge on right-of-use assets	2020 £'000	2019 £'000
Properties	948	907
Motor vehicles	13	10
Land	21	–
	982	917

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 2020

12 Financial asset investments

	Unlisted investments £'000	Total £'000
Cost		
As at 1 January 2019 and 1 January 2020	75	75
Impairment	—	—
As at 31 December 2019 and 31 December 2020	75	75

13 Impairment of goodwill

The goodwill acquired in a business combination is allocated, at acquisition, to the CGUs that are expected to benefit from that business combination. Goodwill is monitored by management at the level of the CGUs (defined as the three operating segments) identified in note 1.

A segment-level summary of the goodwill allocation is presented below:

	Asset Management £'000	Asset Installation £'000	Energy Management £'000	Total £'000
Cost				
As at 1 January 2020	4,112	3,497	938	8,547
Acquisitions (note 20)	—	—	—	—
Exchange adjustments	—	—	60	60
As at 31 December 2020	4,112	3,497	998	8,607

No goodwill was recognised in the year as a result of business combinations. The goodwill recognised in Energy Management at 31 December 2019 of £938,000 arose on the acquisition of Solo Energy Limited, a blockchain energy flexibility IT platform. See note 20 for further details. Goodwill was allocated entirely to Energy Management on the basis that this is the operating segment that will receive the benefits from the acquisition.

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. Goodwill is tested for impairment by comparing the carrying amount of each CGU, including goodwill, with the recoverable amount. The recoverable amounts are determined based on value-in-use calculations which require assumptions. The calculations use cash flow projections based on financial budgets approved by the Board covering a one-year period, together with management forecasts for a further four-year period. These budgets and forecasts have regard to historical performance and knowledge of the current market, together with the Group's views on the future achievable growth and the impact of committed cash flows. Specifically, budgets and forecasts used in the assessment of goodwill at 31 December 2020 include the estimated impact of COVID-19 and incorporate the effects of the extended deadline for the UK smart meter rollout to 1 July 2025. Cash flows beyond this are extrapolated using the estimated growth rates stated below.

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

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

13 Impairment of goodwill continued

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% for Asset Management (2019: 3.0%) and 1.5% for Asset Installation and Energy Management (2019: 0.5%). The rate of 2% applied to Asset Management is derived from historical Retail Price Index increases applied to the segment's index-linked meter rentals, with a small reduction in recognition of the impact of COVID-19 on macroeconomic growth. This is not considered to be higher than the average long-term industry growth rate. The rate of 1.5% applied to Asset Installation and Energy Management is prudently aligned with the UK rate of inflation as revenues in these segments are not always index-linked.
- **Discount rate** – the discount rate is initially based on the weighted average cost of capital (WACC) which would be anticipated for a market participant investing in the Group. A specific discount rate is then calculated for each operating segment, taking into account the time value of money, the segment's risk profile and the impact of the current economic climate. The pre-tax discount rates applied are 6.8%, 9.0% and 11.0% for Asset Management, Asset Installation and Energy Management respectively (2019: 7.1%, 10.7% and 10.7%) and the post-tax discount rates applied are 5.5%, 7.25% and 8.9% for Asset Management, Asset Installation and Energy Management respectively (2019: 5.9%, 8.9% and 8.9%). The risk premium assigned to the Asset Installation and Energy Management segments reflects the shorter-term nature of the underlying revenues within these segments, as compared to the annually-recurring revenue generated by an installed asset.

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 either CGU.

14 Inventories

	2020 £'000	2019 £'000
Finished goods	22,676	21,734
Work in progress	4,701	–
Consumables	273	327
	27,650	22,061

Work in progress relates to the construction of grid-scale battery storage sites. Of the total work-in-progress balance of £4,701,000 at 31 December 2020, £3,438,000 relates to the acquisition of the companies detailed in note 20 and £1,262,000 relates to the subsequent capitalisation of directly attributable construction costs.

15 Trade and other receivables

	2020 £'000	2019 £'000
Trade receivables	20,272	28,596
Prepayments and deferred costs	4,263	1,944
Accrued income	10,404	15,490
Other receivables	1,245	1,655
VAT recoverable	980	602
	37,164	48,287

Trade receivables and accrued income include billed and unbilled receivables relating to our meter rental contracts.

Amounts falling due after more than one year:

	2020 £'000	2019 £'000
Accrued income	12	232

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 2020

15 Trade and other receivables continued

Accrued income is made up of the following balances:

	2020 £'000	2019 £'000
Unbilled receivables	10,357	15,455
Contract assets	47	11
Other accrued income	—	24
	10,404	15,490

Unbilled receivables include receivables relating to our meter rental contracts.

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 2020 was £4,904,000 (2019: £4,413,000). See note 19 for further details. The ageing profile of trade receivables past due date is shown below:

	2020 £'000	2019 £'000
Current	13,608	19,669
1–30 days	3,208	6,624
31–60 days	1,914	2,228
61–90 days	1,090	1,309
91–120 days	328	719
Over 120 days	4,868	2,331
	25,016	32,880
Loss allowance	(4,744)	(4,284)
	20,272	28,596

Trade receivables are non-interest-bearing and are generally on 30–90-day terms. Trade receivables due from related parties at 31 December 2020 amounted to £nil (2019: £nil).

Receivables are all in Sterling denominations.

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.

16 Cash and cash equivalents

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

During each period, there were no amounts of cash placed on short-term deposit.

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

	2020 £'000	2019 £'000
Cash	40,236	50,092
	40,236	50,092

Restricted cash is excluded from cash and cash equivalents, in line with the Group's accounting policy on page 137, and is disclosed separately in the consolidated statement of financial position.

17 Trade and other payables

	2020 £'000	2019 £'000
Current		
Trade payables	10,215	16,466
Other payables	3,815	2,420
Other taxes	3,894	4,788
Deferred income	2,498	2,487
Advance payments	1,422	1,335
Accruals	20,114	19,300
	41,958	46,796

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

	2020 £'000	2019 £'000
Contract liabilities	3,689	3,494
Other deferred income	231	328
	3,920	3,822

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 30–45-day terms.

All trade liabilities are denominated in Sterling.

18 Financial liabilities

	2020 £'000	2019 £'000
Current		
Lease liabilities	936	1,013
Other liabilities	388	–
Bank loans	–	1,724
	1,324	2,737
Non-current		
Lease liabilities	4,315	2,950
Other liabilities	–	–
Bank loans	–	267,536
	4,315	270,486

Bank loans at 31 December 2019 related to the Group's revolving credit facility of £420m, with a five-year term ending December 2023 (the facility). The Group had a total outstanding principal of £270m at 31 December 2019 and, as commencement of any repayment of the principal by way of a limited excess-cash sweeping mechanism is not required until 2022 under the terms of the contract, this balance was classified as non-current. Accrued interest of £1.7m was recognised as part of the carrying value of Bank loans at 31 December 2019 together with a deduction of £2.5m for unamortised transaction costs. In 2019, the facility attracted interest at a rate of 1.85% over the three-month LIBOR and 0.65% was payable on undrawn funds. The interest is required to be settled quarterly and was thus classified as current at 31 December 2019.

Following the Group's sale of a wholly owned subsidiary on 22 April 2020, the gross proceeds received of £290.6m were used to make a voluntary prepayment and the total outstanding principal value at 22 April 2020 of £270m, together with outstanding interest and commitment fees of £0.6m, was settled. Concurrently, the total commitments available under the facility were reduced from £420m to £300m. There were no other material changes to the terms and conditions. This amendment does not substantially change the existing revolving credit facility, nor does it discharge any obligations. As such, this is deemed to be a modification. There has been no impact to the consolidated income statement in the year ended 31 December 2020 as a result of the modification.

A drawdown of £15.0m was made in May 2020 but this was subsequently settled at the end of the three-month term. No subsequent drawdowns have been made by the Group and, therefore, as at 31 December 2020 there was no outstanding principal or interest. The amount recognised against Bank loans is thus £nil.

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 2020

18 Financial liabilities continued

Unamortised transaction costs from the initial establishment of the revolving credit facility in December 2018 continue to be amortised over the remaining duration of the facility to 2023, together with additional transaction costs of £0.1m directly attributable to the modification of the loan on 22 April 2020. For the year ended 31 December 2020, £0.7m of transaction costs have been recognised within the consolidated income statement.

Unamortised transaction costs of £1.9m that would ordinarily be deducted against the carrying value of Bank loans have been recorded as Other assets at 31 December 2020. In line with the Group's accounting policy, these will be reclassified to Bank loans upon the next drawdown.

£0.1m of break costs incurred as a result of the voluntary prepayment have been recognised as an exceptional finance cost in the year ended 31 December 2020.

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

(a) Changes in liabilities arising from financing activities

Financial liabilities	Lease liabilities £'000	Bank loans £'000
At 1 January 2019	3,868	172,016
Cash flows (i)	(1,075)	90,149
New leases	1,040	–
Other non-cash changes (i)	130	7,095
At 31 December 2019	3,963	269,260
Cash flows (i)	(1,155)	(274,143)
New leases	2,260	–
Other non-cash changes (i)	183	2,934
At 31 December 2020	5,251	(1,949)
Presentational reclassification to Other assets	–	1,949
At 31 December 2020	5,251	–

(i) Cash flows and other non-cash changes

Cash flows on lease liabilities include £1,155,000 of lease payments. Cash flows on bank loans include £15,000,000 of new borrowings less £285,000,000 of borrowings repaid, interest payments of £4,000,000 and a payment of £143,000 for arrangement fees.

Other non-cash changes in lease liabilities include £172,000 of interest charges plus £11,000 arising from changes in lease terms and foreign exchange impact in the year. Other non-cash changes in bank loans include £2,276,000 of interest charges and £658,000 amortisation of arrangement fees.

At 31 December 2020, there were no outstanding amounts under the Group's revolving credit facility. Therefore, unamortised arrangement fees of £1,949,000 have been classified separately as Other assets in the consolidated statement of financial position in line with the Group's accounting policy. Unamortised arrangement fees of £641,000 have been classified as current Other assets, with the balance of £1,308,000 classified as non-current, in line with the remaining term of the facility.

In 2019, cash flows on lease liabilities included £1,075,000 of lease payments. Cash flows on bank loans included £270,000,000 of new borrowings less £172,114,000 of borrowings repaid, interest payments of £4,632,000 and a payment of £3,105,000 for arrangement fees.

Other non-cash changes in lease liabilities included £157,000 of interest charges less £27,000 arising from changes in lease terms in the year. Other non-cash changes in bank loans included £6,356,000 of interest charges, of which £1,724,000 were unpaid at 31 December 2019, and £739,000 amortisation of arrangement fees.

19 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, which was undrawn at 31 December 2020 (2019: £269,260,000). See note 18 for further details.

There were no overdrafts at 31 December 2020 (2019: none) and the interest charge arising on lease liabilities, recognised from 1 January 2019 upon implementation of IFRS 16, does not represent a cash interest rate risk for the Group.

The Group's financial assets at 31 December 2020 comprise cash and trade receivables. The cash balance of £40,236,000 (2019: £50,092,000) is a floating rate financial asset, but interest income is not typically material.

Interest rate sensitivity

The following table demonstrates the sensitivity to a change in interest rates on the Group's floating rate bank loan. The Group's profit before tax is affected through the impact on floating rate borrowings as follows:

	Increase/ (decrease) in basis points	Effect on profit before tax £'000
2020	+70bps	–
2019	+70bps	(1,885)

Management believes that a movement in interest rates of 70 bps gives a reasonable measure of the Group's sensitivity to interest rate risk. The table above demonstrates the sensitivity to a possible change in interest rates, with all other variables held constant, of the Group's profit before tax.

(b) Fair values of financial liabilities and financial assets

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

(c) Foreign currency risk

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

(d) Liquidity risk

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

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

	Less than one year £'000	Between two and five years £'000	Over five years £'000	Total contractual cash flows £'000
31 December 2020				
Contractual maturities of financial liabilities				
Trade payables	10,215	–	–	10,215
Bank loan	–	–	–	–
Other liabilities	388	–	–	388
Lease liabilities	1,172	2,657	4,222	8,051
	11,775	2,657	4,222	18,654

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 2020

19 Financial risk management continued

(d) Liquidity risk continued

31 December 2019	Less than one year £'000	Between two and five years £'000	Over five years £'000	Total contractual cash flows £'000
Contractual maturities of financial liabilities				
Trade payables	16,466	—	—	16,466
Bank loan	7,049	290,954	—	298,003
Lease liabilities	1,153	2,748	456	4,357
	24,668	293,702	456	318,826

The contractual undiscounted cash flows on the bank loan reflect the contractual arrangements in place at the year-end date. At 31 December 2019, of the £290,954,000 disclosed in the 2019 Bank loan time band 'Between two and five years', the Group had assumed that the entire principal balance would be settled upon maturity of the loan facility at the end of 2023.

As disclosed in note 18, the Group subsequently made a full voluntary prepayment on its loan facility in April 2020. It had no outstanding principal at 31 December 2020 and therefore the contractual undiscounted cash flows at 31 December 2020 are £nil in the table above.

(e) Credit risk

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

Credit risk is managed on a Group basis. For banks and financial institutions, only independently rated parties with a minimum rating of AA– are accepted. With regard to customers, the Group assesses the credit quality of the customer, considering its financial position, past experience and other factors. The Group does not expect, in the normal course of events, that debts due from customers are at significant risk. The Group's maximum exposure to credit risk equates to the carrying value of cash and cash equivalents, trade and other receivables, contract assets and investments. The Group's maximum exposure to credit risk from its customers is £30,688,000 (2019: £44,318,000), being the sum of the carrying value of trade receivables and accrued income, including contract assets, as disclosed within Trade and other receivables in note 15. The Group regularly monitors and updates its cash flow forecasts to ensure it has sufficient and appropriate funds to meet its ongoing operational requirements.

Impairment of financial assets

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

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

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

The Group applies the IFRS 9 simplified approach to measuring forward-looking expected credit losses (ECL), 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 12-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.

19 Financial risk management continued

(e) Credit risk continued

Impairment of financial assets continued

COVID-19 has generated global financial uncertainty; however, the potential impact of this on the Group's credit risk is mitigated by the highly regulated nature of the utilities industry and the extensive support made available to energy – and other infrastructure – suppliers by the UK Government. As a result, management has not increased the expected loss rates for the trade receivables portfolio as a whole. Instead, a subset of trade receivables has been identified as having a potentially elevated credit risk, due to a greater risk of administration as a direct consequence of COVID-19. This subset has been provided for on a specific basis and has resulted in an additional £495,000 impairment loss. Given the continued and changing uncertainty regarding the impact of COVID-19 on customer default risk, management will continue to monitor the situation and reassess its ECL at each reporting period end accordingly. Management has made the judgement to recognise this incremental impairment loss as exceptional on the basis outlined in the accounting policies.

On that basis, the loss allowance at 31 December 2020 was determined as £4,904,000 (2019: £4,413,000) 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 2020	129	4,284	4,413
Increase in loss allowance recognised in profit or loss during the year – underlying	31	2,703	2,734
Increase in loss allowance recognised in profit or loss during the year – exceptional	–	495	495
Amounts reversed/written off during the year	–	(2,738)	(2,738)
At 31 December 2020	160	4,744	4,904

The underlying increase in loss allowance recognised at 31 December 2020 is largely attributable to certain individual trade receivables that have been impaired as a result of specific circumstances with customers. It also reflects the application of updated loss rates. As detailed above, an additional £495,000 impairment loss has been recognised in the year in relation to COVID-19.

Total net impairment losses on financial and contract assets were £3,229,000 in 2020 (2019: £3,824,000) including the £495,000 exceptional charge. Of this amount, £3,229,000 (2019: £3,824,000) relates to amounts arising from trade receivables and accrued income.

Fair value

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

(f) Capital management

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

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

The objective of SMS's strategy is to deliver long-term value to its shareholders whilst maintaining a balance sheet structure that safeguards the Group's financial position. Earlier in the year, SMS announced its intention to pay a 25p per share dividend in respect of FY 2020 and the first of three interim dividend instalments was paid in October 2020. It also announced that the 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 2021, FY 2022, FY 2023 and FY 2024. This will result 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.

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 2020

20 Business combinations

Year ended 31 December 2020

During the year ended 31 December 2020, the Group acquired 100% of the issued share capital of the following companies:

Name of acquired company	Company number	Registered office prior to acquisition	Purchase consideration £	Acquisition date £	Nature of the company
East Anglia Grid Storage One Limited	11110483	Salisbury House Station Road Cambridge CB1 2LA	1,575,882	16 October 2020	Special purpose vehicle
Burwell Power Limited	12028663	16a Suite 18 Oakham Enterprise Park Ashwell Road Oakham, Rutland LE15 7TU			Holding company ¹
Add Renewables No.3 Limited	10042216		1,344,000	30 September 2020	Special purpose vehicle

¹ Burwell Power Limited is the direct parent of East Anglia Grid Storage One Limited (the 'subsidiary').

All three companies report in British Pounds Sterling. The acquisitions enable SMS to obtain control over the rights required to develop and commission two grid-scale battery storage sites, totalling 90MW, as part of the Group's investment strategy in CaRe assets. Grid-scale battery storage 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. The acquired sites will be constructed over the next 12 months.

Details of the purchase consideration are as follows:

Name of acquired company	Cash paid £	Contingent consideration £
Burwell Power Limited and its subsidiary East Anglia Grid Storage One Limited (together, 'Burwell')	1,375,882	200,000
Add Renewables No.3 Limited ('Barnsley')	1,156,500	187,500
Total purchase consideration	2,532,382	387,500

In the event that total connection costs per MW fall below various set thresholds, total additional consideration of up to £387,500 may be payable in cash upon energisation (when energy is first sold to the grid). Target energisation is currently end of 2021. The fair value of the contingent consideration recognised of £387,500 was estimated by calculating the present value of the future expected cash flows based on current budgets and forecasts. The estimate ignores the impact of discounting on the basis that the anticipated payment date is within 12 months of the current reporting date.

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

	Burwell fair value £'000	Barnsley fair value £'000	Total fair value £'000
Cash and cash equivalents	94	—	94
Inventories: work in progress ¹	1,757	1,681	3,438
Trade and other receivables	39	—	39
Trade and other payables	—	(22)	(22)
Deferred tax liability	(314)	(315)	(629)
Net identifiable assets acquired	1,576	1,344	2,920
Add: goodwill	—	—	—
Net assets acquired	1,576	1,344	2,920

¹ Total inventories of £3,438,000 include a fair value uplift of £2,683,000.

No contingent assets or liabilities were acquired.

A total fair value uplift of £2.7m (net of tax) was applied to the acquisition balance sheets in relation to development and construction rights, which have been included within work in progress and recorded as part of Inventories on the consolidated balance sheet. The acquisitions therefore resulted in goodwill of £nil.

20 Business combinations continued

Year ended 31 December 2020 continued

The entities acquired contributed £nil turnover or profit to the Group's results in the year ended 31 December 2020. If the acquisitions had occurred on 1 January 2020, consolidated pro-forma revenue and profit for the year ended 31 December 2020 would also have been £nil. No further adjustments were required as there were no material differences in the accounting policies between the Group and the entities acquired.

Acquisition-related costs of £0.1m were incurred and have been recorded as part of Administrative costs in the consolidated statement of comprehensive income. These have not been classified as exceptional on the basis that, through these acquisitions, the Group is establishing a trade of constructing and selling grid-scale batteries.

As part of the acquisition, lease liabilities of £2.2m were recognised relating to leases of land held by the acquired companies. Associated right-of-use assets of the same amount were recognised on the Group's consolidated balance sheet within Property, plant and equipment.

Year ended 31 December 2019

On 5 September 2019 the Group acquired 100% of the issued share capital of Solo Energy Limited (company number 566746), a blockchain energy flexibility IT platform. The acquisition will enable SMS to utilise Solo's IT platform, which was still under development at 31 December 2019, to establish new long-term revenue streams from a decentralised energy grid.

The company's registered office address is West Building, Carrigaline Industrial Estate, Carrigaline, Co. Cork, Republic of Ireland, and it reports in Euros.

Purchase consideration consisted of cash only. Total cash paid was 1,152,000 EUR (equivalent to £1,032,000 using an exchange rate of 1.1163 at 5 September 2019).

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

	Fair value £'000 ¹
Intangible assets: capitalised development	697
Intangible assets: trademarks	96
Plant and equipment	6
Cash and cash equivalents	5
Trade and other receivables	4
Trade and other payables	(230)
Deferred income: government grants	(24)
Borrowings	(334)
Deferred tax liability	(16)
Net identifiable assets acquired	204
Less: pre-existing relationship	(167)
Add: goodwill	995
Net assets acquired	1,032

¹ All net assets acquired have been translated using an exchange rate of 1.1163 at 5 September 2019.

No contingent assets or liabilities were acquired.

In addition to the borrowings acquired above of £334,000 Solo Energy Limited had a short-term loan of £167,000 due to an SMS subsidiary company at the date of acquisition. In accordance with IFRS 3, this pre-existing relationship was accounted for as effectively settled on acquisition by increasing the consideration transferred for the acquisition. The acquisition of Solo Energy Limited and the effective settlement of the receivable were recorded as separate transactions. No gain or loss was recognised as the receivable due from Solo Energy Limited was effectively settled at the recorded amount.

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 2020

20 Business combinations continued

Year ended 31 December 2019 continued

The goodwill is attributable to management expertise and the new, long-term revenue opportunities expected from the deployment of Solo Energy's IT platform. Goodwill will not be deductible for tax purposes.

The IT platform acquired was still under development at 31 December 2019. Therefore, for the period from 5 September to 31 December 2019, the acquired business contributed immaterial revenues and a net loss before taxation of £120,000 to the Group. If the acquisition had occurred on 1 January 2019, consolidated pro-forma revenue for the year ended 31 December 2019 would also have been immaterial and consolidated pro-forma loss for the year ended 31 December 2019 would have been approximately £384,000. No further adjustments were required as there were no material differences in the accounting policies between the Group and the entities acquired.

Acquisition-related costs of £92,000 were incurred and were included as part of exceptional Administrative costs in the consolidated statement of comprehensive income.

21 Deferred taxation

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

	2020 £'000	2019 £'000
Opening deferred tax liability	13,779	12,070
Increase in provision through consolidated statement of comprehensive income	1,061	1,544
Increase/(decrease) in provision through equity	(714)	149
Deferred tax in respect of acquisitions and disposals	(5,615)	16
Closing deferred tax liability	8,511	13,779

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

	2020 £'000	2019 £'000
Excess of taxation allowances over depreciation on property, plant and equipment	7,134	11,691
Tax losses available	(125)	(1)
Deferred tax asset on share options	(1,676)	(992)
Deferred tax on intangibles acquired	684	58
Other	2,494	3,023
	8,511	13,779

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

	2020 £'000	2019 £'000
Accelerated capital allowances	1,688	(478)
Tax losses	(124)	95
Deferred tax asset on share options	29	(85)
Movement in fair value of intangibles	626	(106)
Other	(1,158)	2,118
	1,061	1,544

At 31 December 2019, the main rate of corporate taxation was expected to reduce from 19% to 17% effective 1 April 2020, as a result of the Finance Act 2016, which was substantively enacted on 6 September 2016. Deferred tax at 31 December 2019 was thus predominantly provided at 17%, being the tax rate at which temporary differences are expected to reverse. However, the March 2020 Budget announced that the rate of 19% would continue to apply with effect from 1 April and this change was substantively enacted on 17 March 2020. The opening deferred tax liability of £13,779,000 has thus been remeasured at 19% giving rise to a deferred tax charge of £1,564,000 in the current year.

Further to the Budget announcement on 3 March 2021, the Chancellor has stated the UK Government's intention to raise the future corporate tax rate to 25%, effective post 1 April 2023. If this change to the UK tax rate were to be substantively enacted, it would result in an increase to the Group's closing deferred tax liability of up to £2,688,000.

The Group had unrecognised tax losses of £954,000 (2019: £763,000) in a subsidiary undertaking at 31 December 2020. The Group also had unrecognised capital losses of £729,000 (2019: £729,000) in subsidiary undertakings at 31 December 2020.

22 Related party transactions

(a) Subsidiaries

The Group's subsidiaries at 31 December 2020 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares, and the proportion of ownership interests held equals the voting rights held by the Group. The country of registration is also their principal place of business.

	Registered office	Holding	Proportion of shares held	Nature of business
SMS Connections Limited	1	Ordinary shares	100%	Gas utility connections
SMS Meter Assets Limited	1	Ordinary shares	100%	Gas and electric asset management
SMS MAPCO 1 Limited	2	Ordinary shares	100%	Gas and electric asset management
SMS MAPCO 2 Limited	2	Ordinary shares	100%	Gas and electric asset management
SMS Data Management Limited	1	Ordinary shares	100%	Data management
Smart Metering Systems PTY Limited (Australia)	4	Ordinary shares	100%	Data management
UKMA (AF) Limited*	2	Ordinary shares	100%	Funding
SMS Corporate Services Limited	1	Ordinary shares	100%	Administrative services
SMS Asset Management Limited*	2	Ordinary shares	100%	Gas and electric third-party asset management
SMS Energy Services Limited	2	Ordinary shares	100%	Electricity utility connections and management
CH4 Gas Utility and Maintenance Services Limited*	2	Ordinary shares	100%	Meter installation
SMS Utilities Academy Limited*	2	Ordinary shares	100%	Engineer training and development
Trojan Utilities Limited*	2	Ordinary shares	100%	Meter installation
Qton Solutions Limited*	2	Ordinary shares	100%	Business and domestic software development
Smart Battery Systems Limited	2	Ordinary shares	100%	Holding company
Solo Energy Limited (UK)*	1	Ordinary shares	100%	Renewable asset management
Solo Energy Limited (Ireland)*	3	Ordinary shares	100%	Renewable asset management
Care Assets Limited	2	Ordinary shares	100%	Holding company
Add Renewables No.3 Limited*	2	Ordinary shares	100%	Renewable asset management
Burwell Power Limited*	2	Ordinary shares	100%	Holding company
East Anglia Grid Storage One Limited*	2	Ordinary shares	100%	Renewable asset management

* 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: Prensau House, Copse Walk, Cardiff Gate Business Park, Cardiff CF23 8XH.

3 Registered office address: West Building, Carrigaline Industrial Estate, Carrigaline, Co. Cork, Republic of Ireland.

4 Registered office address: KPMG, 'Tower 3' Level 38, 300 Bangaroo Avenue, Sydney, NSW 2000, Australia.

(b) Key management personnel compensation

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

	2020 £'000	2019 £'000
Short-term employee benefits	3,024	1,557
Post-employment benefits	28	22
Share-based payments	219	186
	3,271	1,765

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 2020

22 Related party transactions continued

(c) Directors

Directors' emoluments

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

	2020 £'000	2019 £'000
Aggregate emoluments	2,010	877
Company contributions to money purchase pension scheme	18	11
Company contributions to private pension plan	—	—
	2,028	888

In 2020, no amount was payable to Directors as settlements following resignation (2019: no amount was payable to Directors).

Detailed remuneration disclosures are also provided in the in the Annual report on remuneration on pages 105 to 106.

Emoluments of highest paid Director

	2020 £'000	2019 £'000
Emoluments	796	377

In addition, rent was paid into the highest paid Director's personal pension scheme. See note 22 (d) for further details.

Number of Directors who accrued benefits under Company pension schemes

	2020 Number	2019 Number
Money purchase schemes	2	2

(d) Other transactions with related parties

A number of key management personnel hold positions in other entities that result in them having control or significant influence over the financial or operating policies.

A number of these entities transacted with the Group in the reporting period. The terms and conditions of the transactions with key management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel and related entities on an arm's-length basis.

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

- Rent amounting to £41,500 (2019: £41,500) was paid to the Directors' pension scheme, Eco Retirement Benefit Scheme, for the use of certain premises. Alan Foy is a trustee of the scheme. At the year-end date, an amount of £nil (2019: £nil) was outstanding in this regard.
- The Group paid dividends to Alan Foy of £441,930 (2019: £281,382), The Metis Trust¹ of £97,470 (2019: £56,520), Metis Investments Limited² of £105,332 (2019: £nil), Tim Mortlock of £570 (2019: £121), David Thompson of £325 (2019: £84), Miriam Greenwood of £2,529 (2019: £1,046), Willie MacDiarmid³ of £271 (2019: £372), Graeme Bissett of £901 (2019: £333) and Jamie Richards of £244 (2019: £nil).
- During 2019, SMS Utilities Academy Limited purchased a group of assets and liabilities for £27,500 from Utilities Academy Limited – a third-party smart meter training facility in which another subsidiary undertaking, Trojan Utilities Limited, had a minority shareholding. The net assets purchased were previously used by Utilities Academy Limited in its business of providing training to dual-fuel smart meter engineers on behalf of third-party customers. Utilities Academy Limited went into administration on 28 March 2019, at which point the cost of Trojan Utilities Limited's minority investment in the company was written off.

¹ Alan Foy is a trustee but not a beneficiary.

² Alan Foy is a Director and shareholder.

³ Paid to a connected person.

23 Share capital

	2020 £'000	2019 £'000
Allotted and called up:		
112,946,331 ordinary shares of £0.01 each (2019: 112,811,122 ordinary shares of £0.01 each)	1,129	1,128

During the year 134,793 (2019: 125,519) ordinary share options were exercised in relation to the Group's employee share plans which are described in note 24. The ordinary shares issued have a nominal value of £1,000 (2019: £1,000) and aggregate consideration of £362,000 (2019: £419,000) was received.

In addition, a scrip dividend was offered to shareholders in respect of the first interim dividend, paid on 29 October 2020, which allowed shareholders to elect to receive ordinary shares of 1p each in the Company in lieu of a cash dividend. Based on a scrip dividend reference price of 634.6p a total of 416 new ordinary shares were issued with a nominal value of £4. The excess value of the shares over their nominal value of £3,000 has been recognised within Share premium.

In 2019, 137,553 shares were issued during the year in relation to deferred remuneration arising on the acquisition of a subsidiary in 2016, settled in shares in April 2019. The ordinary shares issued had a nominal value of £2,000 and a fair value of £829,000. No consideration was received for these shares. The total fair value of £829,000 was recognised directly within Retained earnings and the difference between the fair value and nominal value of £827,000 was recognised within Share premium.

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 2020, 140,695 (2019: 146,412) own shares were held in trust with a carrying value of £749,000 (2019: £768,000) and a market value of £1,000,000 (2019: £827,000). The Company purchased 28,354 shares (2019: 67,220) from the market during 2020 with a weighted average fair value of £5.68 per share (2019: £5.20).

24 Share-based payments

(a) Employee option plans

On 20 June 2011 the Company adopted both the Approved Company Share Option Plan (CSOP) and the Unapproved Share Option Plan (the 'Unapproved Plan').

The CSOP is open to any employee of any member of the Group up to a maximum value of £30,000 per employee. The Unapproved Plan is open to any employee, including Executive Directors, of the Company or any other Group company who is required to devote substantially the whole of their time to their duties under their contract of employment.

Under the plans, 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 within five years of the date of grant. The performance conditions for awards are based on market capitalisation and individual performance targets. Once vested, the options remain exercisable for a period of up to 10 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.

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 2020

24 Share-based payments continued

(a) Employee option plans continued

Summary of options

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

Plan	At 1 January 2020	Granted	Exercised	Forfeited	Expired	At 31 December 2020	Exercise price (pence)	Date exercisable	Expiry date	Fair value at grant (pence)
CSOP	25,853	—	—	—	—	25,853	76.0	15 Jul 2014	15 Jul 2021	17.1
Unapproved	321,666	—	—	—	—	321,666	60.0	20 Jun 2016	20 Jun 2021	13.0
Unapproved	380,000	—	(55,000)	—	—	325,000	153.5	28 May 2017	28 May 2022	40.0
Unapproved	40,000	—	—	—	—	40,000	350.0	12 Nov 2019	12 Nov 2024	84.8
Unapproved	657,878	—	(79,793)	—	—	578,085	350.0	12 Nov 2019	12 Nov 2024	84.8
Unapproved	34,099	—	—	(8,033)	—	26,066	391.8	20 Mar 2021	19 Mar 2026	61.5
Unapproved	38,586	—	—	—	—	38,586	410.0	4 Jul 2021	3 Jul 2026	114.3
Unapproved	90,706	—	—	(32,186)	—	58,520	470.0	18 Aug 2021	17 Aug 2026	87.2
Unapproved	100,000	—	—	—	—	100,000	529.0	1 Sep 2021	31 Aug 2026	141.5
Unapproved	50,000	—	—	—	—	50,000	529.0	26 Sep 2021	25 Sep 2026	142.4
Unapproved	9,091	—	—	(9,091)	—	—	550.0	28 Nov 2021	28 Nov 2026	141.0
Unapproved ¹	479,001	—	—	(10,000)	—	469,001	700.0	1 Jan 2023	13 Jul 2028	125.2
Unapproved ²	12,000	—	—	—	—	12,000	602.8	13 Sep 2023	12 Sep 2028	154.3
Unapproved ¹	479,000	—	—	(10,000)	—	469,000	700.0	1 Jan 2023	13 Jul 2028	34.6
Unapproved ²	12,000	—	—	—	—	12,000	602.8	13 Sep 2023	12 Sep 2028	98.0
Unapproved	370,000	—	—	—	—	370,000	454.6	5 Sep 2024	4 Sep 2029	111.5
Unapproved ¹	—	469,000	—	—	—	469,000	700.0	1 Jan 2023	13 Jul 2028	37.2
Unapproved ²	—	12,000	—	—	—	12,000	602.8	13 Sep 2023	12 Sep 2028	105.6
Unapproved ³	—	76,000	—	—	—	76,000	577.4	26 Jun 2025	25 Jun 2030	59.3
Total	3,099,880	557,000	(134,793)	(69,310)	—	3,452,777				

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

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

3 Options of 76,000 relate to the first of five tranches.

The weighted average share price at the date of exercise of options exercised during the year ended 31 December 2020 was £6.06 (2019: £5.39).

Fair value of options granted

The assessed fair value at the valuation date of options granted during the year ended 31 December 2020 ranged from 37.2p to 105.6p, as disclosed in the table above (2019: 34.6p to 111.5p). The fair value of options granted is estimated using appropriate option pricing models, taking into account the exercise price, the term of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield, the risk-free interest rate for the term of the option, and the market-based performance conditions. The expected price volatility is based on historical volatility, adjusted for any expected changes to future volatility due to publicly available information.

The total fair value of these options is recognised over the period from their grant date until they become exercisable.

24 Share-based payments continued

(a) Employee option plans continued

Fair value of options granted continued

The following table lists the range of assumptions applied to options granted under the Unapproved Plan during the current and prior years:

	31 December 2020	31 December 2019
Dividend yield (%)	4.3	1.00 to 1.37
Expected volatility (%)	35.70 to 39.04	30.32 to 30.55
Risk-free interest rate (%)	(0.05) to (0.06)	0.43 to 0.60
Expected option life (years)	3.03 to 5.00	4.04 to 5.00
Exercise price (£)	5.77 to 7.00	4.55 to 7.00
Share price at grant date (£)	5.79 to 5.81	4.64 to 5.31
Fair value at grant date (£)	0.37 to 1.06	0.35 to 1.12

Where the options granted have a market performance condition attached, the Group has used a Monte Carlo model in order to allow for the impact of this condition. Where there is no market performance condition attached, the Group has used the traditional Black-Scholes model. The dividend yield was determined using the published yield at the date of grant. The expected volatility reflects the assumption that historical volatility, as measured over several different periods, is indicative of future trends, which may not necessarily be the actual outcome. The risk-free interest rate is taken from a government bond yield rate with a redemption period consistent with the corresponding vesting period of the options. The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur.

The expense recognised in 2020 for all options is £357,000 (2019: £353,000).

(b) Share Incentive Plan (SIP)

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

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

Type of award	At 1 January 2020	Awarded shares	Sold/ transferred	Forfeited	At 31 December 2020	Weighted average acquisition price
Partnership	203,247	59,992	(41,120)	–	222,119	5.40
Matching	200,915	59,992	(18,971)	(22,048)	219,888	5.40
Dividend	8,290	7,179	(1,062)	–	14,407	5.80
Total	412,452	127,163	(61,153)	(22,048)	456,414	

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 2020 was approximately £6.08 per share (2019: £5.26). 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 2020 for all Matching Shares is £269,000 (2019: £250,000). 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

For the year ended 31 December 2020

25 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.

26 Commitments under operating leases

The Group's commercial leases for certain vehicles, offices and warehouse space are accounted for under IFRS 16 with effect from 1 January 2019 and are thus excluded from the below operating lease commitments disclosure.

Commitments under operating leases include the Group's commercial leases for its fleet vans and items of office equipment. These leases are either short-term (the contract term is less than 12 months) or low-value (underlying asset less than \$5,000) and, therefore, meet the exemption criteria under IFRS 16. They continue to be expensed through the consolidated statement of comprehensive income. These leases have lives between one and three years and some have renewal options included in the contracts. There are no restrictions placed upon the Group by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at each year end are as follows:

	2020 £'000	2019 £'000
Future minimum commitments under operating lease agreements are as follows:		
Payable within one year	59	61
Payable within two and five years	41	19
Payable after five years	—	—
	100	80

27 Capital commitments

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

	2020 £'000	2019 £'000
Property, plant and equipment	—	579
Intangible assets	160	1,233
Inventory – work in progress	9,370	—

Capital expenditure of £9,370,000 contracted for in relation to inventory relates to the Group's grid-scale battery storage projects that are currently under construction.

Included within the capital expenditure on intangible assets in 2019 was £1,041,000 in relation to the implementation of a new ERP system across the Group.

28 Contingencies

The Group has a contingent success fee arrangement in place with a supplier totalling £0.75m that becomes payable should certain contractual conditions be met. At the date of signing these financial statements, the conditions had not been met.

29 Ultimate controlling party

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

30 Post balance sheet events

(a) Acquisition of I&C Half Hourly (HH) electricity meter portfolio

As announced on 3 March 2021, the Group concluded an agreement to acquire a portfolio of c.15,000 I&C large power HH electricity meters for cash consideration of £8.25m.

The assets have an average life of 4.6 years and will add £1.1m meter rental to the Group's ILARR. As part of the transaction, which is scheduled to complete in early April 2021, SMS will also take ownership of the data service contracts associated with over 20,000 meters, which will initially generate a further net £2m of data annualised recurring revenue.

(b) Acquisitions of grid-scale battery storage projects

On 9 March 2021 the Group entered into arrangements to acquire the rights to 100MW of grid-scale battery storage projects.

PARENT COMPANY BALANCE SHEET

As at 31 December 2020

	Notes	2020 £'000	2019 £'000
Fixed assets			
Investments	2	20,853	20,227
Current assets			
Debtors	3	301,957	163,978
Creditors			
Amounts falling due within one year	4	—	—
Net current assets		301,957	163,978
Total assets less current liabilities		322,810	184,205
Capital and reserves			
Called-up share capital	6	1,129	1,128
Share premium account		160,471	160,106
Other reserves	7	14,594	13,968
Own share reserve		(749)	(768)
Profit and loss account		147,365	9,771
Equity shareholders' funds		322,810	184,205

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 £150,000,000 for the financial year ended 31 December 2020 (2019: £14,696,000).

The parent company financial statements on pages 172 to 176 were approved and authorised for issue by the Board of Directors and signed on its behalf by:

David Thompson

Director

16 March 2021

Company registration number
SC367563

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

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 2019	1,125	158,861	13,297	(588)	3,152	175,847
Total comprehensive income for the year	—	—	—	—	14,696	14,696
Transactions with owners in their capacity as owners						
Dividends (note 8)	—	—	—	—	(7,079)	(7,079)
Share-based payments (note 7)	—	—	671	—	—	671
Movement in own shares	—	—	—	(180)	(169)	(349)
Shares issued	3	1,245	—	—	(829)	419
As at 31 December 2019	1,128	160,106	13,968	(768)	9,771	184,205
Total comprehensive income for the year	—	—	—	—	150,000	150,000
Transactions with owners in their capacity as owners						
Dividends (note 8)	—	—	—	—	(12,226)	(12,226)
Share-based payments (note 7)	—	—	626	—	—	626
Movement in own shares	—	—	—	19	(180)	(161)
Shares issued	1	365	—	—	—	366
As at 31 December 2020	1,129	160,471	14,594	(749)	147,365	322,810

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

For the year ended 31 December 2020

The parent company financial statements of Smart Metering Systems plc (the 'Company') for the year ended 31 December 2020 were authorised for issue by the Board of Directors on 16 March 2021 and the balance sheet was signed on the Board's behalf by David Thompson. Smart Metering Systems plc is a public limited company limited by shares and incorporated and domiciled in Scotland, with its registered office at 2nd Floor, 48 St. Vincent Street, Glasgow G2 5TS. The Company's ordinary shares are traded on AIM.

1 Parent company accounting policies

Basis of accounting

These financial statements were prepared in accordance with Financial Reporting Standard 102 (FRS 102). The financial statements are prepared under the historical cost convention.

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 2020. The financial statements are prepared in Sterling and are rounded to the nearest thousand Pounds (£'000).

The Company has taken advantage of the following disclosure exemptions under FRS 102:

- section 7 Statement of Cash Flows;
- section 3 Financial Statement Presentation, paragraph 3.17(d);
- section 11 Basic Financial Instruments, paragraphs 11.42, 11.44, 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c);
- section 26 Share-based Payments, paragraphs 26.18(b), 26.19 to 26.21 and 26.23; and
- section 33 Related Party Disclosures, paragraph 33.7.

Disclosure of auditor remuneration for non-audit fees is not given in the individual financial statements as the Group accounts are required to comply with regulation 5(1)(b) of the Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008 and present the information on a consolidated basis.

The Company is a guarantor in respect of the Group's revolving credit facilities.

Going concern

Based on the current projections and facilities in place, the Directors consider it appropriate to continue to prepare the financial statements on a going concern basis.

Investments

Investments in subsidiary undertakings are stated in the balance sheet of the Company at cost, or nominal value of the shares issued as consideration where applicable, less provision for any impairment in value.

Share-based payments

The grant by the Company of options and share awards over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services rendered, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to the investments in subsidiary undertakings, with a corresponding credit to equity in the Company financial statements. The credit to equity is recognised within Other reserves, as these amounts are non-distributable at the Company level.

2 Investments

	2020 £'000	2019 £'000
Carrying value		
At 1 January	20,227	19,784
Share-based payments (note 7)	626	671
Impairment	—	(228)
At 31 December	20,853	20,227

During 2020 and 2019, a number of subsidiary companies granted options and share awards to their employees over the shares of SMS. For accounting purposes, these grants are recorded as investments by the Company in its subsidiary undertakings.

Investments in subsidiaries are assessed annually to determine if there is any indication that any of the investments might be impaired. There were no material indicators of impairment at 31 December 2020 and therefore no impairment charge has been recognised in the year ended 31 December 2020.

2 Investments continued

An impairment charge of £228,000 was recognised in 2019. As part of a strategic Group-wide decision to use the previously acquired installation and IT resource internally to support the domestic smart meter rollout, the three trading entities acquired in 2016 no longer plan to trade externally to the Group over the medium term. These three subsidiaries have become cost centres to support the Group's operations and were in a net liabilities position at 31 December 2019. Therefore, management recognised an impairment charge, writing down the carrying value of the Company's investment in these three subsidiary undertakings to £nil.

Subsidiary undertakings

	Registered office	Holding	Proportion of shares held	Nature of business
SMS Connections Limited	1	Ordinary shares	100%	Gas utility connections
SMS Meter Assets Limited	1	Ordinary shares	100%	Gas and electric asset management
SMS MAPCO 1 Limited	2	Ordinary shares	100%	Gas and electric asset management
SMS MAPCO 2 Limited	2	Ordinary shares	100%	Gas and electric asset management
SMS Data Management Limited	1	Ordinary shares	100%	Data management
Smart Metering Systems PTY Limited (Australia)	4	Ordinary shares	100%	Data management
UKMA (AF) Limited*	2	Ordinary shares	100%	Funding
SMS Corporate Services Limited	1	Ordinary shares	100%	Administrative services
SMS Asset Management Limited*	2	Ordinary shares	100%	Gas and electric third-party asset management
SMS Energy Services Limited	2	Ordinary shares	100%	Electricity utility connections and management
CH4 Gas Utility and Maintenance Services Limited*	2	Ordinary shares	100%	Meter installation
SMS Utilities Academy Limited*	2	Ordinary shares	100%	Engineer training and development
Trojan Utilities Limited*	2	Ordinary shares	100%	Meter installation
Qton Solutions Limited*	2	Ordinary shares	100%	Business and domestic software development
Smart Battery Systems Limited	2	Ordinary shares	100%	Holding company
Solo Energy Limited (UK)*	1	Ordinary shares	100%	Renewable asset management
Solo Energy Limited (Ireland)*	3	Ordinary shares	100%	Renewable asset management
Care Assets Limited	2	Ordinary shares	100%	Holding company
Add Renewables No.3 Limited*	2	Ordinary shares	100%	Renewable asset management
Burwell Power Limited*	2	Ordinary shares	100%	Holding company
East Anglia Grid Storage One Limited*	2	Ordinary shares	100%	Renewable asset management

* 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: West Building, Carrigaline Industrial Estate, Carrigaline, Co. Cork, Republic of Ireland.

4 Registered office address: KPMG, 'Tower 3' Level 38, 300 Bangaroo Avenue, Sydney, NSW 2000, Australia.

3 Debtors: amounts falling due within one year

	2020 £'000	2019 £'000
Amounts owed by Group undertakings	301,957	163,978

Amounts owed by Group undertakings are payable on demand.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS continued

For the year ended 31 December 2020

4 Creditors: amounts falling due within one year

	2020 £'000	2019 £'000
Amounts due to Group undertakings	—	—

5 Related party transactions

During the year, the Group paid dividends to Alan Foy of £441,930 (2019: £281,382), The Metis Trust¹ of £97,470 (2019: £56,520), Metis Investments Limited² of £105,332 (2019: £nil), Tim Mortlock of £570 (2019: £121), David Thompson of £325 (2019: £84), Miriam Greenwood of £2,529 (2019: £1,046), Willie MacDiarmid³ of £271 (2019: £372), Graeme Bissett of £901 (2019: £333) and Jamie Richards of £244 (2019: £nil).

1 Alan Foy is a trustee but not a beneficiary.

2 Alan Foy is a Director and shareholder.

3 Paid to a connected person.

6 Share capital

	2020 £'000	2019 £'000
Allotted and called up:		
112,946,331 ordinary shares of £0.01 each (2019: 112,811,122 ordinary shares of £0.01 each)	1,129	1,128

During the year 134,793 (2019: 125,519) ordinary share options were exercised in relation to the Group's employee share plans, which are described in note 24. The ordinary shares issued have a nominal value of £1,000 (2019: £1,000) and aggregate consideration of £362,000 (2019: £419,000) was received.

In addition, a scrip dividend was offered to shareholders in respect of the first interim dividend, paid on 29 October 2020, which allowed shareholders to elect to receive ordinary shares of 1p each in the Company in lieu of a cash dividend. Based on a scrip dividend reference price of 634.6p a total of 416 new ordinary shares were issued with a nominal value of £4. The excess value of the shares over their nominal value of £3,000 has been recognised within Share premium.

In 2019, 137,553 shares were issued during the year in relation to deferred remuneration arising on the acquisition of a subsidiary in 2016, settled in shares in April 2019. The ordinary shares issued had a nominal value of £2,000 and a fair value of £829,000. No consideration was received for these shares. The total fair value of £829,000 was recognised directly within Retained earnings and the difference between the fair value and nominal value of £827,000 was recognised within Share premium.

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 2020, 140,695 (2019: 146,412) own shares were held in trust with a carrying value of £749,000 (2019: £768,000) and a market value of £1,000,000 (2019: £827,000). The Company purchased 28,354 shares (2019: 67,220) from the market during 2020 with a weighted average fair value of £5.68 per share (2019: £5.20).

7 Other reserves

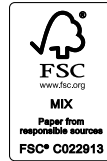
Other reserves are non-distributable and include the following items:

- 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 9 of the notes to the Group financial statements.

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