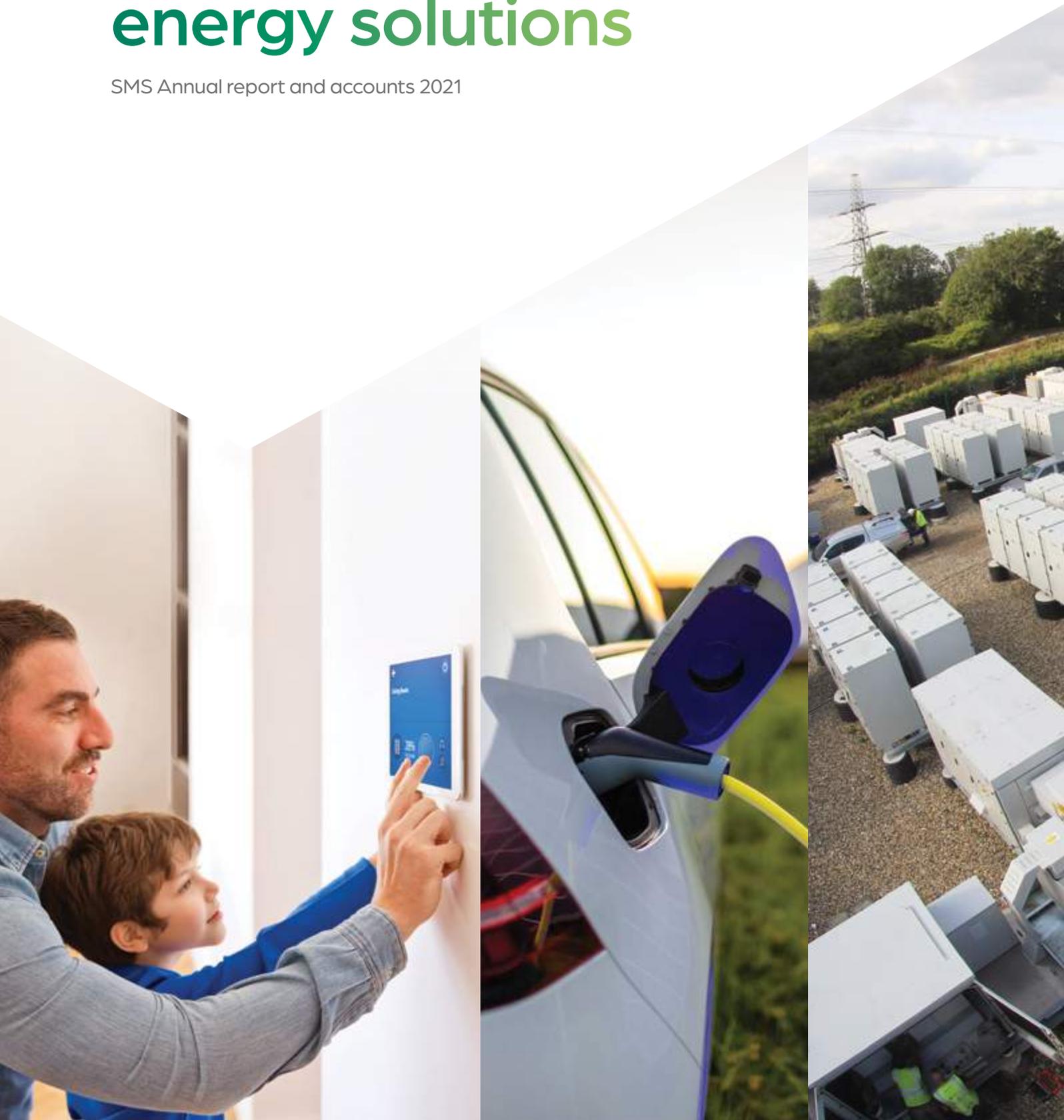


Delivering smart energy solutions

SMS Annual report and accounts 2021



Delivering smart energy solutions

Through a range of innovative solutions, SMS is leading the smart energy revolution. We are serving the industrial, commercial and public sectors, as well as the wider domestic market, to realise the environmental and financial benefits of smarter energy practice.

Contents

Strategic report	Governance	Financial statements
01 2021 performance highlights	77 Chairman's introduction to governance	120 Independent auditor's report
02 Our purpose, strategy and culture	78 Board of Directors	129 Consolidated income statement
06 At a glance	80 Corporate governance report	130 Consolidated statement of comprehensive income
08 Chairman's statement	90 Audit Committee report	131 Consolidated statement of financial position
10 Chief Executive Officer's statement	96 Nomination Committee report	132 Consolidated statement of changes in equity
14 Our markets	98 Remuneration Committee report	133 Consolidated statement of cash flows
22 Our strategy	115 Directors' report	134 Accounting policies
26 Our business model	118 Statement of Directors' responsibilities	147 Notes to the financial statements
28 Operational review		179 Parent company balance sheet
40 Sustainability		180 Parent company statement of changes in equity
41 Stakeholder engagement		181 Notes to the parent company financial statements
46 Environment		
52 Our people		
58 Health and safety		
60 Ethical business practices		
62 Risk report		
70 Financial review		



2021 performance highlights

Financial

Alternative performance measures^{1,2}

Index-linked annualised recurring revenue (ILARR)

£85.9m

(2020: £77.0m)² | 12% increase

Pre-exceptional EBITDA

£52.8m

(2020: £49.9m) | 6% increase

Underlying profit before taxation

£18.3m

(2020: £15.2m) | 20% increase

Underlying basic earnings per share

9.60p

(2020: 9.56p) | Flat

Statutory performance measures¹

Revenue

£108.5m

(2020: £103.0m) | 5% increase

Statutory EBITDA

£46.3m

(2020: £231.6m) | 80% decrease

Statutory profit before taxation

£8.3m

(2020: £195.0m) | 96% decrease

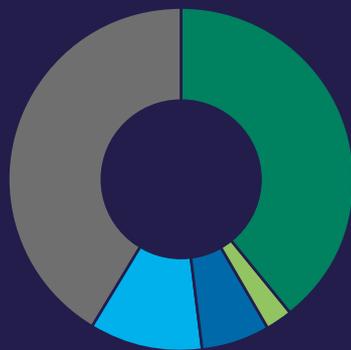
Statutory basic earnings per share

3.20p

(2020: 171.65p) | 98% decrease

Operational

Assets under management



Smart meter assets

1,668,000 (2020: 1,347,000)

+24%

I&C meter assets

105,000 (2020: 87,000)

+21%

Traditional meter assets

277,000 (2020: 311,000)

-11%

Data assets

449,000 (2020: 481,000)

-7%

Third-party assets

1,746,000 (2020: 1,587,000)

+10%

Pipeline

Contracted smart meter order pipeline³

c.2.55 million

(2020: c.2.0million) | 28% increase

Grid-scale battery storage pipeline⁴

620MW

(2020: 470MW) | 32% increase

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

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

3 At December 2021 and December 2020 respectively.

4 At March 2022 and March 2021 respectively.

Delivering smart energy solutions

Our vision is 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 technologies required to decarbonise, we are playing a critical role in achieving our nation's climate targets.

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

Our purpose

Serving our customers, protecting the environment.

This is the most concise expression of why we exist, and what the purpose of our organisation is. It creates an expectation for our customers and reflects a promise from us. At our core we are an organisation that cares about people – committed to our employees, our customers and our communities.

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

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

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

 Find out more on page 26

Our strategy



Continuous delivery of long-term value for all stakeholders.

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.

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

2 Customer excellence and efficient delivery

3 Efficient capital allocation to provide headroom for growth

4 Sustainable and socially responsible business

[▶ Find out more on page 22](#)

Our culture

Putting our people first.

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

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

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

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



Safety



Innovation



Customer excellence



Sustainability



Pride

Sustainability at our core

We place sustainability at the core of our business and have committed to achieving net-zero carbon emissions by 2030, while continuing to deliver on our purpose: to serve our customers and protect the environment.

Our customer-centric approach...

Our customers are at the heart of everything we do. The enduring relationships we enjoy with them are testament to our extensive industry knowledge and commitment to providing successful and innovative energy solutions.

We provide customer excellence. Our experience allows us to make smart decisions about all aspects of our customers' projects. Being smart also means making carbon reduction a priority, so our customers know they are in safe hands with us.

The white flow within our logo depicts the customer journey through SMS. It symbolises flexible but compliant service delivery, founded on good counsel, prudence and wisdom.



Our net zero journey

All internal combustion engine (ICE) company cars at the end of their lifecycle replaced with plug-in hybrid electric vehicles (PHEV) or pure electric vehicles (EV) where possible.

Commenced rollout of renewable energy installation and efficiency upgrades at key buildings.

All domestic fleet to have transitioned to PHEV and EV or adhere to maximum of 60g CO₂/km per vehicle.



...delivered by our valued people...

Our staff are there to serve our customers. This means that training and investing in our people is critical to our success.

We have been transforming and decarbonising the UK energy system for over 25 years. Over this period, we have made significant investments in our people, processes and platforms to develop an unrivalled nationwide operation and become a fully integrated energy infrastructure company.

Our nationwide electricity and gas engineering workforce is hugely experienced and highly trained at our in-house training academy, and our team have a long pedigree in designing and delivering some of the largest high-voltage energy infrastructure projects in the country.

...enabling a net-zero future

We are dedicated to helping our customers reduce their carbon emissions and are committed to achieving net zero in our own business by 2030.

Through our end-to-end platform – originating, managing and optimising carbon reduction assets, which harness our leading-edge proprietary technology platforms – we are playing a critical role in accelerating the adoption of renewable energy and decentralised generation assets, whilst transforming UK energy infrastructure to be both smart and resilient.

2030

All domestic and commercial fleet to have transitioned to EV and will emit 0g CO₂/km.



2030

All remaining core sites to have renewable generation, fabric, and energy efficiency upgrades completed.



2030

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



A fully integrated smart energy infrastructure company

Through our range of innovative carbon reduction ('CaRe') solutions we are delivering the future of smart energy, working closely with both the private and public sectors to decarbonise the UK economy.

What we do

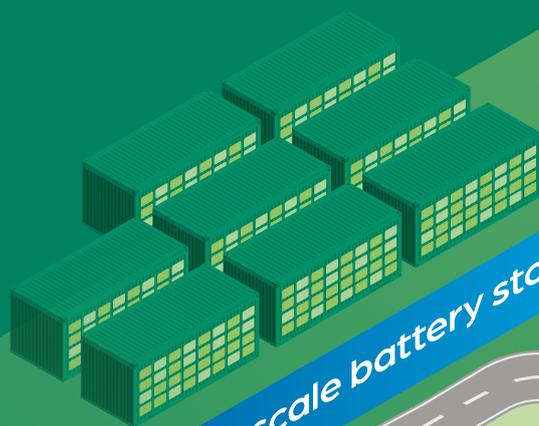
We are a fully integrated, end-to-end energy infrastructure company which owns, installs and manages CaRe assets. Our established CaRe verticals include meter assets, energy data and grid-scale battery storage. We are also developing other CaRe solutions in the areas of behind-the-meter smart solar and storage, electric vehicle (EV) infrastructure and heat meters and networks.

Through our in-house technology and data analytics platform, METIS, we intelligently optimise these low-carbon assets – which together facilitate a smarter, greener and more affordable energy system – to create long-term sustainable value for all our stakeholders, recurring revenue streams for our business and, above all, positive environmental and social impact.

Who we are

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

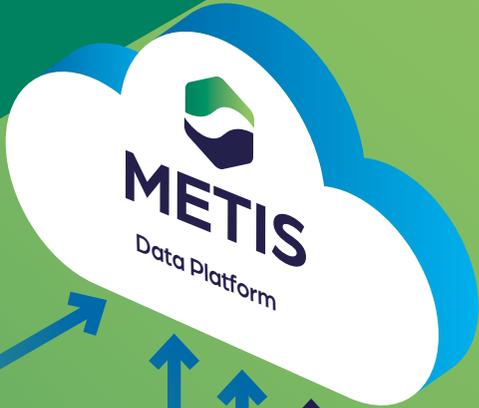
Our strategic investment in emerging CaRe asset classes also helps to carve out new market segments which have tremendous growth potential.



Grid-scale battery storage (GSBs)

Smart meters





Solar, storage and heat

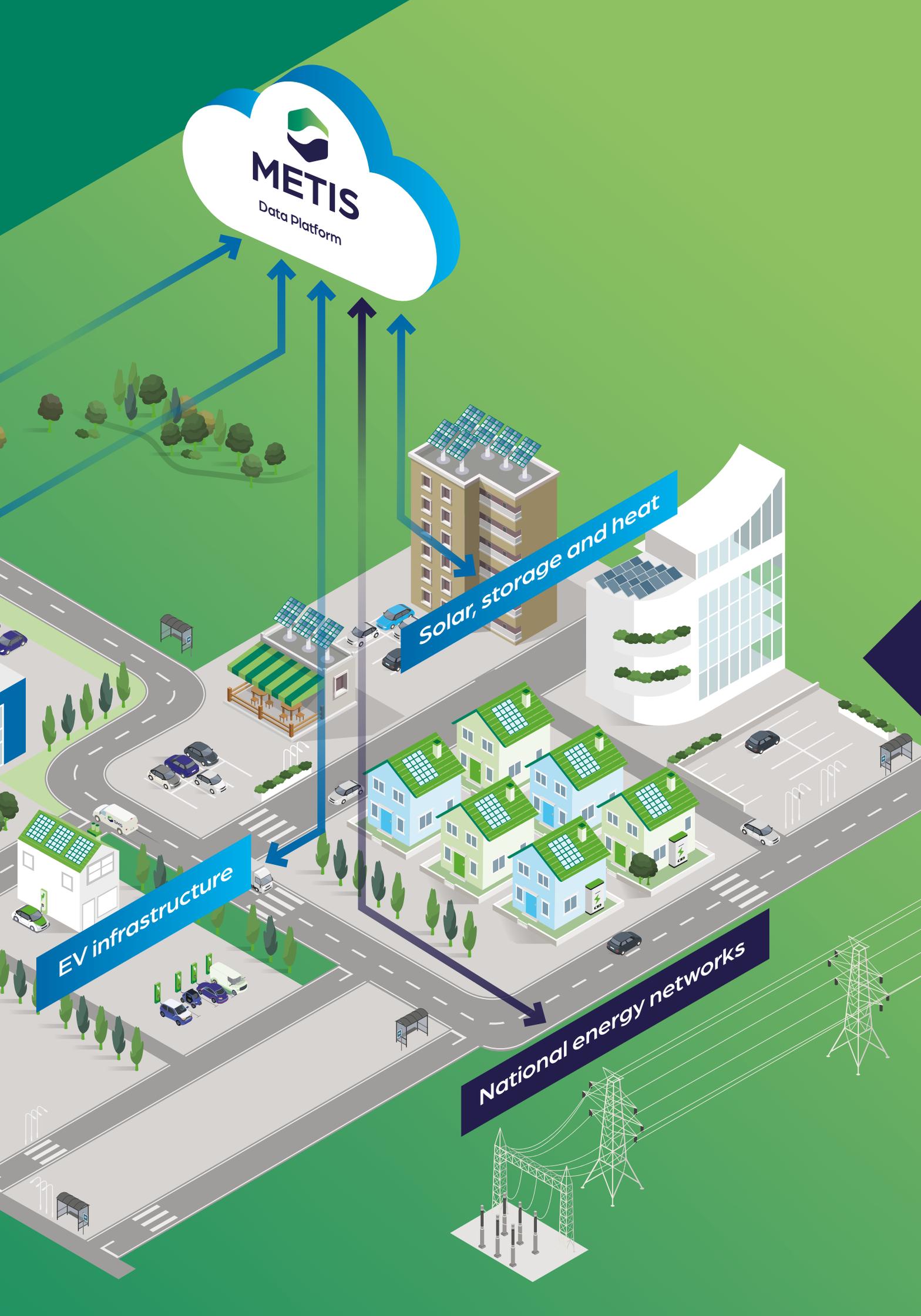
This blue banner is positioned diagonally across the middle of the city scene, pointing towards a tall brown building with solar panels on its roof. The banner contains the text 'Solar, storage and heat' in white, sans-serif font.

EV infrastructure

This blue banner is positioned diagonally in the lower-left area of the city scene, pointing towards a parking lot with several electric vehicles and charging stations. The banner contains the text 'EV infrastructure' in white, sans-serif font.

National energy networks

This dark blue banner is positioned diagonally in the lower-right area of the city scene, pointing towards a substation with power lines and towers. The banner contains the text 'National energy networks' in white, sans-serif font.



Metering

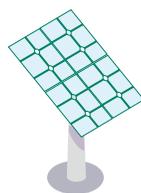
We install smart and advanced meters on behalf of energy suppliers, across the Industrial & Commercial and Domestic markets, managing and operating these assets over their life. With over four million assets nationwide connected to our data platforms to date, our meter solutions are helping establish a smarter, greener and more affordable energy grid and acting as a key enabler for other CaRe technologies.



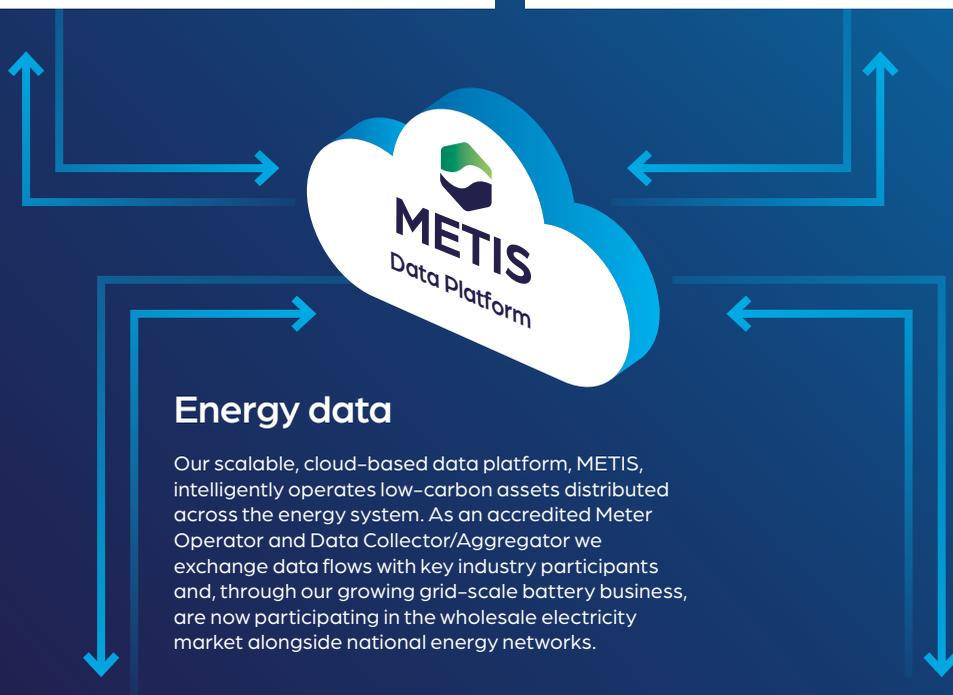
c.2.55 million
net contracted smart meter order pipeline

Grid-scale battery storage

We build, own and operate battery sites that are able to store utility-scale quantities of electricity from clean sources such as wind and solar when demand is low, and release it to national energy networks when demand is high. From these sites, we deliver a range of balancing and ancillary services essential for building the grid resilience that is required for the UK's transition to a low-carbon energy system.



620MW
pipeline under exclusivity



Energy data

Our scalable, cloud-based data platform, METIS, intelligently operates low-carbon assets distributed across the energy system. As an accredited Meter Operator and Data Collector/Aggregator we exchange data flows with key industry participants and, through our growing grid-scale battery business, are now participating in the wholesale electricity market alongside national energy networks.

EV infrastructure

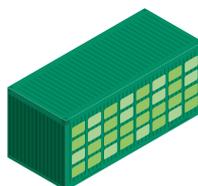
Leveraging our engineering skills and electrical infrastructure expertise, our strategy is to support the scale-up of EV charging in both the Domestic and Destination charge point marketplaces. Alongside the installation of EV chargers, we are in the early stages of exploring solutions that could utilise our existing cloud-based platforms to operate charging assets and provide crucial flexibility services to the grid.



18 million
electric vehicles on UK roads by 2030

Solar, storage and heat

We are developing behind-the-meter solutions in the key areas of solar, storage and low-carbon heat technology, all intelligently operated by our FlexiGrid™ aggregation software to create a Virtual Power Plant of distributed energy assets across the grid. Our ability to smartly monitor and control assets has the potential to maximise energy savings and carbon reduction for landlords, homeowners and tenants alike.



£60m
UK Government investment in heat pump innovation





2021 was a year of substantial progress for SMS and we ended the year strongly, despite the broader turbulence in the UK energy market."

Miriam Greenwood
Non-executive Chairman

Sustainable and stable delivery

As we were emerging from the throes of COVID-19, we were faced with a new challenge as the UK's energy market was de-stabilised following an unprecedented rise in gas prices. Shifting focus from one crisis to another, I recognise that this has been another difficult year for our stakeholders.

On behalf of the Board, I would once again like to thank our employees for their remarkable efforts in successfully managing the challenges to our business and for their continued commitment.

Strategy and results

In difficult markets, we delivered a financial performance marginally ahead of upgraded expectations and saw good growth in our index-linked annualised recurring revenues, demonstrating the resilience of our business model executed with a clear strategic vision. We ended the year with a strong cash position to finance future growth, reflecting internal cash generation and the proceeds of our successful equity placing in October 2021.

We set out our business model, strategy, and ambitions at our inaugural Capital Markets Day in June and were excited to share the long-term prospects for the Group. Through our purpose-led approach, we have remained resolute in our focus to deliver on our strategic objectives, and achieved significant progress in the year, especially in our established carbon reduction ('CaRe') verticals, smart meters and grid-scale battery storage.

The Group's smart meter installation run rate has shown an excellent recovery following the disruption caused by COVID-19 and we expect continued progressive improvement in FY 2022 and thereafter. Our contracted smart meter order pipeline of c.2.55 million has proved resilient despite the market turbulence.

We have also made encouraging progress in the development of our grid-scale battery storage assets. Our total pipeline now sits at 620MW (March 2021: 470MW) of which 270MW has been fully secured. Of this, 50MW is now operational.

These verticals provide significant additional addressable market opportunities and, together with further potential from our developing CaRe verticals, such as electric vehicle charging, the scale of the opportunities ahead of us is considerable.

Dividend

We are proposing a 27.5p per share dividend in respect of FY 2021, a 10% increase on the prior year, in line with our enhanced dividend policy. Two of four equal quarterly instalments have already been paid, in October 2021 and January 2022. Annual growth of 10% through to the end of the UK smart meter rollout in 2025 is still the intention, reflecting our confidence in the outlook for the Group.

Sustainability

At the heart of our purpose, 'serving our customers, protecting the environment,' is a commitment to sustainability and I am proud of what SMS achieved during 2021. We maintained our focus on health and safety amidst ever-changing regulatory guidance, with zero injuries reported. The entire workforce, including both front-line engineers and back-office staff, adhered without exception to the stringent processes and guidelines that were first introduced in early 2020, ensuring the safe delivery of our services.

As a Board, we recognise our stakeholders' growing expectations around sustainability and our environmental, social and governance credentials and these therefore remain key areas of focus. Our Sustainability section on pages 40 to 61 details the excellent work being done in this area across the Group, including a progress update on our 'net-zero by 2030' roadmap published last year.

Stakeholder engagement

SMS's approach to stakeholder engagement is set out in more detail on pages 41 to 45 and our section 172 statement is set out on page 41.

A key objective of the Annual report and accounts is to help stakeholders assess how effectively the Board, supported by the executive leadership team and other employees, promoted the success of SMS during the year, specifically with respect to our obligations pursuant to section 172 of the Companies Act 2006. 'Decision-making in practice' case studies dispersed throughout the Annual report and accounts explain the principal decisions taken in the year and how the interests of relevant stakeholder groups were considered. A summary of these decisions is provided on page 41.

On the pages listed in the table below we have provided examples of how the Board duly considered the impact on stakeholders when making principal decisions during 2021:

Principal decision	Page	Key stakeholders impacted
Acquisition of I&C large-power metering and data portfolio	30	  
Continued investment in grid-scale battery storage	37	  
Capital fundraising	73	  

Our people

A primary driver of the Group's success is its highly skilled, driven and loyal employees and we firmly believe in continuously investing in our people for the benefit of our customers and shareholders. We place great importance on engaging with and developing our employees and were

delighted to achieve a 75% response rate in our second annual employee engagement survey, a 25-percentage-point increase on the prior year.

Governance and the Board

The Board remains committed to the highest standards of corporate governance. All Board meetings continued to be held remotely due to COVID-19, up until January 2022 when in-person Board meetings resumed. Despite this challenge, the Board continued to perform effectively and has been vital in supporting the executive leadership team in taking decisive and appropriate action to manage our business effectively.

At the end of March 2021, we said goodbye to David Thompson. Over almost five years with SMS, the last three of them as Chief Financial Officer, David saw the Company through a period of remarkable change and development. We welcomed his successor, Gavin Urwin, who joined the Board as Chief Financial Officer on 31 March 2021. Previously Chief Financial Officer of M&Co, Gavin brings to the Board a wealth of strategic and financial experience.

Alan Foy, our Chief Executive Officer of 13 years, stepped down on 1 March 2022. Over two decades of service, Alan has driven SMS forward with vision, through a period which has seen sustained growth as well as diversification into new asset classes. On behalf of the Board, I thank him for his tireless work and wish him well for the future. Tim Mortlock, who has been with the Group for over 20 years and has held the role of Chief Operating Officer since September 2019, has been appointed Chief Executive Officer from 1 March 2022. Tim has been an integral part of our senior management team, working alongside Alan for several years, and the Board is confident that he is the right individual to continue to drive our business forward.

Looking to the future

The business is underpinned by strong growth drivers and is well positioned, over and beyond the UK smart metering rollout, to drive the net-zero agenda and UK energy transition.

Whilst economic uncertainty remains in the UK energy market, as gas prices continue to prove volatile, the Group's robust business model, secure CaRe asset pipelines and healthy balance sheet support the Board's confidence in the Group's ability to deliver growth in FY 2022 and beyond.

Above all, we remain dedicated to delivering smarter energy solutions for a better and more sustainable tomorrow.

Miriam Greenwood

Non-executive Chairman

15 March 2022

Key:



Shareholders



Customers



Employees



Suppliers



Lenders



Government



Regulatory bodies

CHIEF EXECUTIVE OFFICER'S STATEMENT



Safe, solid, secure and purpose-led growth enabling the energy transition."

Tim Mortlock
Chief Executive Officer

Delivering smart energy solutions

An introductory statement from your new Chief Executive Officer

After nearly two decades of service, Alan Foy stepped down as Chief Executive Officer on 1 March 2022. In that time Alan dedicated himself to building the business from the ground up – from a start-up gas connections provider to the full end-to-end energy solutions business we are today. He leaves the business positioned with an excellent platform for continued growth in the coming years.

Having worked closely alongside Alan for many years and been central to the development and delivery of our strategy at the heart of the energy transition to net zero, I was very proud to be asked by the Board to take over the role of Chief Executive Officer. I wholeheartedly share Alan's enthusiasm for this business, am excited by the future opportunities and am committed to driving the Group forward. I would like to personally thank Alan for the tremendous work he has done to deliver sustained growth and success to the business, and for the encouragement and support he has provided to so many.

Our purpose, to serve our customers and protect the environment, could not be more relevant considering the climate and inflationary challenges facing the UK energy market. Positioned at the heart of the smart energy revolution, we have the right strategy to address these challenges.

Our investment case is rooted in sustainability. SMS is a business that originates, owns and operates carbon reduction ('CaRe') assets, providing associated services and generating long-term secure recurring revenues. We are vertically integrated, bringing together engineering infrastructure, technology platforms and financing to deliver market-leading returns.

I am extremely proud of how the business has performed over the last year. We continue to deliver on the mandated UK smart meter rollout programme and have now launched our first grid-scale battery storage project – the first of many. Despite the continued impact of the COVID-19 pandemic, and the current energy market crisis, the business has never been in a stronger position.

More than a decade of strong growth

We have again demonstrated the resilience of our business model, despite the challenges the UK energy market has faced this year, by delivering financial results marginally ahead of already upgraded consensus expectations. The Group's pre-exceptional EBITDA increased 6% to £52.8m (2020: £49.9m) but, excluding the effect of the large-power data and metering business acquired in the year and the 2020 Industrial & Commercial meter portfolio disposal, like-for-like pre-exceptional EBITDA increased by an even more significant c.17% on the prior year.

Since the business had its IPO in 2011 we have seen consistent growth in our two key metrics. Our index-linked annualised recurring revenue (ILARR) has seen 31% compound growth over this period as we have successfully built up our meter and data portfolios. These are cash-generative as they flow straight to EBITDA, which on a pre-exceptional basis has seen 30% compound growth over the same period (see Illustration 1).

This outstanding financial performance continued in 2021, as we exited the year with profitability marginally ahead of expectations despite the market-wide turbulence, and with ILARR at £85.9m, which has increased further to £86.8m at February 2022.

The successful execution of our existing contracted pipelines of smart meters and grid-scale battery storage detailed below will, once delivered, more than double our existing EBITDA and maintain this proven track record of financial performance and growth.

Executing our strategic growth plan

The year also saw continued progress in the execution of our strategic plan – most notably, the efficient deployment of our growing pipeline of established CaRe products, including smart meters, energy data and grid-scale battery storage.

Excellence and efficiency remain our guiding principles: excellence in our unrelenting focus on serving our customers; efficiency in the delivery of those services through our turnkey integrated approach, and through maintenance of efficient capital allocation and a prudent leverage.

We are currently installing 9.4% of all new smart meters in the UK, having restored our average installation run rate to c.30,000 per month during 2021, following the impacts of COVID-19 in the prior year. We are investing in our installation capacity to further increase this run rate as we work closely with our energy supplier customers to deliver our remaining

c.2.55 million contracted smart meter order pipeline. During 2021, we added 900,000 meters from new contracts to this pipeline and extended our exclusivity agreement with Shell Energy Retail Limited until December 2025.

With energy prices at record highs, the UK energy market has been experiencing considerable turbulence since the final quarter of 2021. This has resulted in the failure of a number of independent energy suppliers and the implementation of both the UK's Supplier of Last Resort (SoLR) mechanism and Special Administration regime. While this has led to some movement in our customers' metering portfolios, the net impact on the Group's pipeline has been negligible. We have also benefitted from a strengthening in our customer base where through the SoLR process portfolios have consolidated into larger SMS customers, all of whom have mandated annual binding meter deployment obligations.

In addition, we successfully energised our first grid-scale battery project at Burwell, Cambridgeshire in October 2021, which commenced trading in January 2022 and is now providing balancing services to the energy networks ahead of schedule. See our key feature on pages 38 to 39 for more details. Our total grid-scale battery storage pipeline now sits at 620MW, of which 50MW is operational and 270MW is fully secured and being constructed in line with our cost and programme expectations, with one further site expected to go live this year. As these assets become operational in 2022, we expect to evidence the attractiveness of the underlying revenue streams from this critical energy infrastructure.

Illustration 1 – Long-term index linked annualised recurring revenue (ILARR)

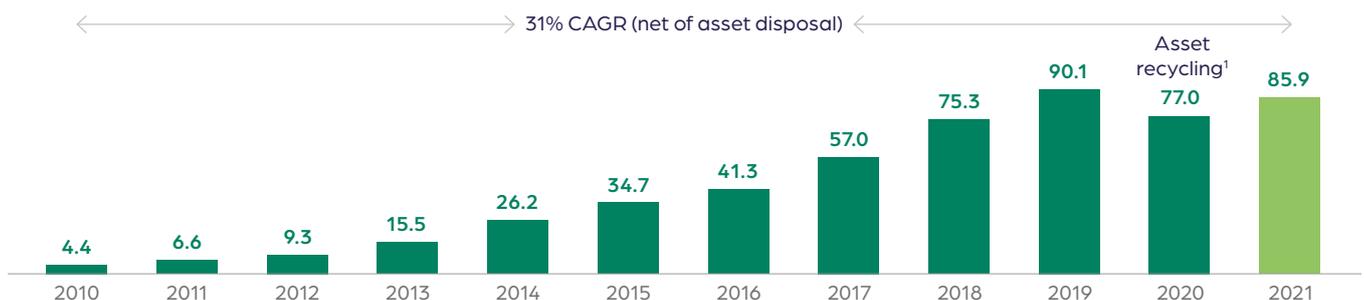
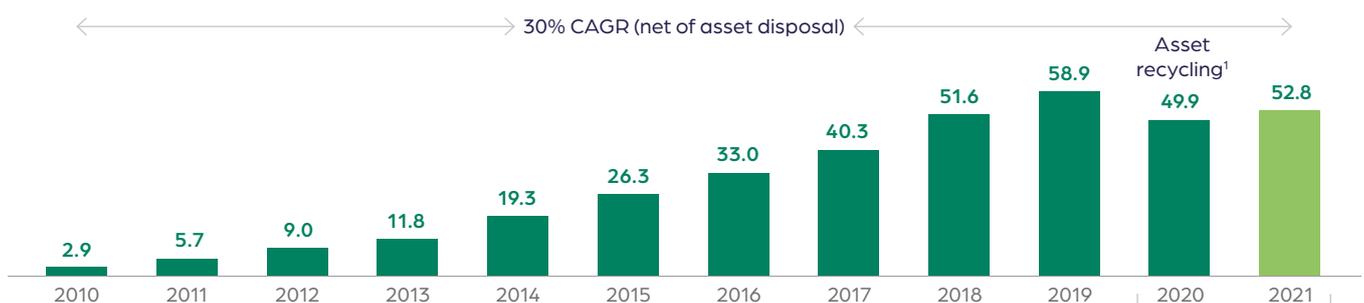


Illustration 1 – Pre-exceptional EBITDA

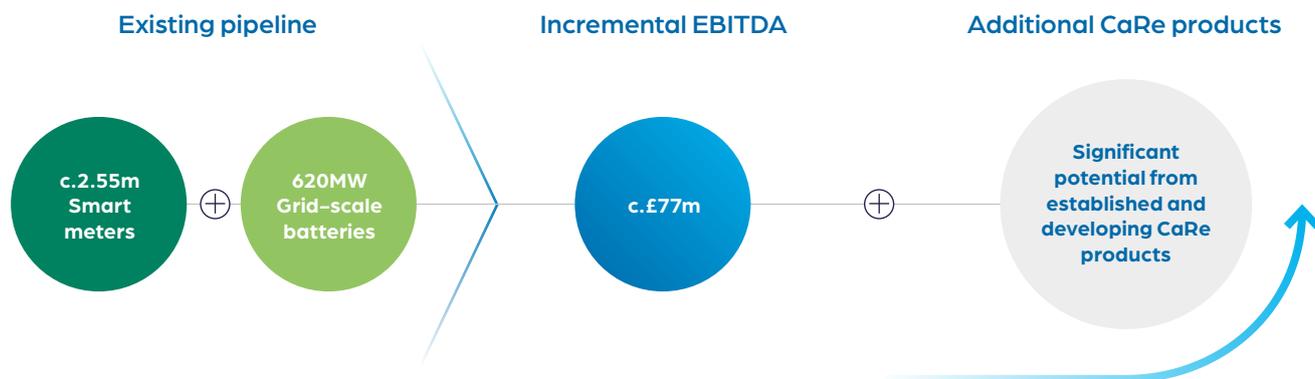


Like-for-like EBITDA +17%²

1 £18.4m I&C ILARR sold in 2020 but £0.8m management fee retained, resulting in net ILARR and EBITDA of £17.6m

2 Pre-exceptional EBITDA up 6% to £52.8m (FY 2020: £49.9m), up 17% once adjusted for the 2020 I&C meter portfolio disposal and 2021 large-power metering & data acquisition

Illustration 2: Existing pipeline to more than double EBITDA with additional opportunities in other CaRe assets



Funding secured to deliver growth

In September, we were pleased to complete a successful capital raise and debt refinancing, which was well supported by our investors and lenders. This funding, together with internally generated cash, will enable us to invest in our existing contracted pipelines, whilst also positioning the business to progress wider identified growth opportunities and drive long-term shareholder value.

Creating smarter solutions: our developing CaRe products

The need for more national and distributed renewable generation aligned to flexible smart energy networks is becoming increasingly urgent in light of the environmental and inflationary issues facing the UK energy market.

SMS is operating at the centre of this changing energy system, creating smarter energy solutions and helping to deliver on the net-zero agenda.

We have set out a clear long-term strategy for our developing CaRe solutions, including:

- energy efficiency: delivering energy efficiency controls and improvements to commercial and residential estates;
- behind-the-meter solar and storage: behind-the-meter low-carbon solutions for commercial and domestic properties;
- electric vehicle charging infrastructure: destination and domestic charge points through a turnkey charge point operator solution; and
- heat: low-carbon heat solutions, such as air-source heat pumps.

The combination of our expert knowledge base, national engineering infrastructure and scalable technology platforms position us to address – in an integrated way – the fundamental requirements of the energy transition. By successfully delivering these emerging solutions, which are closely aligned to our existing capabilities and customer relationships, we can not only support the UK Government's net-zero strategy, but also significantly reduce energy costs for end consumers.

▶ More on this in our Operational review on page 28

Investment case

At the heart of enabling the low-carbon revolution

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

▶ See more on pages 46 to 51

Strong growth platform reinforced by accelerated transition towards decarbonisation

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

▶ See more on pages 28 to 39

Fully integrated, scalable platform with well-established industrial partnerships

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

▶ See more on pages 28 to 39

Capital Markets Day

In 2021, we organised our first Capital Markets Day. The event provided an opportunity to showcase the end-to-end platform we have built over the past two decades, to demonstrate the quality and commitment of our people, and to highlight the significant growth opportunities ahead of us. The number of attendees and the positive feedback we received from our shareholders, customers and staff reflect the success of the event.

Putting our people first

We saw the continued impact of the COVID-19 pandemic on our business operations in 2021, notably with lockdowns in Scotland restricting meter installation activity in Q1, the retention of extended safe working practices for our engineers, and the majority of our office-based staff continuing to work from home. Despite these challenges, our people ensured continuity of services to all our customers, with an industry-leading focus on health and safety.

We are passionate about investing in and supporting our staff and the communities in which we operate. We endeavour to maintain an inclusive, welcoming environment in which we treat all our people fairly and equally. This commitment manifests itself in a variety of proactive initiatives through which we engage with staff, listening and responding to their feedback. For example, this feedback has led to us establishing a new regular 'Employee Voice' forum.

At the Board and senior leadership level we have engaged in a leading peer group learning programme to educate our business on the impact of our behaviours with respect to equality, diversity and inclusion. I believe this will positively impact our culture as we continue to embed this within our values in the years to come.

Responsible value generation

Environmental, social and governance (ESG) considerations remain at the core of our culture and operations. Our ESG responsibilities are an integral element of our business model and critical to our commitment to managing risk in all areas of the Company.

Our business is intrinsically linked with tackling one of the greatest challenges of our time – carbon reduction – and we are proud to be utilising our passion and innovation to work with the global community as part of the solution. It remains important to me that our purpose guides our strategic approach to addressing these challenges, underpinned by the values and principles by which we operate our business.

We believe we have a social obligation to accelerate the transformation to a carbon-neutral world – a vision shared by our staff and customers, and one we are implementing internally through our own 'net zero by 2030' carbon commitment. I am pleased with the strong progress we are making against this net-zero plan, notably through energy upgrades of our estate and fleet. I see strong leadership and governance, led by our dedicated Health, Safety and Sustainability Committee, as central to this.

Looking ahead

Delivering on our strategic plan will remain at the fore of our priorities over the coming year:

- executing on the operational delivery of our smart meter and grid-scale battery storage pipelines to build our long-term recurring cashflows;
- developing smart energy solutions to address the net-zero challenge, leveraging our existing technology platforms and engineering infrastructure; and
- maximising the significant additional opportunities within our established and developing CaRe assets.

I would like to thank all our staff, the management team, the Board and our customers for their ongoing commitment and support. I would also like to thank our long-standing shareholders, and welcome our new investors, who have supported us in our recent equity placing and shown strong confidence in our strategy and future potential.

Our business, driven by our clear purpose, is accelerating safe, solid and secure growth by delivering on the energy transition to net zero. The challenge is great, the opportunity greater still.

Tim Mortlock

Chief Executive Officer

15 March 2022

Strong liquidity position, with a prudent target leverage

Net cash position, fully undrawn debt facilities and internal cash generation providing strong liquidity to fund existing pipeline and secure additional growth opportunities, with target leverage of c.3x.

▶ See more on pages 70 to 75

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) until 2024.

▶ See more on pages 70 to 75

Highly experienced management team committed to delivering shareholder value

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

▶ See more on pages 78 to 79

Delivering the future of smart energy

Guided by our mission to deliver the future of smart energy, we have provided cost-effective energy solutions to our customers for over 25 years, in the process building up sustainable and asset-backed long-term recurring revenues across our business. These recurring revenues will more than double once we deliver our existing contracted pipelines in our established carbon reduction ('CaRe') products alone, with further substantial market opportunities in each of our additional developing CaRe products.

Today, the entire energy market in which we operate is experiencing rapid change, driven by the urgent climate agenda and the UK Government's legal obligation to achieve a net-zero-carbon economy by 2050. Rising wholesale energy prices and inflation, which are currently exacerbating the issue of fuel poverty nationally, also provide further demand for solutions that can reduce the cost of energy. We share this vision of a decarbonised system, where we will no longer depend on fossil fuels for our power, heat or transport, but will use cleaner, greener and more affordable sources instead.

Our established technology and engineering platforms and decades of experience in the utility sector position us as a business of scale to take full advantage of this green economy, in which we see an addressable market of c.£1.2bn EBITDA for our established products and services. In addition, we have other exciting solutions in development – all enabled, controlled and monitored by our METIS technology platform and origination team. The drivers and revenue opportunities for these are detailed on the following pages.

Our markets report this year is divided into key subsections that align with the UK Government's Net Zero Strategy: the landmark climate manifesto that sets the direction and policy drivers for our markets until 2050, and whose core pillars are:

- **Low-carbon energy**
- **Transport**
- **Industrial energy efficiency**
- **Heat, buildings and hydrogen**



We share the UK Government's vision of a decarbonised energy system, where we will no longer depend on fossil fuels."

Our role in achieving net zero through a decarbonised energy system

Through our range of innovative CaRe solutions, our mission is to deliver the future of smart energy, working closely with both the private and public sectors to decarbonise the UK economy.

Our strategic investment in established and emerging CaRe asset classes also helps to carve out new market segments with tremendous growth potential.



Low-carbon energy

Building on the smart energy infrastructure that we establish through our meter and data assets nationwide, during 2021 we launched our first battery storage and renewable energy solutions that will support a more flexible and affordable system.



Heat, buildings and hydrogen

We are developing our behind-the-meter technology solutions to meet the challenge of decarbonising heat, whilst also gearing up to support the transition to low-carbon hydrogen through our decades of experience in gas infrastructure.



Transport

We are scaling up our engineering and delivery capabilities to support both the Domestic and Destination electric vehicle (EV) charge point marketplaces, whilst using our cloud-based platforms to monitor charging assets and collect payments for their usage.



Industrial energy efficiency

Energy efficiency continues to be a vital cog in the net-zero dynamic. As an expert adviser and strategic partner, we help our industrial customers manage their building portfolios over the long term with an approach to energy efficiency which is data-rich.





Low-carbon energy

Key market drivers

- UK Government committed to a fully decarbonised power system by 2035, led predominantly by offshore wind (40GW commitment by 2030) and supported by other renewable and low-carbon sources, including solar.
- Integration of renewable energy generation – requiring flexibility measures at both grid level and locally across the network – through greater investment in battery energy storage solutions.
- Smart meters – mandated for an 85% national rollout target by 2025 – continue to be a key enabler of low-carbon power, supported by critical data services and technology platforms that facilitate flexible energy use.

Capital requirement

It is estimated that investment of up to £200bn will be required to bring online the wind, solar and battery power needed for a renewable-energy-powered economy. The Climate Change Committee (CCC), meanwhile, says investment must reach £50bn a year by 2030.



The market opportunity

Smart meters and energy data

Smart meters are a critical enabler of energy decarbonisation, which is why the UK Government has mandated UK energy suppliers to ensure that traditional meters are exchanged for smart ones by the end of 2025. Under the UK Government's new four-year regulatory framework, which came into effect in January 2022, energy suppliers will be mandated to meet annual binding installation targets for the remainder of the UK smart meter rollout. This framework adds legal impetus and urgency, pushing energy suppliers to fulfil their obligations, and includes an objective to reach a minimum smart coverage of 85% by the programme deadline.

Renewable energy and energy storage

To meet the UK Government's target of decarbonising the electricity grid, a significant ramp-up of wind and solar is needed. This will require offshore wind capacity to more than quadruple from 10GW in 2021 to 44GW by 2035, whilst solar will need to increase from 15GW to between 22GW and 30GW over the same period.

Developing the UK's energy storage capacity is key to successfully integrating this largely intermittent renewable supply to the power network and ensuring surplus green energy can be used whenever it is needed. The CCC's recommended pathway to net zero envisages a wind- and solar-dominated grid supported by 18GW of battery storage capacity by 2035 (up from just 1.3GW in 2021), whilst the National Grid forecasts a requirement for over 30GW of energy storage by 2050¹, further underlining the scale of the market opportunity. At SMS, we estimate the current addressable market opportunity for grid-scale storage alone would require c.£9.5bn of capital investment.

Grid flexibility management

The energy transition increases the requirement for distributed energy assets to provide balancing services that will address grid volatility and achieve stability, which has historically been realised through fossil-fuel-based generation and pumped hydro. As well as driving the opportunity for behind-the-meter batteries, this requirement also creates a need for flexible, scalable data technology platforms that are essential to monitor, control and optimise these assets.

¹ Calculated as the average of National Grid's four forecast scenarios in its Future Energy Scenarios 2021 report.

The SMS proposition

There are still c.28 million traditional meters to be exchanged for smart ones in the UK. We have a 2.55 million contracted smart meter order pipeline and we are currently installing 9.4% of all new smart meters in the market. The c.£470m of capital expenditure required to deploy this pipeline will add c.£51m to our index-linked annualised recurring revenue (ILARR), which will flow straight to EBITDA since it leverages our existing asset management platform.

c.28 million

to be converted to smart in the UK,
with SMS having a c.2.55 million
contracted smart meter order pipeline

In terms of energy data, last year the UK Government confirmed its intention to mandate market-wide half-hourly settlement from 2025, which will require the balancing of the electricity industry on an actual half-hourly consumption basis rather than an assumed energy usage profile. This is a significant change that will grow the current market from c.300,000 Industrial & Commercial (I&C) electricity metering points (in which we have c.10% market share) to c.26 million I&C and Domestic meters. It represents a market opportunity for an additional c.£90m of EBITDA, with no significant capital expenditure deployment as it leverages our in-house, accredited and scalable technology platforms. This development will also enable the optimal use of smart meter data and facilitate new 'energy-as-a-service' solutions that will help drive more efficient use of energy and save customers money.

SMS is extremely well positioned to meet these opportunities, having launched its first grid-scale and distributed (behind-the-meter) battery energy storage and renewable energy solutions in 2021.

Grid-scale battery storage (GSBS)

▶ Read a full operational overview of GSBS on pages 35 to 39



Solopower: Behind-the-meter solar and storage solution

▶ Watch the product video at sms-plc.com/solopower

- Behind-the-meter solar + storage service for social housing
- Launched to market in March 2021
- Turnkey finance, design, install and operation and maintenance solution
- No upfront cost to landlord or tenant
- Batteries intelligently optimised by our FlexiGrid™ platform
- Solopower decarbonises household electricity supply by up to 90%, and reduces bills by c.25%
- SMS revenues are generated through grid balancing services, giving unique pricing advantage over competitors through vertical integration.
- Huge potential to scale solution beyond social housing market to cover entire UK housing stock.

Our proprietary FlexiGrid™ platform includes intelligent, cloud-based software which is the brain behind the flexible management of energy assets such as batteries and EV chargers. It provides flexibility services by creating distributed Virtual Power Plants (VPPs) across the grid. Innovative software like FlexiGrid™ is central to efforts to decarbonise the UK's energy system, which in coming years will become increasingly characterised by these decentralised, local energy networks – or VPPs.

▶ Find out more about FlexiGrid™ and the range of innovation projects on which it is currently being utilised at www.sms-plc.com/flexigrid



Innovative software like FlexiGrid™ is central to efforts to decarbonise the UK's energy system."



Transport

Key market drivers

- UK Government legislation to end the sale of new petrol and diesel cars and vans from 2030; and from 2035 all new cars and vans must be zero-emission at the tailpipe.
- A potential pledge to end the sale of all new, non-zero-emission road vehicles (motorcycles, buses and HGVs) by 2040 is currently subject to consultation.
- The UK Government has committed £1.9bn to support the rollout of charging infrastructure to enable this transition, with a particular focus on local on-street residential charging.
- Legislation has been introduced to ensure all new homes have EV charge points installed from 2022.

Capital requirement

The UK Government estimates a need for around £220bn of additional public and private investment to achieve the emissions reductions across the transport sector set out in its net-zero emissions delivery plan to 2037.



The market opportunity

According to the CCC, there will be about 18 million battery and plug-in hybrid electric vehicles on UK roads by 2030 when a ban on the sale of new internal combustion vehicles is introduced. The take-up of electric vehicles will require a transformation in EV charging infrastructure. Although the UK currently has c.30,000 EV charge points – a number increasing by up to 1,000 new charge points per month to accommodate growing demand – the Competition and Markets Authority estimates that the UK could require ten times as many EV charge points before 2030, or 300,000 in total.

The SMS proposition

To deliver this requirement, SMS is focused on developing solutions in the Domestic and Destination (both workplace and on-street) parts of the market. We are lead co-ordinators on the Virgin Media Park and Charge (VPACH) project – which has helped us establish our on-street charging solutions and develop our knowledge and capabilities accordingly. As part of the project approximately 600 kerbside charge points will be delivered for local authorities in England in partnership with Liberty Charge. SMS has the engineering skills and knowledge to establish and originate destination charging infrastructure and its electrical connection to the grid, utilising our established and scalable field management platform. We have also ensured our training academy in Bolton is able to train engineers to install EV chargers at the domestic level along with smart metering solutions.

▶ See the Our Strategy in action section on pages 22 to 25 for more details

In addition to the scaling up of our engineering and delivery capabilities, we are exploring how we can utilise our cloud-based platforms to monitor the assets and collect payments for their usage – known as Charge Point Operator (CPO) services – and connect these charge points to our FlexiGrid™ platform to provide flexibility services back to the grid. We are currently developing destination-charging CPO models, funded by the utilisation of those charge points, with revenues collected through cloud-based CPO software platforms.

Whilst this is a developing area, at SMS we have a firm foundation – built on our nationwide installation and maintenance capability – from which to take advantage of the scale of this market opportunity in the years to come.



Industrial energy efficiency

Key market drivers

- The installation of energy efficiency and on-site decarbonisation measures across large UK organisations is to be prioritised through the UK Government's £315m Industrial Energy Transformation Fund.
- It is proposed that by 2023 large UK firms will be obliged to show how they intend to hit climate change targets, in addition to meeting existing energy consumption and emissions compliance schemes.
- Market pressures for industry to improve sustainability will see an increasing number of organisations commit to net-zero targets over the next decade.

Capital requirement

The CCC estimates a need to invest £12bn in energy efficiency asset categories such as lighting, control systems, and heating, ventilation & air conditioning (HVAC) and refrigeration within non-domestic buildings in order to meet the UK's climate targets by 2033. Whilst this doesn't reflect the full size of the market for industrial energy efficiency, it is representative of the overall market that can be reasonably accessed between now and then.



The market opportunity

UK industry plays an essential role in society. However, it is also a major source of CO₂ emissions, with the manufacturing sector alone producing 15% of the UK's current total. Industry emissions have more than halved since 1990, due mainly to the changing structure of the UK's manufacturing sector, improved energy efficiency, and a shift to low-carbon fuels and technologies. Despite this progress, however, the overall pace of reductions is slowing, and more action is needed to achieve the UK's net-zero commitments.

Focusing on the needs of non-domestic buildings, three asset categories will continue to dominate the landscape: lighting, control systems, and HVAC and refrigeration. Improvements to these technologies now enable upgrade programmes to provide large savings on energy expenditure and maintenance costs. Due to the distributed nature of these assets, setting up upgrade programmes requires strong technical audit and engineering consulting capabilities, but the rewards are substantial with each class of assets providing reliable and measurable return on investment.

The SMS proposition

With over 25 years of experience delivering energy efficiency strategies for large industrial and corporate clients, we see significant opportunity to reduce total consumption and to align demand-side control and load shifting of these assets through our FlexiGrid™ platform. We have a strong, leverageable blue-chip customer base across the telecoms, retail, hospitality and enterprise sectors, who already benefit from our existing metering, data and CaRe asset services. As an expert adviser and service partner, we help our customers manage their building portfolios over the long term with an approach to energy efficiency which is data-rich.



We have over 25 years of experience delivering energy efficiency strategies for large industrial and corporate clients."



Heat, buildings and hydrogen

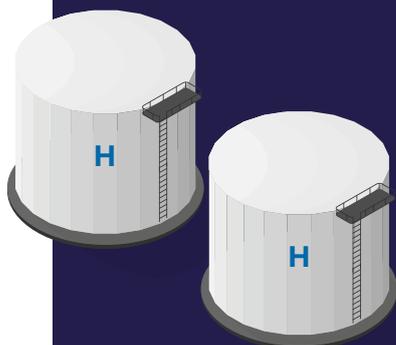
The market opportunity

Key market drivers

- UK Government's new Heat & Buildings Strategy commits to phasing out the installation of new and replacement natural gas boilers by 2035, starting with growing the heat pump market to support 600,000 installations per year by 2028.
- A new £450m Boiler Upgrade Scheme providing capital grants of £5,000 will support households in making this transition, whilst the UK Government is also investing £60m in heat pump innovation.
- Policy to upgrade fuel-poor homes to EPC Band C by 2030, with the UK Government investing an extra £1.75bn in additional funding to support key innovation schemes such as the Social Housing Decarbonisation Fund.
- Alongside electrification of heat, Government has set out its ambition to establish 5GW of low-carbon hydrogen production capacity in the UK by 2030 in order to phase out the use of natural gas as a heat source.

Capital requirement

According to research for the UK Government's infrastructure advisory body, the cost of decarbonising the UK's heating system by 2050 could be between £120bn and £300bn. In the developing field of hydrogen fuel, the Industrial Decarbonisation and Hydrogen Revenue Support (IDHRS) scheme will fund new hydrogen and industrial carbon-capture business models, with the UK Government providing £140m to establish the scheme, including up to £100m to award contracts of up to 250MW.



Electric heating

The decarbonisation of heat is one of the biggest challenges facing the transition to a net-zero economy, and there are many questions yet to be answered, not least the future role of hydrogen. However, with the policies and commitments released by the UK Government in 2021, some firm steps were taken towards stimulating the necessary market development and providing the certainty needed for the private sector to drive innovation. For instance, the UK Government has already legislated for all new and existing communal and district heat networks to have heat meters installed.



The decarbonisation of heat is one of the biggest challenges facing the transition to a net-zero economy."

Hydrogen

There is a need for widespread electrification across the economy, but we cannot rely on electricity alone. Many end-use sectors require low-carbon energy, including those where electrification is not viable or cost-effective. This makes the supply of cleaner fuels essential to achieving net zero, and there is therefore a growing focus on the production and use of hydrogen as a heat source. The UK Government has deferred making major strategic decisions on the role of hydrogen for heat until 2026. However, in the interim period there is a sizeable market opportunity to develop business models that support the forthcoming rollout of hydrogen infrastructure. There is potential for hydrogen gas to utilise the existing natural gas infrastructure that we use to heat our homes and businesses, and SMS is strategically and advantageously placed to provide solutions in the sphere of gas metering and connections.

The SMS proposition

SMS is developing funded solutions for these heat networks, with the future growth in this market likely to be predominantly through new-build properties. There is a substantial amount of latent flexible demand in the energy networks through storage heating. This existing load has the potential to be connected to our FlexiGrid™ platform to provide smart heating controls, but a significant part of the future energy mix is also likely to come from the deployment of heat pumps and other technologies like heat batteries.

SMS is positioned to address these requirements, by integrating them with our behind-the-meter solutions. We are working with local authorities and social landlords, exploring how our solutions across metering, solar and storage, heat and EV charging can be integrated and connected to FlexiGrid™ to ensure a smart energy system and improve the economic model. One example of this is our ongoing project in partnership with Aberdeen City Council.

Project DORIC

This project, which is backed by the UK Government's Social Housing Decarbonisation Fund Demonstrator project, sees SMS partner with Aberdeen City Council to roll out fabric retrofits and green energy technologies across a group of trial homes.

Taking a whole-home energy efficiency approach, the project aims to demonstrate a viable route to net-zero carbon emissions for the UK social housing sector, whilst also tackling fuel poverty among residents. The project is bringing together a range of low-carbon generation and energy efficiency innovations that aim to demonstrate decarbonisation potential for the UK's social housing stock, while simultaneously improving comfort and lowering energy costs for residents. Alongside our Solopower smart solar generation and storage solution, the technologies planned for deployment include heat

pumps to remove the need for carbon-intensive fuels. With no upfront cost to the landlord or tenants, the intention is that SMS will intelligently operate the battery systems through our cloud-based aggregation software, FlexiGrid™.



Our project looks to demonstrate how – when delivered at scale – investment in green infrastructure can support the UK Government's agenda to level up regional economic growth. It is about creating a more sustainable future: one that ensures affordable comfort in our homes, reduces fuel poverty, creates jobs, and ultimately protects our environment from climate change."

Sean Keating

Head of New Energy Systems at SMS plc

SMS's decades of experience in gas infrastructure means we are able to support the gas networks in testing whether existing gas metering infrastructure will be able to accommodate a blend of hydrogen into the existing network – which we believe to be the likely first step towards reducing the carbon intensity of gas usage.

We are also working in our Bolton test centre to demonstrate the capability of meters to accommodate 100% hydrogen, as the industry specifications for such metering are developed. Our experience in designing and delivering gas infrastructure also provides a solid foundation to support any future new infrastructure deployment for hydrogen, which, although still uncertain, we believe to be most likely in I&C high-usage sites and local hydrogen zones.



A clear strategy for future growth

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. The priorities, including progress made against them in 2021, are summarised on the following pages.

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

2021 priorities

- Convert the meter order pipeline to add to the existing index-linked annualised recurring revenue (ILARR).
- Target additional domestic smart meter opportunities with both existing and new customers.
- Grow our half-hourly data services to energy suppliers and end consumers.
- Develop our established portfolio of grid-scale battery storage projects.
- Deliver 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.

2021 progress

Meter and data assets

- ILARR grew 11.6% to £85.9m at 31 December 2021.
- ILARR on our smart meter portfolio grew 17.6% to c.£50.1m, with progressive improvement in meter installation run rate.
- Net contracted smart meter order pipeline increased to c.2.55¹ million units from c.2.0 million units at 31 December 2020, providing an incremental c.£52m ILARR opportunity.
- Leveraging our existing platform, we acquired a portfolio of large power Industrial & Commercial (I&C) meters and data service contracts, adding c.£3.1m to ILARR. This acquisition provides us with c.10% market share in the 'large power' market segment and positions us well for the Domestic Half Hourly (HH) market.

Other CaRe assets

- 620MW pipeline established in grid-scale battery storage assets at 31 March 2022, of which:
 - the first 50MW site at Burwell, Cambridgeshire is now operational (January 2022);
 - 270MW is fully secured, including a 30MW site acquired in February 2022;
 - 300MW remains under exclusivity.
- We continue to make progress in developing pipeline in other CaRe products.

Future outlook

- Convert the meter order pipeline and add to the existing ILARR.
- Target additional domestic smart meter opportunities with both existing and new customers.
- Further grow our HH data services to energy suppliers and end consumers, addressing the proposed mandated extension of HH settlement services to the entire Domestic market from 2026.
- Develop and deliver our established portfolio of grid-scale battery storage projects within cost and construction programme.
- Establish revenue-generating services on operational grid-scale battery sites.
- Progress exploration of electric vehicle (EV) infrastructure solutions including delivery of charge point installations as part of trial project.
- Additional pipeline of opportunities across several CaRe asset verticals.

Contract wins in 2021

Throughout 2021, we maintained strong momentum in further accelerating our smart meter order pipeline.

We were awarded two new contracts in March, totalling 500,000 meters, to provide services as an integrated domestic smart meter installer and Meter Asset Provider. This was followed by another contract win in August for a further 400,000 meters. In December, we also extended our exclusivity agreement with Shell Energy Retail Limited for the installation and funding of smart meters until December 2025.

These contract successes will, on delivery, further expand our long-term, recurring cash flows and are a testament to the strength of our long-standing relationships with energy suppliers, underpinned by our well-established end-to-end integrated model.

¹ Increase in meter order pipeline net of meters installed during 2021.



We have a clear strategic vision, built on secure foundations."

2. Customer excellence and efficient delivery

2021 priorities

- 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 and energy services activities, such as electric vehicle (EV) charging.

2021 progress

- Reported our best-ever health and safety (H&S) performance, leading the industry on all key indicators.
- Continued adherence to COVID-19 protocols, protecting our engineers and customers.
- Average meter installation run rate recovered to c.30,000 per month in H2.
- First 50MW grid-scale battery storage project delivered ahead of schedule.
- Efficient utilisation of our direct engineering workforce, supplemented by our network of sub-contractors.
- Apprentice scheme for new entrants to meter market expanded through our accredited training academy.
- Delivered our first upskill training to meter engineers in the installation of domestic EV chargers.

Future outlook

- Year-on-year improvement in our core H&S key performance indicators.
- Continued investment in our capacity, to progressively increase our meter installation run rates.
- Efficient delivery of our pipeline of grid-scale battery storage assets.
- Expand domestic installation capabilities further for EV chargers and related home energy solutions.

Expansion of our training academy into electric vehicle charging

SMS has been playing a critical role in decarbonising the UK energy system for over 25 years. To support, train and retrain our new and existing employees and business partners, a state-of-the-art technical training academy and test laboratory has been developed.

The facility provides health and safety, customer service and technical training and assessments, ranging all the way from Company inductions to industry-certified and -accredited courses which combine health and safety and technical training with coaching on first-class customer service and communication skills.

Trainee and experienced engineers have access to accredited courses in smart metering, Domestic and Industrial & Commercial gas and electrical engineering and appliance maintenance, and smart control systems. As we move into our new carbon reduction products, future technology areas are being developed to provide an end-to-end learning experience for electric vehicle charging, battery storage and renewable technology installations and maintenance. We have created pathway learning programmes and enrolled a number of our direct engineers onto our courses covering large power metering and EV charging.

Customers, industry experts and engineering operatives have all been part of our training academy journey and have provided excellent feedback as we start expanding our testing facilities to look at new products such as air-source heat pumps and hydrogen pumps.

As one trainee commented:



It was a fantastic week learning and practising various installation methods for differing products that I hadn't had the chance to work on before. The instructors were great – top fellas!!"

3. Efficient capital allocation to provide headroom for growth

2021 priorities

- 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, until 2024.
- Continue to evaluate an optimal mix of funding options for future capital requirements.

2021 progress

- Financial liquidity was significantly enhanced with c.£175m equity raise and successful refinancing of Group's revolving credit facility to £420m on attractive terms.
- New funding enables delivery of CaRe asset pipeline and positions the Group to take advantage of additional growth opportunities.
- FY 2021 dividend proposed at 27.5p per share, a 10% increase on FY 2020 in line with policy, underpinned by existing long-term cash flows.

Future outlook

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



We ended the year with a strong cash position to finance future growth."

Miriam Greenwood
Non-executive Chairman

A look back on the Group's capital allocation

Throughout SMS's history, the Group has maintained a disciplined net debt to EBITDA ratio and has proactively addressed its capital structure:

- Looking back, in 2011 our IPO proceeds allowed the business to completely de-lever and the capital raised was mostly utilised to fund our portfolio of Industrial & Commercial meters. These investments increased our leverage to c.3x by 2013.
- Then in 2017 a £150m equity raise allowed the business to de-lever again. The capital raised was utilised this time to primarily fund our growing portfolio of domestic smart meters. This investment increased our leverage back to c.4x within just two years.
- In 2020, once the I&C portfolio matured, a portion of that portfolio was sold to a third party at an attractive multiple of more than 16x EBITDA and the proceeds from the sale were used to settle the Group's outstanding debt obligations, de-levering the business once again.
- Most recently, in 2021 we successfully raised £175m of equity to fund our smart meter and grid-scale battery storage pipelines. Once delivered, these pipelines should more than double our EBITDA. The funding also strongly positions the Group to expand its pipeline in other CaRe products.

The Board continues to review, and seeks to keep open, all potential funding routes with a focus on maintaining an efficient capital allocation to provide headroom for growth.

4. Sustainable and socially responsible business

2021 priorities

- Publish inaugural Sustainability Report.
- Further improvement in environmental, social and governance (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.

2021 progress

- Delivered progress in line with our 2030 net-zero carbon roadmap (see page 49).
- Strengthened our ESG ratings and credentials (see page 46).
- Enhanced our disclosures as a supporter of the Task Force on Climate-Related Financial Disclosures.
- Commenced review of EU taxonomy alignment and applicable technologies ahead of UK taxonomy implementation.
- Climate exposure evaluation conducted on key physical assets including offices and grid-scale battery storage sites.
- Continued focus on employee wellbeing, supported by the launch of several new benefits and initiatives (see page 52).
- Successful rollout of new Groupwide pay and reward framework.

Future outlook

- Continue progression against our 'net zero by 2030' roadmap.
- Further enhance disclosures and reporting of SMS's ESG credentials.
- Drive energy-efficient processes across our operations.
- Participate in activities that make a difference to local communities.
- Maintain zero cyber security breaches.

Sponsorship of Burwell Swallows football team

A working group was established during the year and met monthly to consider the social impact of our grid-scale battery sites. The group has been tasked with supporting initiatives that help the local communities in which our sites operate, and addressing any biodiversity concerns.

One such initiative has seen SMS sponsor a grassroots football team – the Burwell Swallows Under 14s – at our first grid-scale battery site, located in Burwell, Cambridgeshire. Players are drawn not just from Burwell but also from the surrounding areas of Newmarket and Soham. SMS provided funding for new club strips and training tops as well as donating new footballs for the team. We are following with interest the team's progress in its local league.

In addition to the sponsorship initiative, SMS has been involved in several landscaping and biodiversity activities in Burwell. We have engaged a landscaping contractor to plant hedgerows and trees at the site to provide vital habitat and resources for mammals, birds and insects.



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

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.

c.50% of meters are yet to be exchanged as part of the UK smart meter rollout.



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. Fostering innovation and creativity in what we do is also critical to allow us to deliver new and exciting solutions.



Robust technology platforms

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

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



Long-standing relationships with our customers

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

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



Effective capital management

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

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

What we do

Our core businesses

Asset Management



Asset Installation



Energy Management



▶ See the Operational review on pages 28 to 39

Underpinned by our values

Putting our people first



Safety



Innovation



Customer excellence

Providing a fully managed, end-to-end metering and data service to the Industrial & Commercial 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, including grid-scale battery storage. Investing in renewable energy generation, we continue to pursue several developing opportunities in the areas of electric vehicle charging, heat and behind-the-meter smart solar and storage.

Our strategic priorities

1
Expanding long-term, resilient and recurring cash flows from carbon reduction assets

2
Customer excellence and efficient delivery

3
Efficient capital allocation to provide headroom for growth

4
Sustainable and socially responsible business



Who we deliver for

Creating long-term value for our stakeholders

Our shareholders

We deliver attractive and sustainable returns to our shareholders through our growing, sustainable dividend. The Group intends to pay a 27.5p per share dividend in respect of FY 2021 (+10% on FY 2020), over four instalments, with an intended 10% annual increase through to FY 2024.

27.5p
dividend for FY 2021, with an intended 10% annual increase until FY 2024



Our customers

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

£108m
turnover earned in 2021



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 on providing challenging career opportunities that offer staff the chance to develop.

£50m
of staff costs in 2021



Our partners

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

£420m
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.

100%
renewable electricity on owned sites



At the forefront of change in the energy industry

During 2021, without exception we continued to deliver high-quality customer service with due regard for safety across all areas of our business. This was against a backdrop of market turbulence and supplier exits caused by the increase in global wholesale energy costs, together with ongoing operational challenges presented by the COVID-19 pandemic, and hence demonstrates the resilience of our people, processes and systems.

We added 900,000 meters to our contracted smart meter order pipeline which, net of meters installed in 2021, increased to c.2.55 million from c.2 million at the end of 2020. We exited the year not only with this increased pipeline intact, but also favourably weighted towards larger, well-financed independent energy suppliers following the consolidation of portfolios into our larger customers through the Supplier of Last Resort process.

Our smart meter installation run rate increased to over 30,000 per month in the second half of the year, and we are currently installing 9.4% of all smart meters across the UK. With a well-balanced engineering workforce, comprising both direct and sub-contract labour, we are well placed to progressively improve our run rate through the remainder of the UK smart meter rollout, now scheduled to complete by the end of 2025.

Considerable progress was also made in further developing our pipeline of grid-scale battery storage assets. At the date of this report, the total pipeline sits at 620MW (March 2021: 470MW), of which our first 50MW site at Burwell, Cambridgeshire is now operational, 270MW is fully secured and the remaining 300MW is under exclusivity. Of the 270MW secured pipeline, 140MW is currently under construction.

Over 25%

increase in our contracted smart meter order pipeline

Over 30%

increase in our grid-scale battery storage pipeline



This strong operational performance is a testament to the continued dedication and commitment of our people, who remain at the heart of driving our mission to deliver carbon reduction ('CaRe') energy solutions."



Asset Management

Summary	2021	2020 ¹	Growth
Index-linked annualised recurring revenue (ILARR)	£85.9m	£77.0m	12%
Revenue	£82.9m	£78.7m	5%
Depreciation-adjusted cost of sales ²	(£6.8m)	(£5.2m)	31%
Depreciation-adjusted gross profit	£76.1m	£73.5m	3%
Depreciation-adjusted gross margin	92%	93%	(1%)
Capex on meters ³	£82.4m	£40.3m	105%

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

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

3 2021 measure excludes acquisition of I&C large-power metering and data portfolio.

Key focus areas

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

Primary objectives

- Grow ILARR, driven by:
 - recurring rentals from installed smart meter assets; and
 - data services provided to energy suppliers and I&C businesses for industry data flows and half-hourly energy consumption information.
- Ensure market-leading return on investment, delivered through our vertically integrated model.
- Maintain a capital-efficient structure to support ongoing investment in meter and data assets.

OPERATIONAL REVIEW continued

ASSET MANAGEMENT continued



¹ Of the domestic smart meters.

Source: Energy Suppliers reporting to BEIS September 2021, SMS internal estimates.

Our industry-accredited services, built on our in-house technology platform METIS and national engineering infrastructure, provide a strong basis from which to efficiently deliver these asset and data solutions to our customers.

The UK smart meter rollout continues to present a significant opportunity for us to grow our ILARR, with Ofgem now placing annual binding installation targets on energy suppliers to ensure at least 85% of all meters are changed to smart by the end of 2025. The regulator is also seeking to mandate the settlement of energy on a half-hourly basis, which would significantly increase the market size for these services from c.300,000 electricity meters to over 26 million meters by 2026.

Through these assets and services, we continue to enable the transition to a low-carbon energy system for a greener, more sustainable future for all.

2021 performance and developments

ILARR: During 2021 we increased our meter and data ILARR from £77.0m to £85.9m due in part to the growth in our I&C data services following the acquisition of a meter portfolio in April 2021 and its associated data contracts. The ILARR associated with the domestic smart meter portfolio increased from £42.6m to £50.1m, offset by the anticipated ongoing removal of traditional meters. Data services ILARR increased from £11.7m to £13.9m.

Decision-making in practice:

Acquisition of I&C large-power metering and data portfolio



SMS has been accredited to provide half-hourly (HH) services to the largest Industrial & Commercial electricity metering points since 2012. This 'large power' market segment currently comprises c.300,000 meters.

Provision of meter operator and data collection/aggregation services to these suppliers comes with significantly greater engineering and data services responsibilities and complexity. This has historically led to it being a very 'sticky' part of the market, with SMS's growth in this area led by the advanced metering rollout and new connections activity.

During 2021 we worked with a large independent energy supplier which had inherited a HH portfolio of c.20,000 meter points (including ownership of c.15,000 meters as Meter Asset Provider). Delivery of the complex data services this portfolio requires was not core business for the energy supplier and therefore it wished to dispose of the portfolio whilst ensuring continuity of high-quality service to customers.

Our well-established end-to-end platform enabled us to reach agreement with the energy supplier to acquire this meter portfolio for cash consideration of £8.4m, including taking over ownership of the associated data service

contracts. The acquisition added initially £3.1m to our ILARR, resulting in SMS now having over 10% market share in this market segment. This has also strengthened our position and credibility ahead of the proposed mandated extension of HH settlement services to the entire Domestic market from 2026. A platform for growth, the Board judged the acquisition to be in the long-term interest of shareholders.

Before approving the transaction, the Board reviewed papers and challenged management on the business case, the risks and opportunities presented by the deal and integration plan. Other key stakeholder groups considered included:

Customers – the Board noted that the transaction provided opportunities to deepen our relationship with certain electricity suppliers and I&C customers whilst expanding our customer base in both size and composition, and providing opportunities to cross sell other services. Leveraging our passion for customer excellence, significant focus was placed on ensuring there was no disruption to services provided.

Employees – a small workforce was transferred to SMS as part of the transaction, including engineers and support staff. The Board were presented with an integration plan for these staff to ensure a seamless transition.



Pipeline: At the start of 2021 we had a c.2.0 million contracted smart meter order pipeline, which increased on a like-for-like basis to c.2.9 million meters from new contract wins. We exited the year with a net contracted smart meter order pipeline of c.2.55 million meters, which is expected to add c.£51m to our ILARR with continued additional opportunities in the market to increase this pipeline further.

SMETS1 enrolment and adoption: We continue to support the enrolment and adoption of first-generation ('SMETS1') smart meters into the Data Communications Company (DCC) platform, which is progressing at pace. At 28 February 2022, c.8.0 million SMETS1 meters had been migrated as compared with 3.5 million in February 2021. The migration of the Group's own SMETS1 portfolio specifically is well underway, progressing broadly in line with the industry. This process is now expected to continue through to the end of 2022 following an extension issued by the Department for Business, Energy & Industrial Strategy (BEIS).

Delivery: Our integrated model continues to enable us to originate smart meter assets with market-leading returns, with the index-linked nature of our rentals providing strong protection against an inflationary environment. We have also taken measures to fix the purchase cost of meters for a large proportion of our pipeline. The metering market is not immune to global supply chain issues. This was evident during the year with a combination of COVID-19 and Brexit impacting the production and delivery of stock from our key suppliers, and global chip shortages. However, we have taken further steps to diversify our supply chain and have revised our stock management policies to ensure we hold significant buffer stock within our UK distribution warehouses, thereby ensuring stock availability is not a constraint in delivering our meter pipeline.

We are extremely pleased with the efficiency of our operational delivery, and we continue to invest in our engineering capacity to deliver our increased meter pipeline over the course of the rollout.

Wholesale gas prices and the impact on the independent energy supplier market

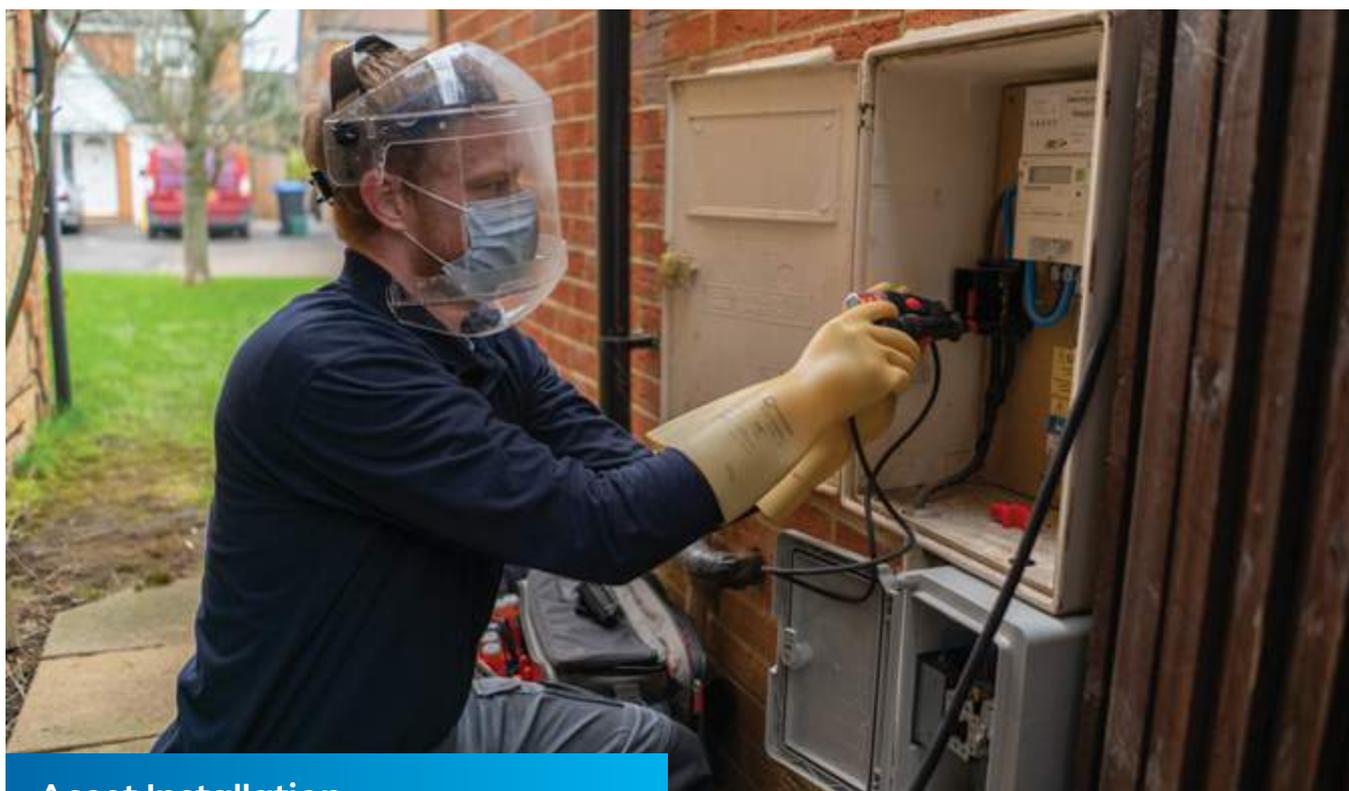
During the second half of 2021, the global energy market suffered unprecedented increases in wholesale gas prices, with the UK particularly susceptible due to its reliance on these global markets, low gas storage capacity and use of gas for a large proportion of electricity generation.

These price increases, combined with the effect of the retail price cap on energy suppliers, which delays their ability to pass cost increases on to consumers, led to a spike in the number of independent energy suppliers exiting the market.

When a supplier exits the market, our assets have a significant degree of protection through the Supplier of Last Resort (SoLR) process. Any newly appointed energy supplier under the SoLR regime is obliged to take on metering obligations with the Meter Asset Provider and Meter Asset Manager/Meter Operator from the date of exit and will fall under the prevailing contractual arrangements we have with them. The impact of such supplier exits on SMS can therefore be two fold:

1. An increase in bad debt from unpaid charges incurred prior to the supplier exiting the market. However, SMS manages its debt collection efficiently and has not suffered any adverse impact on our financial expectations as a result. See the Financial review on pages 70 to 75 for more details.
2. Movement in our contracted smart meter order pipeline. We increased our pipeline during 2021 through contract wins and, although some of our customers have entered administration, several of our existing customers have also increased their customer base through the SoLR process. We also extended our exclusivity agreement with Shell Energy to the end of 2025. The net effect has been a strengthening of our order pipeline, with the vast majority now contracted with larger, well-financed, independent energy suppliers.

Our metering charges are index-linked and not related to the amount of energy consumed; they therefore provide strong protection against the current inflationary environment. With strong counterparty protection through the SoLR mechanism and limited credit risk, we see the impact of increased wholesale energy prices leading to a more stable energy supply market in the longer term, underpinned by a stronger, more robust group of energy suppliers, which is positive for our asset base and services.



Asset Installation

Summary	2021	2020	Growth
Revenue (external)	£22.0m	£19.7m	12%
Pre-exceptional cost of sales	(£14.1m)	(£16.6m)	(15%)
Pre-exceptional gross profit	£8.0m	£3.1m	154%
Pre-exceptional gross margin	36%	16%	20%
Net portfolio additions – smart and I&C meters ¹	325,000	139,000	134%
Number of engineers inducted through training academy ²	524	94	457%
Technical performance ³	28	101	(72%)

1 2021 net portfolio additions of 325,000 exclude the acquisition of c.15,000 I&C meters from a third party in April 2021. 2020 net portfolio additions of 139,000 exclude the disposal of c.187,000 I&C meters to a third party in April 2020.

2 Number of engineers inducted through the training academy in 2020 was low due to its closure for a large part of the year as a result of COVID-19.

3 Technical performance is measured as the annual average of the number of incidents per 100,000 installations.

Key focus areas

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

Primary objectives

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

Continued service delivery through the pandemic

Our field engineers adapted their day-to-day routines to accommodate the peaks and troughs of COVID-19 during the last year. They became accustomed to working in this environment and, despite the challenges presented, found ways to deliver on our values of:

- **Safety:** PPE is worn to keep all parties safe;
- **Customer excellence:** doorstep protocols ensure we respect our customers' wishes;
- **Innovation:** a collaborative approach was developed between the safety, health, environment and quality team and the operations team to adjust to changing guidelines and apply new ways of working; and
- **Sustainability:** where legislation allowed, we were able to relax some protocols around safe interaction distances. This enabled us to brief more customers in person with relevant energy advice, thus improving customers' experience at the point of installation and better supporting their energy and cost-saving journey.

By having robust and agile protocols, fully supported by readily available PPE, we have been able to continue to deliver a safe and customer-centric service.



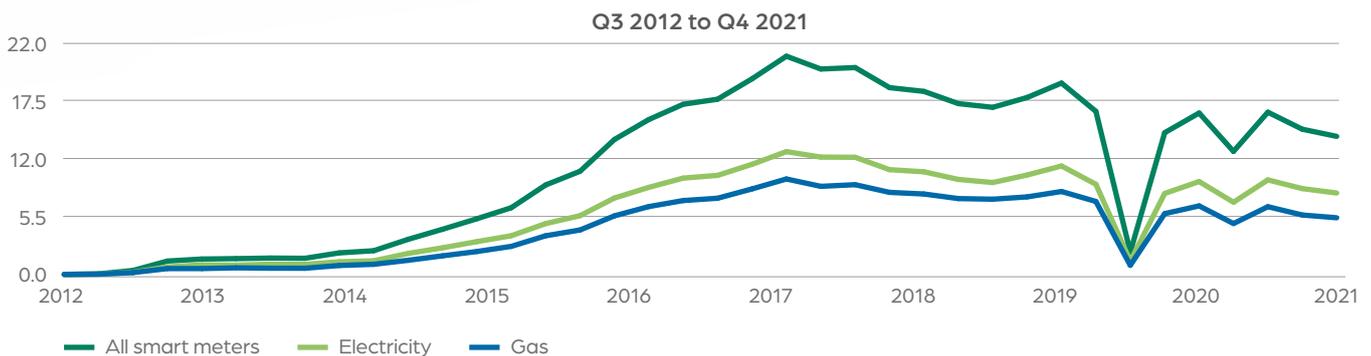
Our nationwide engineering services business, supported by our in-house accredited training academy and our technology platforms, provides the foundation for delivery of our purpose: serving our customers, and originating CaRe assets and services.

With over 25 years' experience in delivery of utility infrastructure and metering solutions, we are accredited to provide services across all market segments and are positioned to partner with energy suppliers, businesses and public sector organisations to deliver the UK's net-zero transition.

2021 performance and developments

Market conditions: The COVID-19 pandemic continued to present a range of challenges throughout 2021. Our installation activities remained restricted by national lockdowns in the first quarter of the year, especially in Scotland. Vigilant compliance with updated health and safety working practices was enforced to protect both our teams and customers. The majority of office-based staff continued to work from home throughout the year; and – like other industries – we felt the impact of the widespread Omicron variant in the last months of the year, with self-isolation requirements placing some pressure on service delivery both within our back-office functions and in the field. The impact of COVID-19 has led to the UK smart meter rollout being extended to the end of 2025, with annual binding installation targets on energy suppliers from the beginning of 2022.

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



Source: Energy Suppliers reporting to BEIS

OPERATIONAL REVIEW continued

ASSET INSTALLATION continued

In the final quarter of 2021, the exit of some energy suppliers from the market, and subsequent implementation of the SoLR process, led to some temporary delays in energy suppliers engaging with end consumers to roll out smart meters, with an increase in transactional meter call-out requirements as a result.

Delivery exceeding expectations: Despite these challenges, we increased our installation run rate to over 30,000 meters per month and installed c.350,000 smart meters during the year in line with expectations, demonstrating the robustness of our operational model. Through careful management, we have driven significant efficiencies within the installation business in the year, with full utilisation of our direct labour workforce, supplemented by our network of sub-contractors. This flexible model has allowed us to navigate market conditions effectively, delivering results marginally ahead of expectations.

We continue to invest in our engineering capacity, as we expect to drive progressive improvement in our installation run rate during 2022. Maintaining an appropriate balance between direct labour and sub-contractors will remain a key focus, ensuring we sustain the efficiency and utilisation levels we have achieved over the last 18 months.

A proud achievement has been surpassing our health and safety targets, with zero injuries reported under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 (RIDDOR) and industry-leading performance on our other key metrics, including technical quality incidents. See our Health and safety report on pages 58 to 59 for more details.

Investing for the future: We have upgraded our apprentice scheme to deliver and fully fund new entrants to the installation business through our in-house training academy in Bolton, alongside recruitment and retention of experienced engineers. We seek to maintain a socially responsible approach, recruiting from diverse backgrounds and actively working to address the industry-wide gender imbalance in engineering. We are committed to investing in both our people and our systems, to deliver safely and efficiently for our customers.

Through our training academy we are also now able to deliver upskill training, for example for domestic electric vehicle (EV) chargers, battery and air-source heat pump installation – see the case study on page 23 for further details. We see this capability as critical for our long-term CaRe asset programme, and to enable the UK's energy transition to net zero.

Driving operational efficiency through warehouse consolidation

Historically, SMS warehouse operations have grown organically, with separate warehouses being used for forward and reverse logistics operations, and third-party storage being used for bulk storage and assets awaiting refurbishment. Over time this has led to the double-handling of products, and the need to relocate stock frequently between sites.

As part of the Group's wider focus on maximising operational efficiency, a review was carried out in 2021 and a consolidation plan put into action. Several sites were exited, and in their place a larger warehouse was sourced, suitable for the current and anticipated growth of the business.

The new warehouse facilitates a 'one touch' system for stock and combines forward and reverse logistics under one roof. This allows for the sharing of resources and

should drive faster refurbishment of SMS-owned assets for reutilisation in the field, and repatriation of assets to owners.

The benefits of this are not just operational. From a sustainability perspective, consolidation into one warehouse will remove c.14,000 road miles from our supply chain, which is the equivalent of over five tonnes of carbon emissions.

In addition, the consolidation demonstrates our commitment: to **safety**, by utilising modern methods of storage and distribution; to **customer excellence**, by improving our efficiency in handling assets; and to **pride**, by providing opportunities for staff to develop skills across all areas of stock, warehousing and logistics in one location.





Energy Management

Summary	2021	2020	Growth
Revenue	£3.6m	£4.6m	(21%)
Cost of sales	(£2.8m)	(£3.6m)	23%
Gross profit	£0.9m	£1.0m	(15%)
Gross margin	24%	22%	2%
Value of utilities under management ¹	£333m	£334m	Flat
Capex on grid-scale batteries ²	£24.5m	£1.3m	>500%

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

² Excludes acquisition-related balances.

Key focus areas

The energy management division is focused on the development of our new CaRe products; these will reduce energy consumption and costs for I&C customers whilst enabling solutions which reduce carbon emissions and enable a low-carbon, more flexible energy system.

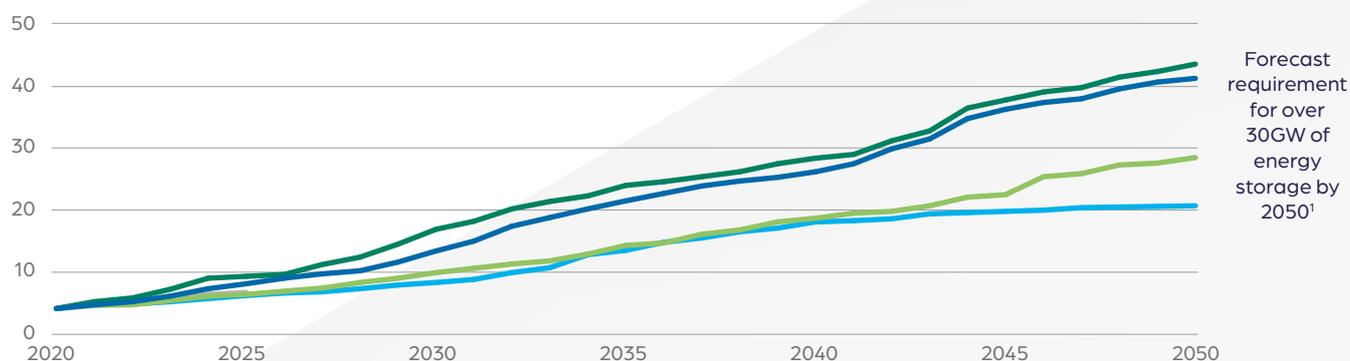
Primary objectives

- Originate, build and operate our grid-scale energy storage portfolio, enabling the energy networks to transition to net zero through the integration of intermittent renewable generation.
- Grow our energy management, energy efficiency services and capital project delivery programme, such as LED lighting and smart energy controls, on behalf of I&C customers.
- Develop asset-backed commercial models in our developing CaRe products:
 - behind-the-meter: Solopower smart solar and storage solutions
 - EV charging infrastructure for Destination and Domestic markets
 - heat meters and networks.

OPERATIONAL REVIEW continued

ENERGY MANAGEMENT continued

Installed electricity storage capacity (GW)



Source: National Grid Future Energy Scenarios 2021

¹ Calculated as the average of National Grid's four forecast scenarios in its Future Energy Scenarios 2021.

The energy transition is fundamentally driven by the need to decarbonise the generation and use of energy. The National Grid already requires the use of assets to provide balancing services to address grid volatility and achieve stability, which has historically been realised through pumped hydro and fossil-fuel-based generation. We have, therefore, deliberately focused on the development of our grid-scale battery storage portfolio, as the growing volume of intermittent renewable generation, and the increase in peak demand on the networks, is materially impacting volatility and the corresponding requirement for balancing services. Our FlexiGrid™ platform – connected to smart networks and enabled by smart meters – provides the flexibility services required to enable this energy transition.

National Grid forecasts a requirement of over 10GW of energy storage on the grid by 2030 (and over 30GW by 2050). This requirement is expected to continue to grow further with the UK Government targets for 100% renewable generation by 2035, and the impact of increased peak demand from the electrification of heat and transport. This requirement positions SMS perfectly for these additional market opportunities, and we have trial projects and commercial models in development, all integrated with our FlexiGrid™ and METIS asset management platforms.

2021 performance and developments

COVID-19: The pandemic continued to have an impact on our traditional consultancy and energy management services, with ongoing delays as a result of disruption to site works. Service delivery was maintained but roll out of site-based energy efficiency measures was impacted by customers' financial and operational constraints imposed by COVID-19, impacting our ability to deploy these services. Consequently, revenue in this division declined during the year.

However, supported by the UK Government's 'Net Zero' and 'Heat and Buildings' strategies, and with increasing energy costs of significant concern to both I&C and domestic customers, we remain positive regarding the substantial market opportunities available to us and the potential for deployment of our existing and developing CaRe products and services.

A transformative year for our ambitions in grid-scale battery storage:

Our first site in Burwell, Cambridgeshire (50MW) is now fully operational following commissioning in January 2022.

We have also increased our remaining pipeline of projects over which we have exclusivity from 470MW at March 2021 to 570MW at March 2022, of which 270MW is fully secured, including the acquisition of a 30MW site in February 2022. We expect 40MW to be operational by mid-2022 and a further 100MW to be operational during H1 2023.

We deliver these grid-scale projects from initial construction through to ongoing operation, trading, maintenance and asset management. The cash flows from grid-scale batteries, once energised, are fundamentally driven by the daily requirement for balancing services on the grid which, in tandem with growth in intermittent renewable generation, is substantially increasing the need for such services. The counterparties to these services are the system operators – National Grid and the distribution network operator (DNO) – providing strong revenue protection, allied with strong battery warranty protections.

The economics of this asset class are attractive with an initial EBITDA yield of c.11-14% 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 ten years). These forecasts are supported by independent industry modelling. The economic profile of these assets thus provides long-term returns after a relatively quick construction phase of typically one year or less.

In 2022 we will continue to construct and deliver our fully secured 270MW pipeline, seek to convert the remaining 300MW in exclusivity, grow the pipeline further and, critically, demonstrate the operational and financial capability of this vital infrastructure asset class.

Developing CaRe products: The increase in wholesale energy costs, which will inevitably flow through to both I&C and domestic energy charges, drives greater urgency for innovative solutions which address consumption, cost and the net-zero challenge.

We continue to develop solutions, aligned to our established technology platforms and engineering capabilities, to address these challenges:

EV infrastructure

We are developing solutions in the domestic and destination (both workplace and on-street) parts of the market and remain lead co-ordinators on the Virgin Media Park and Charge (VPACH) project, which is establishing on-street charging solutions. Installations of EV chargers as part of the VPACH project have commenced and it is expected that approximately 600 charging sockets will have been installed by the end of the project. We have the engineering skills and knowledge to establish and originate destination charging infrastructure and its electrical connection to the grid, utilising our established and scalable field management platform. Our training academy is also now able to train engineers to install EV chargers at the domestic level.

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

Our Solopower solution, which aims to radically reduce carbon emissions within the UK's social housing stock, was launched in 2021. To deliver this solution, we are partnering with local councils and housing associations to upgrade the energy performance of social housing accommodation significantly through the use of solar generation and battery storage, supported by our FlexiGrid™ technology platform. Pilot projects are being progressed in over 1,000 homes across the UK, as well as early-stage projects in the Republic of Ireland.

Heat meters and networks

We have successfully delivered a pilot solution to a nationwide hotel chain for smart heating controls, and we are working with other existing and potential customers to explore alternative heat solutions. In April 2021 we announced our partnership with Aberdeen City Council to roll out fabric retrofits and air-sourced heat pumps, alongside the Group's Solopower solution, to a group of homes, thereby trialling a 'whole-house' approach to the domestic decarbonisation challenge. This project is expected to progress through 2022.

Energy efficiency

With more than 20 years of energy efficiency consulting and project delivery experience, we are developing capital projects which will deliver energy reduction for our I&C customer base. These projects are often linked to, and identified by, the data services we can provide from smart and advanced meters – for example, using smart energy control solutions for energy management and LED lighting projects. By aligning capital with this expertise, we can deliver cost savings and permanent carbon reduction for our customers whilst generating long-term recurring revenues for the Group.

Whilst these verticals are at various stages of development, we have established trials and pilots in all of them and are developing the commercial models and pipelines accordingly. All of these products are closely aligned to our existing vertically-integrated technology and engineering platform,

and indeed are complementary to each other – we are positioning our business in areas in which we already have substantial experience and capability. These markets also all share two key characteristics: they reduce carbon, and they each provide a substantial growth market opportunity.

Decision-making in practice:

continued investment in grid-scale battery storage



Over 2021, the Board approved capital investment to purchase and develop four further grid-scale battery storage sites with a combined capacity of 200MW.

In making their decision, the Board discussed the future expected returns from these investments. Detailed cash flows were also reviewed so they could satisfy themselves that there was sufficient funding available within the business and that the construction of these additional sites would not impact the Group's wider UK smart meter rollout commitments, dividend policy or compliance with its revolving credit facility.

Over this process the Board gave consideration to our key stakeholders, in particular:

Shareholders – our shareholders have an interest in the long-term return on investment and in receiving a predictable dividend. The Board has therefore focussed on ensuring that the grid-scale battery programme can be financed without compromising the existing business or the long-term health of the Group, and that execution is carefully managed.

Employees – growing the Group in a sustainable way serves the interest of employees and generates new opportunities for our people. The wider workforce has been kept updated on developments in this area through Company communications.

Lenders – the Chief Financial Officer led the negotiation of a refinancing with the Group's lenders in September 2021, detailed further on page 74, and the new facility now permits the borrowing of funds for investment in grid-scale battery storage.

Grid-scale battery storage

The ability of grid-scale batteries to support the electricity grid with the flexibility it needs means that increased deployment of this technology is fundamental for the UK's transition to a low-carbon energy system. SMS is a leading contributor to meeting this need, with a strong delivery pipeline.

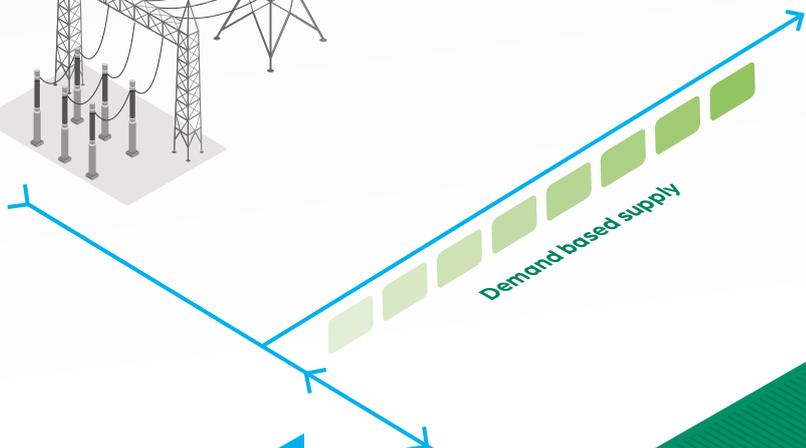
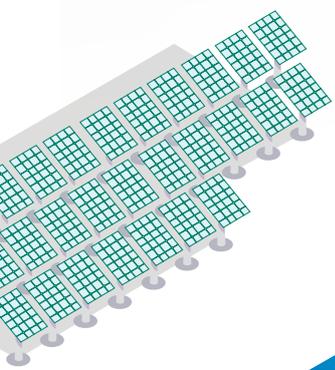
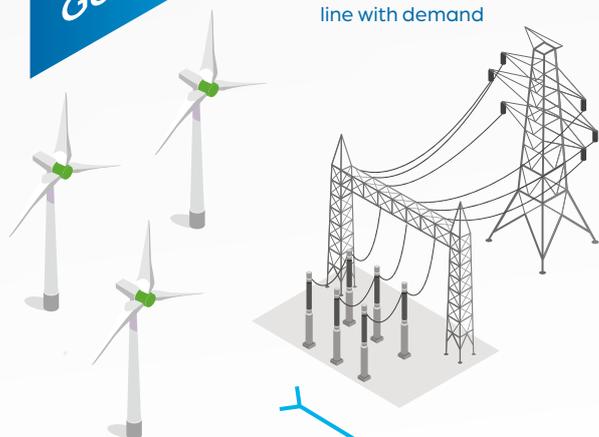
Homes and businesses

Demand does not align with weather and there is limited flexibility in homes and businesses to adapt



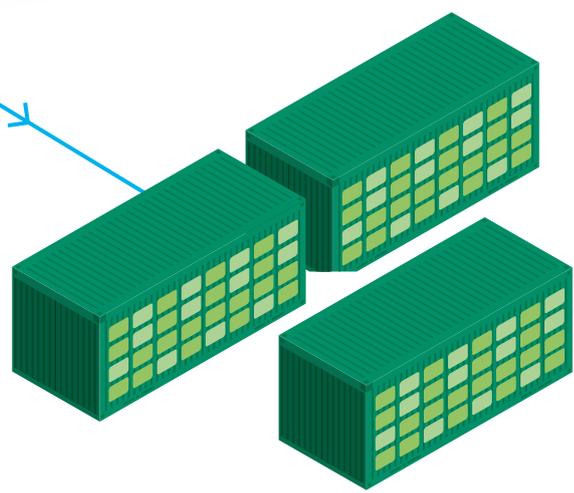
Generation

Renewable energy is only generated when wind and sun are available, not in line with demand



Grid-scale battery storage

Grid-scale batteries can bridge the gap between generation and demand when it is out of alignment, allowing more renewable power to be released when it is needed



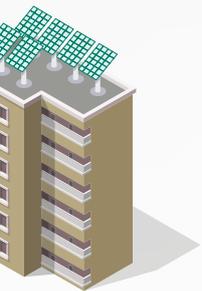
Over 10GW

Energy storage required by 2030 to remain on track for the UK's net-zero target¹

620MW

pipeline including operational, under construction, contracted and exclusive projects

¹ Calculated as the average of National Grid's four forecast scenarios in its Future Energy Scenarios 2021



What is grid-scale battery storage?

Grid-scale battery storage comprises multi-megawatt storage assets connected to either the distribution or transmission networks of the UK's electricity grid. These assets differ from behind-the-meter storage in both scale and connection point.

The growing proportion of renewable sources in our energy supply, and the more distributed nature of energy generation in general, creates two key issues. Firstly, generation and demand are no longer straightforward to align. Secondly, the loss of inertia from large thermal plants, combined with the greater numbers of smaller distributed renewable sources, increases the need for frequency stabilisation.

Batteries are excellent at both these activities as they are bi-directional and can activate at split-second speeds: charging when wind and solar generation is high and discharging when demand is greater. Storage assets at this scale, interfaced with the grid, are an integral part of the transitioning energy system in the UK.

How do we fit in?

SMS takes an end-to-end approach to any key sector and grid-scale battery storage is no different. We are self-developing new battery sites for the long term as well as acquiring 'shovel-ready' sites to build out now, leveraging our expertise and experience in connections design and project management to identify suitable opportunities.

Once constructed, we will both own and operate the energised storage assets, using the services available to maximise returns and balance the health and longevity of the battery cells.

Revenues will be generated from a combination of wholesale trading and balancing, frequency and constraint services and we will endeavour to engage with any new services that may be proposed over time.

Our progress through 2021

We began construction on four projects during 2021, with a total capacity of 190MW. Our current total pipeline, which includes the above projects as well as various other sites under exclusivity, is now 620MW, putting us in a strong position to hold a 10% market share.

By the end of 2021, our first site – at Burwell in Cambridgeshire – had been constructed and the assets became fully operational in January 2022. The site was delivered ahead of schedule and on budget and is now under the expert control of the SMS trading team.

Start

In the corner of a field in rural Cambridgeshire in late 2020, we began our Burwell grid-scale battery construction. As a first step, an access bridge capable of taking the delivery trucks was constructed and the land cleared ready for foundations.



Middle

During the first half of 2021 the focus was on preparing the foundations for the batteries and the infrastructure to connect them to the grid. Here you can see the plinths upon which the cells sit and the early stages of materials being craned into place.



Completion

Following energisation to the grid, the commissioning and testing of the system was completed. Following a successful acceptance test the site became operational in late January 2022.



Creating a sustainable and low-carbon 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 in the following main areas:

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

▶ For more information on our sustainability performance, see also the SMS Sustainability Report 2021 at www.sms-plc.com/corporate/sustainability

1. Stakeholder engagement

▶ See page 41

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



2. The environment

▶ See page 46

As a leading energy infrastructure company in the UK, we are acutely sensitive to the environmental climate in which we operate and the impact we have. Each of our products and services is aimed at reducing carbon and we are actively working towards becoming a net-zero Company by 2030.



3. Our people

▶ See page 52

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



4. Health and safety

▶ See page 58

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.



5. Ethical business practices

▶ See page 60

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





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.

Our key stakeholder groups are set out on pages 42 to 45 along with how the business engages with them, and key topics of discussion during 2021, together with any specific outcomes. Further Board engagement is outlined on pages 86 to 88.

Section 172 statement

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

Principal decisions

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

(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 42 to 45 details how we established and defined our stakeholder groups.

On the pages listed in the table below we have provided examples of how the Board duly considered the impact on stakeholders when making principal decisions during 2021:

Principal decision	Page	Key stakeholders impacted
Acquisition of I&C large-power metering and data portfolio	30	  
Continued investment in grid-scale battery storage	37	  
Capital fundraising	73	  

Shareholders



▶ See the Corporate governance report for further information

Why effective engagement is important

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

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

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

Form of engagement

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

Our programme for investor engagement is detailed in the Corporate governance report on pages 80 to 89.

Key topics of engagement during 2021

- Development of various carbon reduction products, particularly meters and grid-scale batteries.
- Deployment of funds raised through equity issuance and refinanced loan facility, and corresponding impact on the Group's future growth.
- Impact on SMS's meter order pipeline following turbulence in the UK energy market and the failure of several independent energy suppliers.
- Progress made in 2021 towards achieving our 2030 net-zero target.
- Capital Markets Day – see case study.

Capital Markets Day

We hosted our inaugural Capital Markets Day in June 2021. Our primary objective was to provide our stakeholders with the opportunity to meet the senior management team. The agenda and presentation materials were developed taking account of feedback received from shareholders, analysts and advisers. Given the virtual nature of the event, the presentation included pre-recorded real-life videos showing the Group's infrastructure, offices, products, services, technology and people.

Alan Foy, the Group's Chief Executive Officer, introduced the two-hour virtual presentation followed by Tim Mortlock, Chief Operating Officer, giving an overview of the scale of opportunities available to the Group. A series of presentations were then made from senior managers across the business who provided more insight into each of our carbon reduction ('CaRe') products and services and our competitive positioning within each category. The Group Chief Financial Officer, Gavin Urwin, then explained the Group's financial position, capital structure and dividend policy. The event concluded with a presentation of the outlook for the Group and the significant growth opportunities ahead; and questions were accepted from participants.

The event was very well attended and received by existing shareholders, potential investors and other stakeholders. More than 100 investors attended the presentation live on the day of the event and many more have since viewed the recording on the Company's website.

66

"I listened in and thought your Capital Markets Day was excellent. It covered a significant amount with clarity and demonstrated your compelling and evolving proposition. It was also a clear demonstration of the strength and depth of your management and the significant opportunity to deliver beyond meters with your CaRe products, all underpinned by a very credible IT and data platform."

A shareholder



Customers



▶ See the Operational review for further information

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 this, we listen and engage, and strive to become a trusted partner.

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

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

Form of engagement

- Listening and responding to customer feedback.
- Clear and structured lines of engagement for core customer groups.
- All customers are assigned 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 2021

With wholesale energy prices contributing to challenging market conditions for both our customers and their consumers, during the year we continued to develop our digital platforms to ensure that the smart rollout programme progressed to plan, while ensuring that our field workforce delivered key messages around energy efficiency and savings throughout these difficult times.

Over the year, we focused on making available a variety of digital booking channels, while still offering the more traditional option of voice. The introduction of a new omni-channel solution in the first half of 2022 will see our digital engagement increase further. These platforms will allow us to adapt our communication styles, particularly in supporting customers with vulnerabilities.

The wellbeing of our workforce and of the consumers living in the homes we visit remains paramount. With the UK still feeling the impact of COVID-19, we worked closely with our customers to introduce additional checks and measures, both before and on the day of appointment, to ensure that each installation took place in a safe manner.

Employees



▶ See the Our people section

Why effective engagement is important

Our employees are one of our main competitive advantages. We understand the difference their positive contribution can make and encourage this through support, acting on feedback and new initiatives.

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

It is therefore crucial that we build a positive corporate culture, where employees feel able, and are inspired, to perform their best work.

Form of engagement

- An open and collaborative management structure with the tone set from the Executive.
- A designated Non-executive Director provides independent oversight over employee engagement, working in tandem with the Group HR Director.
- Establishment of an 'Employee Voice' forum (with representation across the Group at all levels from different departments and locations).
- Establishment of the LOV (Living Our Values) Awards.
- Employee Resource Groups (three initially).
- Use of a bespoke SMS intranet site (with a dedicated Wellbeing page and resources).
- Issuance of quarterly employee newsletters.
- Ad-hoc Company presentations by the executive leadership team together with regular videos and email communications.
- Various wellbeing Group initiatives.
- Employee engagement surveys.
- 'You Said. We Did' infographics following our engagement surveys to update employees on progress.

Key topics of engagement during 2021

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. Projects in 2021 included:

- a focus on equality, diversity and inclusion (EDI) and establishment of a new, voluntary monitoring form;
- an employee competition to gain ideas on how to introduce EDI into our core values, resulting in a new behaviour 'Celebrate our differences' within our 'Pride' value
- additional benefits including Medicash (health plan) and enhanced fertility and miscarriage leave and support; and
- enhanced wellbeing support.

Suppliers



▶ See the Operational review for further information

Why effective engagement is important

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

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

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

Form of engagement

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

Key topics of engagement during 2021

We have continued to work closely with our vendors to keep our supply chain flowing, especially considering the UK-wide shortage of HGV drivers which has caused issues with waste carriers prioritising general waste over recycling waste and SMS engineers having to seek non-preferred branded fuel to ensure our operations remained on track. Due to the global freight capacity restrictions, we did experience some product shortages, but we worked swiftly with our compliance teams to ensure we had alternative product available to allow our operations to continue. Despite these challenges, our key vendor service levels remained high throughout the year.

Policies and procedures around onboarding of vendors and ensuring prompt payment have been adhered to. We now have greater visibility of the vendor base as we continue the development of our Electronic Quality Management system.

Regulatory bodies



▶ See the Operational review for further information

Why effective engagement is important

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

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

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

Form of engagement

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

Key topics of engagement during 2021

We participated in forums to establish the new Retail Energy Code, which brings together several existing codes of practice and updates the governance of existing gas and electricity retail arrangements. As part of this, we have supported our energy supplier customers in understanding the new code and the potential implications for their operations.

In December 2021, we joined a new implementation working group set up by XoServe, which is focused on developing the role of hydrogen across the UK gas network. In time, SMS will be involved in developing the technical standards for this.

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

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

Lenders/financiers



▶ See the Financial review for further information

Why effective engagement is important

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

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

Form of engagement

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

Key topics of engagement during 2021

Meetings were held with the Group's syndicate of banks to provide an update on the 2021 budget and performance.

The Chief Financial Officer was ultimately responsible for the management of the facility refinancing in September 2021, as detailed on page 74.

Government bodies



▶ See Our markets for further information

Why effective engagement is important

We engage with several government bodies including the Department for Business, Energy & Industrial Strategy (BEIS) and the Data Communications Company (DCC).

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

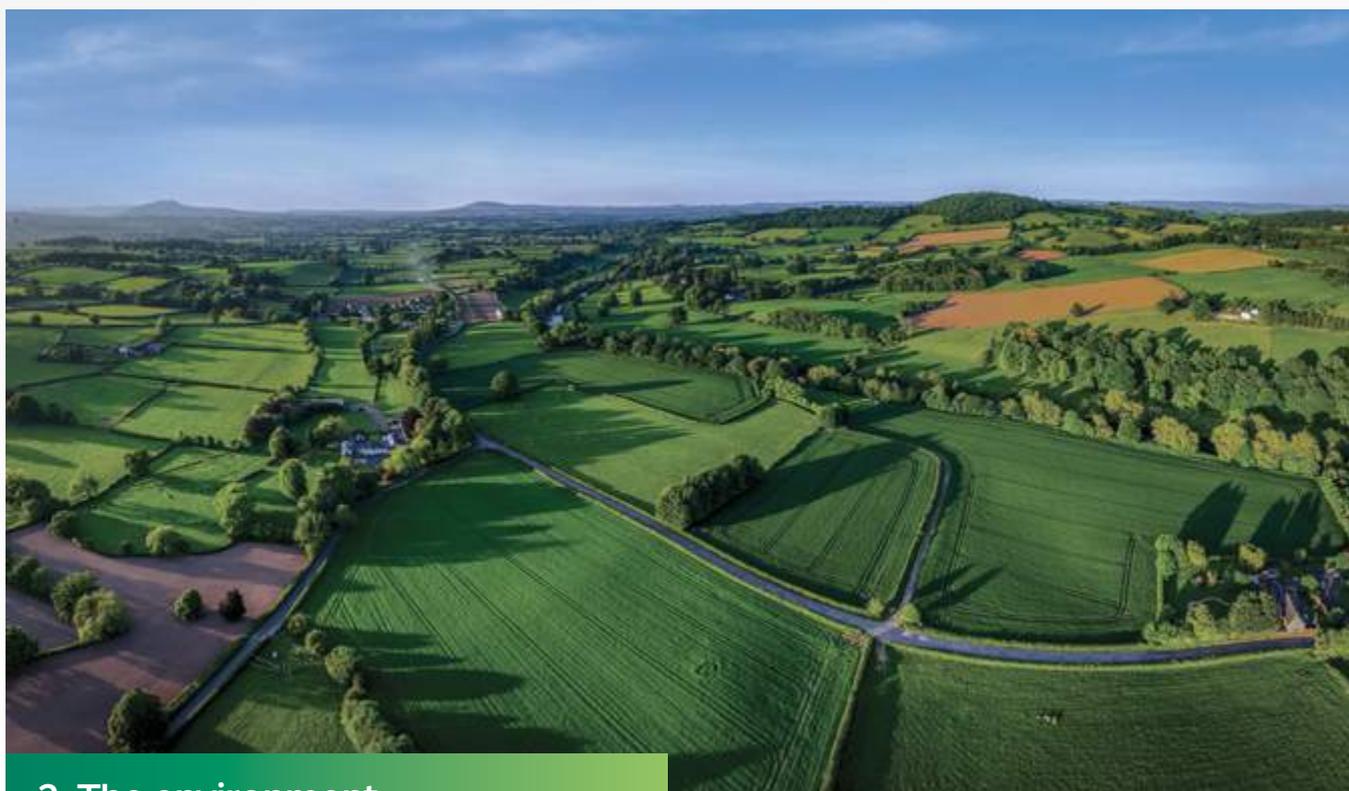
- A regular meeting programme with BEIS, including attendance at round tables and working groups.
- Review and provision of formal responses on consultations issued by BEIS and other government bodies.
- Extensive engagement with the DCC.
- Representation on both the Smart Energy Code (SEC) Operational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

Key topics of engagement during 2021

We have responded to consultations to shape the industry process for securely triaging smart meters, which is not currently possible, working with meter manufacturers to explore how second-generation smart meters ('SMETS2') can be made reusable.

Following a Department of Transport consultation on electric vehicle (EV) charging, we have a representative in the Electric Vehicle Energy Taskforce and are working with others across the energy and transport industry to explore how smart metering can support in this area. We have also proposed modifications to the SEC to increase the scope of SMETS2 Twin Element meters. This will allow energy suppliers and other parties to enable smarter innovative tariffs, whilst creating an opportunity for our FlexiGrid™ product.

We also helped BEIS and Public Health England in their testing to demonstrate that the radio frequency of dual-band equipment does not pose a health risk to end consumers.



2. The environment

2021 was an exciting year for sustainability, packed with UK Government activity including major policy releases and the hosting of COP26. Against this backdrop, SMS continued to evolve in its role as a low-carbon energy solution provider and these developments continue to position us at the forefront of climate-transitioning energy services.

Sustainability governance

Environmental, social and governance (ESG) disclosures

We have continued to improve the communication and disclosure of our established ESG working practices, integrating ESG communications into our mainstream market communications and stakeholder touch points, and ensuring ESG commentary was firmly embedded in our inaugural 2021 Capital Markets Day.

In line with our strategic focus, in 2021 we:

- continued to improve supporting score, from 6.3 to 6.6 from MSCI, retaining an 'A' rating and improving our Sustainalytics score from 27.8 to 26.6;
- maintained a 'B' rating from our Carbon Disclosure Project (CDP) submission;
- continued to be a supporter of the Task Force on Climate-Related Financial Disclosures (TCFD) – more details on our TCFD journey can be found opposite;

- had our net-zero target recognised by The Climate Pledge and the UN Race To Zero campaign, demonstrating our ambition and achievements;
- submitted our UN Global Compact annual 'communication of progress', demonstrating alignment with the UN principles;
- maintained our Green Economy Mark; and
- commenced assessment of service and revenue alignment with the EU taxonomy, detailed further on page 47.

We are dedicated to ensuring our disclosures remain in line with best practice, providing an accurate representation of our activities and achievements.

Assessing and addressing climate-related risks and opportunities

As an organisation at the leading edge of the low-carbon transition, and a TCFD supporter, we understand the importance of climate considerations now and into the future and are committed to sharing relevant information with our stakeholders.

In 2020 we embarked on a journey to implement the recommendations of the TCFD. These include disclosing against all eleven detailed sub-disclosure sections, under the four core elements of the TCFD: Governance, Strategy, Risk Management, and Metrics and Targets. As part of this, we also undertook climate-related scenario analysis. The disclosures were summarised in our inaugural 2020 Sustainability Report and further details on our 2021 disclosures can be found in the 2021 Sustainability Report at www.sms-plc.com/corporate/sustainability.

The four core TCFD elements are summarised below:

TCFD disclosure aspect	SMS response
Governance: Governance of climate-related risks and opportunities	Our Health, Safety and Sustainability (HSS) Committee, formally ratified in 2020, was created by the Board to ensure that the Company's approach to health and sustainability are clearly set out, consistently monitored, and adapted to suit the growing needs of the Group. See page 81 for more details.
Strategy: Actual and potential impacts of climate-related risks and opportunities on business strategy and financial planning	Our services aim to mitigate climate change, with a range of opportunities embedded in our business strategy for the short, medium and long term. We have identified areas of potential climate-related risk, such as extreme weather events which could affect our physical locations and road-based employees. Transitional impacts on our new and developing services have also been considered and we highlight potential impacts around fuel taxation linked to the cost of operating our fleet. However, whilst climate-related change will have a profound effect on business in the broader sense, the risk is very low for SMS specifically.
Risk management: The processes used to identify, assess and manage climate-related risks	We have carried out qualitative explorations of potential areas of concern utilising best practice guides as a framework. We have since commenced a detailed climate exposure evaluation of our physical assets including offices, warehouses and battery sites. Further information can be found within the Sustainability Report. Climate risk is integrated into our Group risk register and monitored by the Audit Committee; see the Risk report on pages 62 to 69 for details on the Group's risk management processes. Climate risk is not considered a principal risk for risk reporting purposes due to its low rating.
Metrics and targets: The metrics and targets used to assess and manage relevant climate-related risks and opportunities	Consistent with the prior year, our Scope 1, 2 and 3 emissions are disclosed within our emissions reporting table, including further descriptions of sources. See page 51. Our 'net zero by 2030' target and roadmap demonstrate our commitment to reducing emissions. Transition milestones are embedded into our financial and strategic business planning. See more details on page 49.

Although our CDP disclosure includes full details of our current aligned activities, our journey to best practice with regard to TCFD reporting continues, as we fully embed the principles into our strategic planning and everyday processes. We intend to enhance our climate exposure evaluations over the next year, and our ESG Working Group and HSS Committee aim to regularly review, evaluate and report on quantitative and financial climate-related risk.

UK/EU taxonomy

The EU taxonomy ('the Taxonomy') enables classification of business activities as "environmentally sustainable". The aim of the Taxonomy is to provide transparency to both investors and businesses and to prevent greenwashing. The Taxonomy supports sustainable investors and investments, by providing clear quantitative demonstrations of business activities and revenues against specific criteria. It has gained momentum over the past year and the proposed UK Taxonomy, which is anticipated at the end of 2022, is expected to closely align with it.

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

- make a substantial contribution to one or more of the Taxonomy's environmental objectives;
- provide taxonomy-applicable services classified under specific 'NACE codes'; and
- do no harm under all environmental objectives.

During 2021, we assessed the extent of our alignment with the EU Taxonomy, in order to support our investors and prepare for the UK Taxonomy, and our initial assessment shows strong correlation between all our services and the Taxonomy requirements. Full details of our contributing services, applicable activities and strategies under the 'do no harm' criterion can be found within the Sustainability Report.

We will continue to align with the requirements of the Taxonomy as these become available, and disclose our alignment; assessing the technical screening criteria and revenue from applicable activities, with the objective of demonstrating our aligned revenue to investors by the time of the UK Taxonomy's anticipated release at the end of 2022.

Health, Safety and Sustainability Committee

Our HSS Committee, including its role and responsibilities and key activities in the year, is detailed on page 81. 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 practice across the Group and ensures we have the capacity and capabilities to deliver on our goals.

Our contribution to the United Nations Sustainable Development Goals

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

Further details under each of our targets can be found within the 2021 Sustainability Report.

66
Our 'net zero by 2030' target will see us drastically reduce our organisational carbon emissions"



Our net-zero ambition

A reminder: what does 'net zero' mean?

Our 'net zero by 2030' target will see us drastically reduce our organisational carbon emissions, to a point where we remove as much greenhouse gas from the atmosphere as our operations create.

Our target encompasses Scope 1 and 2 emissions from our tracked fleet (representing 90% of our target emissions) and the operation of our buildings through heating, cooling and electricity use (representing the remaining 10% of our target emissions), but excludes our grid-scale battery operations.

2021 progress

In 2020 we set an ambitious, change-based net-zero target, focused on transitioning our fleet to hybrid and electric vehicles (EVs), and implementing sustainability upgrades at our core sites. See our roadmap below.

During 2021, we successfully achieved our target milestones for the year. Eleven EV vans were received at the end of the year as trial vehicles to test their viability, distance capabilities and general suitability for our business purposes.

We also commenced sustainability upgrades on our first office, with extensive surveying activity across a range of energy efficiency and renewable solutions, including window replacement, an air-source heat pump, solar Photo Voltaic (PV) and battery provision. Following evaluation, we have decided to commit to the full package of solutions to aggressively reduce emissions, which should deliver a greater than 60% reduction in emissions, transitioning us away from gas use. We expect site work to commence in the first half of 2022.

2022 outlook and priorities

2022 will see us enter our first cycle of fleet van replacements and through 2022 to 2024 we will be replacing a significant proportion of our vans with hybrid and full-electric vehicles.

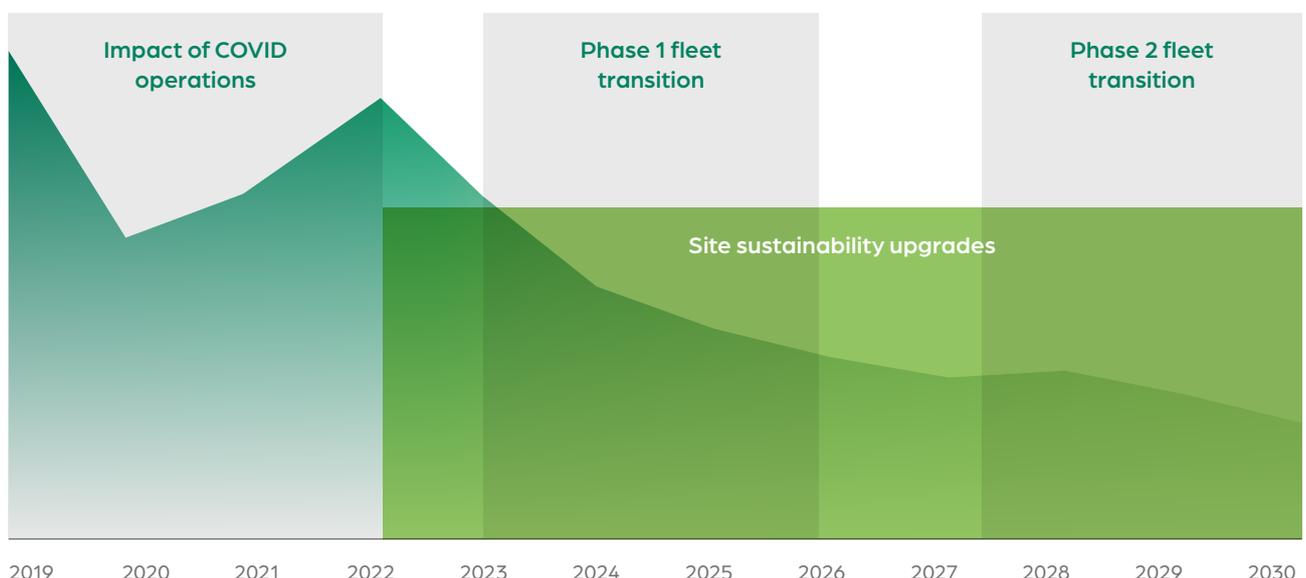
Whilst upgrades on our first office progress, we will commence analysis of our second site for prioritised sustainability upgrades. This activity will include detailed 3D modelling of the building using simulation software to assess the current performance of the building as well as to identify and evaluate potential improvements, such as insulation or window replacement. This initial step focuses on bringing down the energy demands of the building, prior to the subsequent steps of evaluating control systems and generating the building's own renewable energy.

Our carbon trajectory

We have quantified the steps we need to take within our net-zero roadmap, showing the estimated carbon impact of the transition of our fleet and buildings between now and our target achievement date of 2030.

We have used the UK Department for Business, Energy & Industrial Strategy's (BEIS) carbon conversion factors, alongside vehicle manufacturer data, to establish immediate emissions, and have projected the long-term energy intensity of grid electricity using BEIS's updated energy & emissions projections.

Fleet and site emissions projection 2019–2030 (TCO₂e)



SUSTAINABILITY continued

Living our values and reducing our footprint

COVID-19 continued to impact the operation of our offices and warehouses throughout 2021 and, as we endeavoured to keep our employees safe, we continued a 'work from home where possible' approach. This reduced our building-related operating emissions, which continued to be lower than those in 2019, but were higher than the significantly reduced emissions we saw during 2020 as a result of the nationwide lockdowns.

In 2021 we also saw a return to more conventional working within our fleet activities, which currently represent the majority of our emissions. Our fleet movements, mainly attributed to the installation of smart meters, increased significantly compared to 2020 as a result of an increase in our smart meter installation run rate, and continue on this trajectory.

As our business evolves and COVID-19 continues to impact operational working, we will continue to progress our carbon reduction ambitions in the form of our 'net zero by 2030' target, which supports the transition of emissions at source for our organisation.

Our 'handprint'

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 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 carbon reduction ('CaRe') assets which deliver carbon reductions for our customers and their end consumers.

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

	2021	2020 restated ³	2019 restated ³
Tonnes carbon mitigated – smart meters (TCO ₂ e) ¹	121,421	102,699	96,699
Tonnes carbon mitigated – energy efficiency projects (TCO ₂ e) ²	5,338	5,291	3,444
Total business handprint (TCO₂e)	126,759	107,990	100,143

1 Derived from annual savings on domestic property consumption as a result of the installation of a smart meter, including the flow-through impact of prior period installations. Figure is calculated based on the number of owned, domestic smart meters under management at 31 December 2021.

2 Derived from annual energy savings achieved by customers as a result of energy efficiency projects delivered by SMS, including the flow-through impact of projects delivered in a previous period.

3 Prior year figures in relation to the tonnes of carbon mitigated from smart meters have been restated to align with a revised calculation methodology implemented in the current year, which now uses the total number of owned, domestic smart meters under management at the end of the year as opposed to the number of smart meters installed in the year. This captures the flow-through impact of prior period installations, consistent with the calculation methodology for energy efficiency projects which includes the flow-through impact of projects delivered in a previous period. No change has been made to the calculation methodology for energy efficiency projects.

100%

renewable electricity on owned sites and 38% renewable electricity on leased sites

29%

reduction in total direct business emissions (Scopes 1 and 2) compared to 2019

17%

increase in mitigated emissions compared to 2020

Our environmental performance

Emissions reporting

Our footprint is the carbon produced by our operational activities, and we utilise the internationally recognised GHG Protocol to ensure comprehensive and standardised data calculations. Our reporting covers all emissions from our business activities.

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

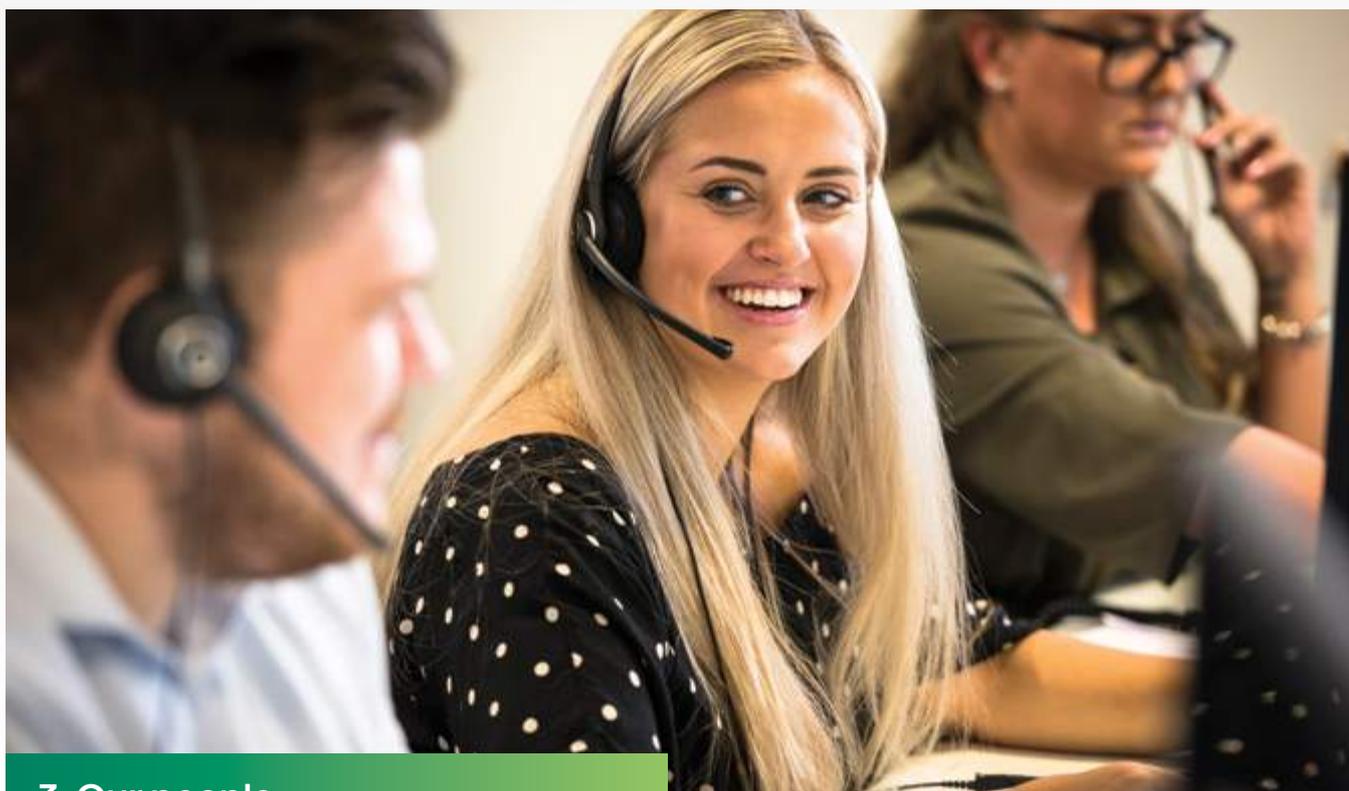
In 2021 we saw the first of our grid-scale battery storage sites enter commissioning stage, which represents a critical development in our journey to support the integration of renewable sources of electricity into the grid. The long-term outcome will be grid-scale batteries enabling a low-carbon energy system; however, during the transition our grid-scale battery sites utilise electricity to operate, and so we account for this within our Scope 2 emissions reporting.

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

	2021	2020 restated ²	2019 restated ²	Commentary
Total Scope 1 (TCO₂e)	2,082.7	1,760.4	2,978.1	Scope 1 comprises the direct emissions from our operations.
Company-owned vehicles (TCO ₂ e)	1,988.0	1,690.0	2,879.7	Our owned and tracked fleet vehicles.
Gas (TCO ₂ e)	37.1	41.5	50.5	Gas heating serves eight of our properties across the UK.
Burning oil (TCO ₂ e) ¹	2.2	1.5	–	Oil heating is used in one office building.
F-gas (TCO ₂ e) ¹	55.4	27.4	47.9	F-gas is the refrigerant used in air conditioning for cooling workspaces and server rooms.
Scope 2 (TCO₂e)				Scope 2 comprises the indirect emissions associated with our operations.
Location-based (TCO₂e)	189.5	152.4	205.6	Electricity lights, heats and powers our operations across warehouses, offices and training centres in the UK. Electricity used as operational energy such as cooling and communication systems at our grid battery site.
Market-based (TCO ₂ e) ¹ (including green energy contracts)	163.9	82.6	94.7	We source green contracts for our electricity where possible. This calculation excludes shared leased spaces, where contracts are controlled by the landlord, and new sites.
Total Scope 3 (TCO₂e)	561.3	502.0	1,164.3	Scope 3 comprises are emissions from up and down our value chain, including those of suppliers and service providers.
Diesel upstream supply ¹	500.8	421.9	685.0	Upstream production of diesel to supply employee-owned vehicles and company-owned fleet.
Vehicle business travel	28.2	49.4	444.5	Travel in employee-owned vehicles.
Transport and distribution' electricity ¹	16.8	13.1	17.4	Upstream production of electricity for use on our sites.
Petrol upstream supply	4.1	6.5	–	Upstream production of petrol to supply employee-owned vehicles.
'Well to tank' water supply ¹	1.2	3.1	7.9	The utilities which serve our warehouses, offices and training centres with water emit carbon through their supply and treatment operations.
'Well to tank' gas ¹	6.4	5.4	6.6	Upstream production processes of gas for use on our sites.
'Well to tank' burning oil ¹	0.5	0.3	–	Upstream production processes of burning oil for use on a site.
Waste ¹	3.3	2.3	2.9	The processing of our waste from our sites.
Total Scope 1, 2 & 3 (TCO₂e) (Scope 2 Location-based)	2,833.5	2,414.8	4,348.0	
Carbon intensity Scope 1, 2 & 3 (TCO ₂ e/£m)	26.1	23.4	38.0	Shows the amount of emissions produced to achieve the revenue realised, per £m.
Operational energy consumption (MWh)	9,500.3	7,908.1	12,846.0	This is the total energy consumption of our operations, spanning activities included in Scope 1 and 2 (excluding F-gas).

¹ Data is voluntary under SECR, but included for completeness of Scope reporting under GHG Protocol. As our business grows, we are developing our ability to decouple operational growth and energy consumption. See our Sustainability Report at www.sms-plc.com/corporate/sustainability for a full breakdown of all metrics.

² Prior year figures have been restated to reflect updated third party information and resources published after the original reporting date.



3. Our people

Health and wellbeing

Amidst the continued public health challenges posed by the COVID-19 pandemic, the necessity to look after ourselves both mentally and physically has become more important than ever. As a business, we continued our commitment to invest in employee welfare and promote good health, safety and wellbeing during 2021, and this is reflected in the continued improved performance we have seen across the Group. Some of the key mental, physical and financial initiatives included the sustained improvement of our bespoke wellbeing intranet site, which holds resources including signposting to specialist support, articles, new accreditations and useful health tips for all employees. Initiatives supported in 2021 included: Menopause at Work; Men's Health Week; Mental Health Awareness Week; World Mental Health Day (supported by our accredited mental health first aiders who are available to listen and signpost employees to specialist support); National No Smoking Day; and World Suicide Prevention Day.

Enhanced benefits package

Responding to employee feedback, during 2021 we also enhanced our employee benefits package, including the launch of Health Assured, a new employee assistance programme which offers a 24/7 confidential counselling service; and SmartHealth, a free support package for employees giving access to expert health and wellbeing advice, including free 24-hour online GP appointments.

We also introduced Medicash, which offers employees cover on a range of healthcare options. We additionally made improvements to our Group family-friendly policies to sit alongside our recently enhanced pay for maternity/adoption leave. This included the introduction of five days' paid leave for fertility treatment and for employees who have sadly suffered a miscarriage. In addition to this commitment, we were also proud to sign the Pregnancy Loss Pledge via the Miscarriage Association.

Vaccination advice

Throughout 2021, as well as offering our employees free flu jabs, we issued regular communication regarding updated UK Government advice on COVID-19, and the benefits of vaccination.

Employee engagement

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

Following our first ever external Group employee engagement survey in 2020, we undertook two further engagement surveys during 2021 through the 'Best Companies' platform, facilitating essential two-way communication and guiding us towards actions based on colleague feedback. We were delighted that Best Companies subsequently awarded us 'One to Watch' status, following our 75% employee response rate (2020: 50%).

Since this engagement process was launched, as a business we have taken the time to listen, set clear actions, make improvements, and clearly communicate these to our employees. Actions to date have included additional wellbeing support; the launch of a Groupwide pay, reward and benefits structure; and improved internal communication. But we will not stop there: our focus is firmly on sustained improvements in all areas moving forward.

Recognition and reward

As well as general engagement, enhancing employee recognition has also been a key focus with the launch of our Living Our Values Awards – a quarterly scheme linked to our five core values and behaviours. Employees are nominated by their colleagues or managers for consistently displaying one or more of the SMS core values, and winners receive a prize and letter from the Chief Executive Officer.

As well as internal recognition, our business, teams and employees were also honoured with external recognition by several industry award bodies during 2021, reflecting the quality of our work and the commitment to customer excellence across the Group.

SMS was nominated for the coveted 'Employer of the Year' prize (for the second year in a row) in December 2021 at the Utility Week Awards 2021, and the Group HR team was short-listed for 'Team of the Year' by the same awards body.

Additionally, our Head of Sustainability (Charlotte Gregory) was highly commended in the 'Young Sustainability Professional of the Year' category at the Business Green Awards, whilst three SMS employees also successfully reached the finals of Logistics UK Van Driver of the Year 2021.

Internal communication and brand refresh

In December 2021 we launched an 'Employee Voice' forum to give our people a structured channel through which views and suggestions can be shared, with the aim of driving ongoing workplace improvements. The forum is held monthly and chaired by the Group HR Director, and all feedback is shared with the executive leadership team for consideration and, where possible, implementation.

Our quarterly employee newsletter continued throughout 2021, supplemented with the addition of special-interest podcasts. In April, the first ever employee summary version of our Annual report was circulated with the aim of improving insight and understanding of the business strategy and making our corporate communications more digestible.

All our communications in 2021 were against the backdrop of a Group brand refresh. To encourage brand awareness amongst employees, as well as instil a sense of community, all employees were sent a giftbox with branded gifts using recyclable packaging.

SMS

YOU SAID WE DID

Following your feedback, here's an update on some of the positive actions we've taken since our last employee survey in February 2021

best companies

NEW Quarterly Employee Voice Forum

NEW SMS behaviour under core value Pride: 'Celebrating our differences'

Support wider awareness e.g. Pride, Mental Health Awareness Week, Black History Month, Menopause, Fertility

Apprenticeships – currently 51 across Group

Equality, Diversity & Inclusion

NEW Inclusion Works Program (HIVE) undertaken by Execs/Directors

NEW Voluntary EDI Monitoring Form

NEW HR bespoke Employee Lifecycle Training for Managers

NEW Living our Values (LOV) Awards
Quarterly nominations

Communication
SMS Newsletter, Capital Markets Day, Annual Report, Energy Matters Podcast

Onboarding in action

66

After receiving the unfortunate news of Quinn's liquidation – Quinn had been a long-time engineering sub-contractor for SMS – 70 of my colleagues and I were onboarded as SMS employees as part of a TUPE transfer.

I can't praise enough how seamless this was. The level of care and sensitivity from SMS's management and HR teams was second to none. The onboarding process was incredibly swift, efficient and well organised, which was incredibly important for our sense of morale and stability. In the space of a week, we were all officially inducted without having to miss even one day of work.

Needless to say, we've all been made to feel very welcome since we joined and throughout our integration into the Company."

Louis Thomas
Performance Manager



Talent management and development

As with all businesses, we will face many challenges over the next few years as ways of working continue to change. However, we are confident that through investment in our employees, including via a dedicated training budget and upskilling of our engineers through our training academy, our business and employees will continue to go from strength to strength. All our people play a crucial role in delivering business success, and to facilitate this we encourage ongoing professional learning and development.

Apprenticeships and programmes

During 2021 we enrolled a further 31 employees into apprenticeships, taking our overall active apprenticeships to 44. We have expanded our apprenticeship offering to include coaching, IT and digital application support.

We also continued with enrolments onto our management development programme, with 84 team leaders and managers being part of the scheme by the end of the year. Participants have gained stronger decision-making skills, a more forward-thinking approach, and increased accountability and confidence, with enhanced knowledge and learning sharing between colleagues.

Engineer upskilling

We progressed our engineering upskilling programme last year, with all our engineers invited to join open sessions to discuss and enrol on the training courses available. These included electric vehicle installation training, three-phase metering training, and support with Institute of Gas Engineers and Managers membership. See our Operational review on page 34 for further details.

eLearning modules

Our online learning and face-to-face training programmes were supplemented with new eLearning modules including Customer Excellence – one of our five core values – which aims to reinforce the skills needed to positively influence our customer interactions. We also launched updated Equality, Diversity and Inclusion and Data Protection modules, as well as a brand-new Anti-Bribery, Gifts, and Charitable Donations eLearning course.

Succession planning

We feel it is important to have robust systems and approaches to identify and develop talent. Proactively managing talent can increase employee motivation and retention, while healthy and actively managed succession plans support business continuity and reduce the risks and costs of sourcing new talent externally. A robust plan is key to enabling us to attract, recruit and retain the most talented people; and hence a refreshed talent management and succession planning framework was created and implemented in the year, initially focusing on the executive leadership team and their direct reports. One of the key responsibilities of leaders and managers within SMS is to identify and develop their possible successors and ensure the ongoing continuity of the organisation.

Equality, diversity and inclusion

Equality, diversity and inclusion (EDI) is a strategic driver for SMS, with increased support for EDI being led by our Board and senior management team. As an organisation, we understand the importance and value that a diverse and inclusive workforce brings, and so we have taken many positive steps towards becoming more EDI-focused.

Most notably, we launched our partnership with the Hive 'Inclusion Works' programme, which was delivered to our Board, including Executive and Non-executive Directors, and other members of the senior management team during the year. This programme is designed to provide the tools for our senior leaders to have honest conversations about culture change, understand what equality and diversity mean in practice, and ultimately drive inclusion within SMS. The Hive learning platform played a core role in supporting a programme of 'inclusion works' over a four-week period. The programme offered a private space as a community and peer cohort group could access the programme resources in one place, as well as discuss, share, and reflect with each other. Having senior leadership drive this programme forward shows true culture change by SMS.

Updated core values

In 2021, we launched an employee-led initiative to better reflect EDI within our core values and to highlight its importance. Specifically, we asked our employees to suggest a behaviour relating to EDI and which of our five core values this behaviour should permanently sit under. The winning suggestion was 'Celebrate our Differences', which has been applied as a new behaviour within our 'Pride' value. The phrase 'Celebrate our Differences' has now also become the slogan of all our Group communications on matters of EDI.

Pay, reward and benefits framework

Our new pay, reward and benefits framework, which includes career grading, job families and pay banding, ensures pay equity, fairness and consistency of approach throughout the employee journey.

EDI monitoring form

We launched a voluntary EDI monitoring form (to be completed by existing employees and as part of our recruitment and onboarding process) to capture the demographics of our workforce and any new employees. The information we gather helps us gain a better understanding of who works with us, if any groups are underrepresented, and whether everyone's needs are met. It also helps ensure the Equality Act 2010 is being championed. We have used this data to organise specific Company development and training programmes, update our policies and procedures, and identify barriers and challenges faced by our people. Ultimately our aim is that our workforce will be truly representative of all sections of society, to ensure there is no discrimination, and to encourage diversity and inclusion within the SMS workforce.

Awards, accreditations, awareness

- Achieved **Disability Confident Leader status (Level 3)**, helping us ensure that disabled people can fulfil their potential and realise their aspirations at SMS.
- Became a **Race at Work Charter signatory**, helping us take practical steps to ensure our workplace is tackling the barriers ethnic minority people may face in recruitment and progression.
- Were short-listed for '**Best for Diversity & Inclusion' at the WM People Top Employer Awards** for – an award recognising organisations which "demonstrate actions taken to ensure equality of opportunity for all".
- Maintained **Employers Network for Equality & Inclusion accreditation**, ensuring best practice EDI through initiatives such as our bespoke EDI eLearning module mandatory for all employees.
- Maintained **Mindful Employer pledge**.
- Maintained '**Accredited Living Wage' employer** status, ensuring entry-level salaries are at or above the Living Wage, and rewarding all employees fairly for their contributions, regardless of gender.
- Continued to be a member of the **Tomorrow's Engineers Code**, whose signatories' shared aim is to increase the diversity and number of young people entering engineering.
- Temporarily changed our logo to the colours of the rainbow and supported **Pride Month** with an awareness campaign, with input from employees.
- Supported **Black History Month**, and with feedback from our employees recognised local black heroes within communities close to our sites.

Celebrating Pride



A Director's reflections on the Hive 'Inclusion Works' programme

66

I am a big believer that businesses make better decisions when a diversity of views, life experiences, and backgrounds are part of the debate. The rollout of the Hive 'Inclusion Works' eLearning programme to the Group's senior leadership has therefore been a hugely welcome addition to its management training.

On a personal note, as a passionate advocate of the importance of equality, diversity and inclusion (EDI) in the workplace – and indeed across our everyday human interactions – I was an enthusiastic participant in the course and was pleased to find the content and learning experience both engaging and thought-provoking. The modules did a great job of breaking down EDI as a topic and the practicalities of applying it, rather than just treating diversity as an awareness exercise. What I found particularly useful was the interactive element of the course, whereby participants were able to share thoughts and stimulate discussion around the course content. This made the whole experience more impactful and memorable.

Overall, the introduction of the 'Inclusion Works' programme is a hugely positive step for SMS, and it is notably symbolic that the executive leadership was introduced to the course first, showing just how seriously the Group is taking the issue of diversity and inclusion. I look forward to seeing the programme cascade through the organisation's management teams"

Ruth Leak

Non-executive Director



Giving something back

The most sustainable organisations are not only mindful of their duty of responsibility to their employees, but also to the communities within which they operate. With this in mind, in 2021 we enhanced our support for our local communities through several initiatives:

- Donation of 143 unused tablet computers to charities and schools throughout the UK (as nominated by our employees) for whom access to, or purchase of, technology would have otherwise been a challenge.
- Sponsorship of the shirts of a junior football team in Burwell, Cambridgeshire, who play their home games less than a mile from our 50MW grid-scale battery storage site.
- Matching of the charity fundraising efforts of several employees through one-off corporate donations to their chosen causes.
- Continuation of our mentoring programme with the Aleto Foundation, with two members of our senior leadership team becoming mentors in 2021. This programme is focused on identifying and developing the next generation of leaders from BAME communities, who may have historically found it challenging to access promotional opportunities due to their backgrounds.
- Continuation of our participation in the national 'Career Ready' mentoring programme for secondary-school students.
- Support of initiatives aimed at finding solutions for social housing and fuel poverty, including the Northern Housing Consortium and National Energy Action's Fuel Poverty Awareness Day.
- Continuation of Group support for charities, with a donation of £56,500 split between designated charities in each of our core locations: Prostate Cancer UK, Beatson Cancer and Velindre Cancer Centre.

Biodiversity

We also have a firm focus on improving environmental sustainability, led by our organisational 'net zero by 2030' target, as well as supporting biodiversity in our communities and local areas. In 2021, a working group was set up to ensure environmental and biodiversity measures are embedded in the planning and construction of our grid-scale battery storage sites across the UK. These measures, such as the planting of native trees and hedges on site, are currently being rolled out as sites are completed. We have to date also installed bird boxes at our new warehousing site in Hoyland, Yorkshire and are due to install bird boxes, bat boxes and insect houses at our other UK sites in 2022.

Gender pay gap reporting

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

Gender within SMS¹

Overall, the SMS Group workforce is 33% female and 67% male. As we are part of the historically male-dominated engineering industry, it is no surprise that our organisation has such a wide gender split (weighted towards men) and that a gender pay gap exists.

The mean gender pay gap in hourly pay for the SMS Group is 23.6%, and the median gender pay gap is 33.8%.

Specifically within SMS:

- Most of our employees are engineers, and this is a profession with more men than women.
- There are more men than women in senior roles.
- There are more women in part-time roles.
- There are more women in lower-paying roles.
- Engineers are eligible for a monthly health-and-safety-related performance bonus.

It is worth noting that most of these issues are prevalent throughout the UK and internationally, so are not unique to SMS. EngineeringUK, the independent, not-for-profit organisation which provides engineering workforce statistics, has not yet officially published its latest workforce data, but the organisation did recently submit new figures on the percentage of women in the workforce within STEM industries. These statistics have been made publicly available on the EngineeringUK website, and the following are notable:

- As of June 2021, 14.5% of those working in engineering occupations, across all industries, were women. Encouragingly, this represented a 2.5 percentage-point increase from the 12% reported in 2018; however, there was no increase between 2020 and 2021.
- Women were underrepresented in senior positions (12.9%) and skilled trades (2.6%).

The percentage of female employees at SMS in the lower middle pay quartile decreased slightly in the past year, by 4%; however, there continued to be significantly more male employees (in senior roles) in the upper middle and top quartiles, which exacerbates our gender pay gap. That said, there was an increase of 3% in female employees in this top quartile, compared to 2020, which is positive.

During 2021, we made nine new female appointments in management-level roles, across several functions within the business, and four females were internally promoted to management and senior-level roles. In addition, four females have joined the business in engineering roles.

Taking action – our strategy

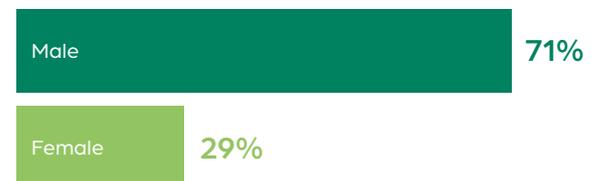
SMS supports and encourages gender diversity within its workforce. It is the contributions of people from all backgrounds that ensures our business is successful, as only a diverse and engaged workforce will produce the solutions we need to tackle the varying challenges that we face.

We are prioritising the following areas for action:

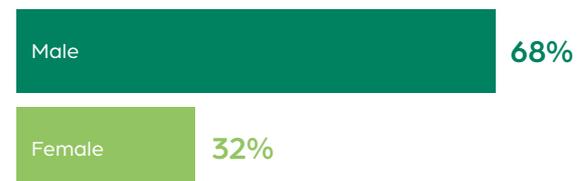
- Utilising tools, including our new pay, reward and benefits framework, our Disability Confident Leader status and our EDI monitoring form to ensure there is no bias towards either gender from the point of recruitment onwards, including in salary conversations and progression opportunities.
- Continuing to proactively explore how we can continue to attract women into our organisation to create a better gender balance, and specifically into our engineering workforce.

Gender breakdown

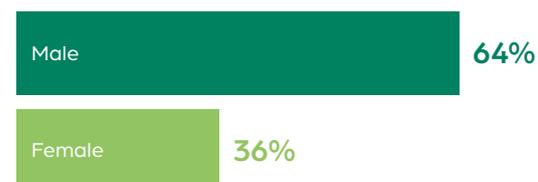
Board of Directors



Senior Management



Other Employees



¹ We collected our data on 5 April 2021, when the total workforce for the consolidated Group consisted of 385 women and 717 men (including Non-executive Directors).



4. Health and safety

Key highlights

- Business continued to operate safely during the ongoing COVID-19 pandemic.
- No workplace transmissions of COVID-19 reported under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 (RIDDOR).
- Zero injury RIDDORs, including during the construction of our grid-scale battery storage sites.
- Certification for ISO accreditations 9001, 14001, 45001 and 27001 maintained.
- Successful certification of ISO 9001, 45001 and 27001 for the Solo Energy business.
- Engineers' technical forums established.



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

At SMS, our health and safety journey has continued relentlessly despite the ongoing challenge of the COVID-19 pandemic. We have adapted our working practices to meet evolving Government requirements around work safety and our people have made changes in the workplace to keep it as safe as practicable. This collective effort has resulted in improved performance across the organisation, with almost all our key performance indicators ahead of target.

Overall, 2021 was a positive year for safety, health, environment and quality (SHEQ) performance across the Group. We started the year with ambitious 25% reduction targets across a wide range of SHEQ metrics. We developed clear action plans targeting key areas and quickly started to deliver improvements.

We met challenges along the way with seasonal trends emerging in September that led to higher monthly technical incident rates. However, decisive action, engagement, collaboration and teamwork ensured that performance bounced back quickly to exceed our reduction targets. The business ended the year with industry-leading results that earned high praise from one of our key clients. Our contractors on our new grid-scale battery storage sites have also performed admirably, with no significant incidents reported during the construction and commissioning phases.

Accidents and incidents

Despite the backdrop of the COVID-19 pandemic, we are delighted to report that our health and safety performance has again improved with all but two of our key targets achieved. Notably:

- No injury RIDDORs were reported, resulting in an Accident Frequency Rate (AFR) of zero.
- Lost Time Incident Frequency Rate (LTIFR) has decreased to 0.17 per 100,000 hours worked – just short of target 0.15.
- Non-Lost Time Incident Frequency Rate (NLTIFR) has decreased to 0.52 per 100,000 hours worked – ahead of target 0.56.
- Total Recordable Incident Frequency Rate (TRIFR) has decreased to 0.69 per 100,000 hours worked – ahead of target 0.74.
- Group technical performance has improved significantly over the year, finishing at 28 incidents per 100,000 installs – ahead of a target of 39. This is commendable given the increase in installations in the year amidst the ongoing challenges of COVID-19.

Grid-scale battery storage

In 2021, we entered new territory as the 'client' under the Construction, Design and Management Regulations on our grid-scale battery storage construction sites. These regulations impose specific health and safety duties to ensure the safe operation of construction projects. This was a new challenge for the business, but we are pleased to report that our contractors made good progress on all sites with no significant incidents. From the outset, our operations and SHEQ teams worked closely with their counterparts at each of our principal contractors. This has benefited all parties and, with the experience gained over the past year, we enter 2022 confident that we will manage any potential risks through the ongoing construction phases and beyond.

Occupational health

Occupational health was again at the top of our agenda due to the ongoing global pandemic. We continued to focus on wellbeing, particularly for those who continued to work from home, and enhanced our employee health offering with products such as the Medicash health Plan, free flu jabs and the SmartHealth app. Our regular communications on mental health ensure everyone is aware of the support available as we navigate our way through these challenging times.

Engineers' technical forums

In 2021, we created technical forums for our engineers, giving them the opportunity to discuss operational issues and areas for improvement. These groups have helped make changes to the way we work in the field: providing guidance for safer driving, improving access to the technical helpdesk, and highlighting good performance.

Industry campaigns and communications

We communicated with staff on a range of topics including internal policy and systems, national awareness days and campaigns, and risks associated with work activities

undertaken on behalf of SMS. We improved collaboration with other departments, including marketing, HR and operations, resulting in positive coverage for the Company on external platforms including Gas Safety Week.

As part of Gas Safety Week 2021 we provided advice on how to stay 'Gas Safe' and raised awareness of the need to use a 'Gas-Safe-registered' engineer to ensure consumers do not suffer from the effects of illegal gas work.

Systems

Our Electronic Quality Management System (EQMS) has undergone further development over the past year. Key achievements have included the launch of our 'Operative Profiling' dashboards, integration of our engineer and supplier onboarding processes and the design of a 'Training Matrix Traffic Light' system to alert key people when training is required. These initiatives will improve visibility on competence and provide greater assurance over the onboarding processes.

ISO certifications

The business maintained all its ISO certifications in 2021 with no major non-conformances recorded during the audit processes. Our Solo Energy business also achieved certification to ISO 9001, 45001 and 27001. Our management reviews, held in the first quarter every year, are the starting point of our annual ISO journeys. These forums bring together a cross-section of the workforce and are used to instil the behaviours required to operate a modern, evolving integrated management system.

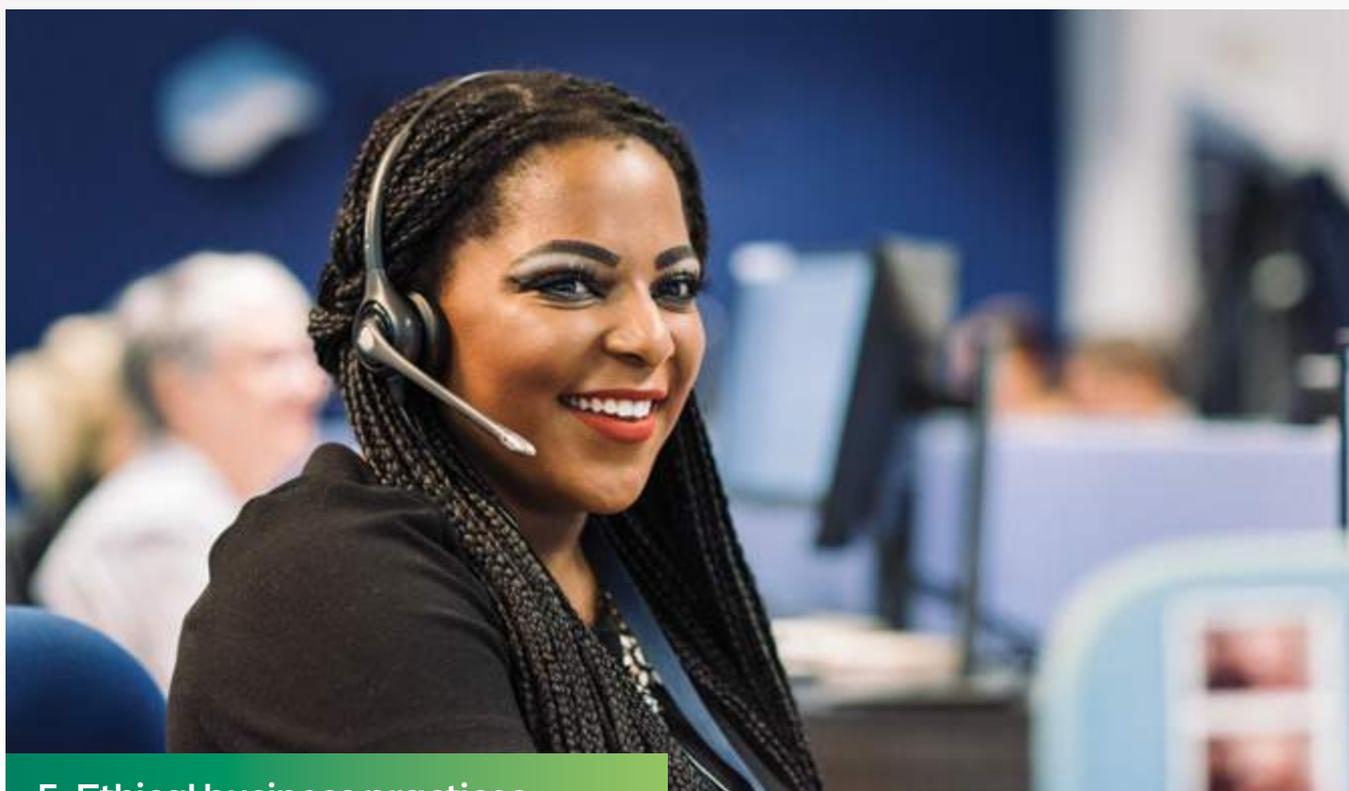
Health and safety policy

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 which emphasises that safety is a core value, 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. For example, in 2021 we established cross-functional working groups to assess and improve operational aspects around engineering, working at height and where we discover uncharted asbestos.

2022 and beyond

Our priority for 2022 is to keep our people and those affected by our undertakings safe and healthy. We will maintain a focus on any emerging risks from COVID-19 while planning for a return to normality. Our ambitious targets and action plans will continue to drive improvements across the business. We have successfully adapted to new work streams that emerged in 2021, with our grid-scale battery storage sites growing in number, and 2022 will see us embed their management as a routine function. We remain committed to being a safe, secure and reliable organisation and look forward confidently to 2022.



5. Ethical business practices

Our five core values

Safety, Innovation, Customer Excellence, Sustainability and Pride – underpin our commitment to ‘putting our people first’ and drive the behaviours we wish to see demonstrated throughout our business practices.



Our core values and behaviours

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

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

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

- Anti-bribery and corruption
- Modern slavery
- Whistleblowing (detailed further on page 89)
- Data protection
- Equal opportunities, diversity and inclusion (detailed further on page 55)
- Health and safety (detailed further on pages 58 to 59)
- Discipline
- Grievance
- Dignity at work.

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

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

Our robust risk management framework continues to evolve in step 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 on page 63 highlights the main responsibilities for the management and oversight of risk within the Group.

During the year COVID-19 continued to impact the risk environment within which the Group operates, albeit to a lesser extent than in 2020 due to the success of internal and external controls and the broader recovery within the market and economy. Our enhanced control framework continues to operate well to minimise the impact of COVID-19 and we are prepared for a return to office working via a trial hybrid model, in line with UK Government advice.

Rising wholesale energy prices in the latter part of 2021 have placed significant pressure on the energy supplier market, and the subsequent risk of energy supplier insolvency emerged as a key challenge during the year. This risk remains prevalent in 2022 with the recent outbreak of conflict between Russia and Ukraine, which is expected to place additional pressure on global energy markets. Further rises in energy prices within the UK are anticipated. Our exposure is inherently mitigated due to the Supplier of Last Resort (SoLR) process, whereby Ofgem directs a gas or electricity licensee to take over responsibility for a failed energy supplier's customer portfolio. This protects future metering charges, which are raised to the newly appointed energy supplier regardless of whether they are an existing contracted customer with the Group, thus capping our financial exposure at amounts already accrued or billed, but not yet settled. In addition, we have a strong funding

and working capital management position which, coupled with an established credit control facility and robust commercial billing arrangements, helps to absorb market shocks like this. The situation is being closely monitored by the Board, which receives regular management information in relation to the Group's cash and debtor positions.

Group Internal Audit continued to work closely with the Audit Committee, executive leadership team and departmental teams throughout 2021 to support the continuous improvement of risk management processes within the Group. This work 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 2021, 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, grid-scale batteries, operational governance, financial controls, business continuity and disaster recovery planning.

The Group's Electronic Quality Management System (EQMS) continues to be an effective tool in helping the business to track internal audit, compliance and safety, health, environment and quality (SHEQ) incidents and issues. Considerable development was achieved in 2021 in the areas of vendor onboarding and reporting. Continued development of the EQMS tool is planned for 2022 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.

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 leadership team

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

Group Internal Audit

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

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

Safety, health, environment and quality and compliance teams

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

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

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

Departmental management

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

Understanding our risks

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

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

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

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

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

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

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

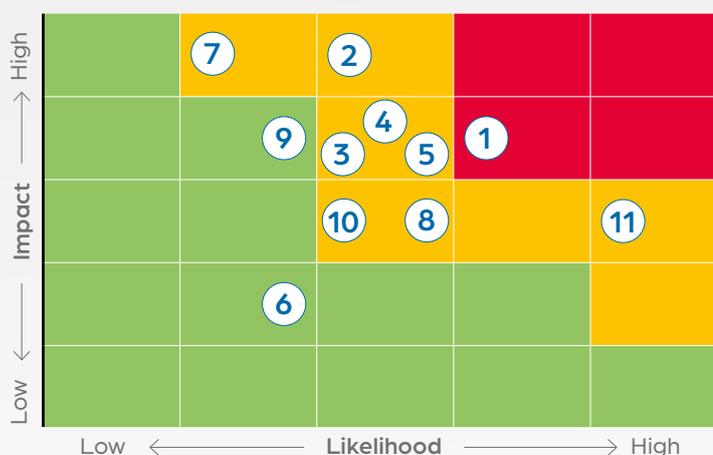
Our principal risks

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:

Green Some action may be required, and risks are routinely monitored by management.

Yellow Action is required to mitigate the risk through improved control with oversight from executive leadership.

Red Mitigating actions are required immediately. Oversight is provided by the Board, Audit Committee and executive leadership directly.



1 Potential breach of cyber security

2 Major health and safety incident

3 Speed of organisational change (near term)

4 Business continuity and disaster recovery

5 Metering and grid-scale batteries supply chain

6 Funding and working capital management

7 Loss of environmental, social and governance (ESG)-related and regulatory accreditations

8 Potential breach of General Data Protection Regulation (GDPR)

9 COVID-19

10 Our people

11 Stability of energy suppliers

All risks are assigned mitigating actions with an appropriate business owner and are supported by an executive sponsor to ensure accountability. There have been a few changes to the Group's principal risks during the year as follows:

Risks added:

1. Stability of energy suppliers

added as a principal risk considering recent market challenges from rising energy prices and the potential implications of this, including energy supplier insolvency.

Risks removed:

1. Brexit

which has been sufficiently mitigated to support the derecognition of this as a principal risk, with any remaining relevant aspects falling under the metering supply chain and grid-scale batteries supply chain risks.

Risks replaced:

1. Metering supply chain and grid-scale batteries supply chain

disclosed in the prior year as 'critical supplier dependency' but now presented specifically for meters and grid-scale batteries, to allow risks to be clearly managed and mitigated for these key business areas.

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.

Risk exposure key

-  Risk unchanged
-  Risk decreased
-  Risk increased

1. Potential breach of cyber security

Detailed risk	Potential impact	Existing mitigating controls
<p>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.</p> <p>Risk level </p> <p>Risk exposure trend </p>	<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 • 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 arrangement provides a dedicated Security Operation Centre (SOC)

2. Major health and safety incident

<p>An incident could occur, leading to significant injury, illness or loss of life to an employee or third party.</p> <p>Risk level </p> <p>Risk exposure trend </p>	<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 certification extended across the Group in 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 REPORT continued

OUR PRINCIPAL RISKS AND UNCERTAINTIES continued

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"> • Capacity planning system 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 • Dedicated senior roles in place to lead growth in carbon reduction ('CaRe') verticals

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

<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 the 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 maintained • Alternative UK sites available to manage core business operations • Most of the workforce able to work from home to support the Group's customers • N+1 (parallel redundancy) backup to ensure an uninterrupted power supply and system availability
--	--	---

5. Metering and grid-scale batteries supply chain (formerly 'critical supplier dependency')

<p>The Group relies on a limited number of critical suppliers for meters and grid-scale batteries, and failure of critical suppliers could have significant operational and financial implications.</p> <p>Risk level </p> <p>Risk exposure trend </p>	<ul style="list-style-type: none"> • Delays in importing meters and grid-scale batteries • Stock shortages and inability to fulfil customer orders or projects on time • Business continuity issues • Legal and financial exposure • Increased commodity prices 	<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 in-house legal function protects commercial interests through robust contracting process • Enhanced stock control processes mitigate the risk of being unable to fulfil customer orders in the event of failure of a critical supplier • Monitoring of stock levels in warehouses to ensure sufficient meter stock is held to meet customer obligations • Dedicated senior roles with responsibility for stock and logistics and delivery of grid-scale battery storage projects • Enhanced due diligence on grid-scale battery suppliers
--	--	---

Risk exposure key

 Risk unchanged  Risk decreased  Risk increased

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 '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 • Debt refinancing completed in September 2021; new revolving credit facility of £420m through to December 2025 • Proceeds from equity raise in October 2021 reset leverage to zero, £420m facility remains undrawn and accessible

Risk level 

Risk exposure trend 

7. Loss of ESG-related and regulatory accreditations

<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>	<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 • Board-approved sustainability strategy with a clear roadmap to achieving 'net zero' status by 2030 • Dedicated Health, Safety and Sustainability Committee, supported by ESG Working Group • Regular sustainability reporting to relevant agencies and other external stakeholders including release of annual Sustainability Report • Well-established Group technical assurance team in place, including an experienced compliance function with deep industry insight and expertise • Dedicated training academy for field service engineers • Rolling training plan in place for all engineering staff to maintain and upgrade certifications • Extensive assurance activity performed across the Group, by specialist assurance teams • Regular external independent and routine audits performed by regulators • Effective HR onboarding process for new staff, including engineering team
---	---	---

Risk level 

Risk exposure trend 

RISK REPORT continued

OUR PRINCIPAL RISKS AND UNCERTAINTIES continued

8. Potential breach of 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 The DPO monitors internal GDPR compliance and, through a series of internal and external communication platforms, informs and advises staff and third parties of our obligations and expectations under GDPR Annual GDPR training for all SMS staff IT security monitoring controls, including a SOC and Netskope monitoring of external communications

9. COVID-19

<p>The ongoing development of COVID-19 globally presents a risk to the business, with the Group's primary concern being the welfare of its people, customers and the end consumer.</p> <p>Risk level ■</p> <p>Risk exposure trend ▼</p>	<ul style="list-style-type: none"> Health and wellbeing of workforce, customers and consumers Short-term financial constraints Business continuity issues Cessation of non-essential travel Potential detrimental impact on the supply chain Delayed and/or slow delivery of the Group's contracted pipelines in smart meters and grid-scale batteries Counterparties could default on contractual obligations 	<ul style="list-style-type: none"> Engineer pre-visit risk assessments carried out Personal protection equipment (PPE), regular cleaning and temperature control checks across sites Engineers encouraged to be fully vaccinated Regular communications with employees and customers 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 able to continue to work and support the Group's customers from home (including those in shielding categories) Temporary closure of offices and warehouses, in periods where this is necessary Maintenance of gas and electricity supply on an emergency basis for customers Credit control function with regular counterparty monitoring Regular review of corporate forecasts and scenario modelling
---	---	--

Risk exposure key

▶ Risk unchanged ▼ Risk decreased ▲ Risk increased

10. Our people

Detailed risk	Potential impact	Existing mitigating controls
<p>An inability to attract, retain and motivate the right people could have a material adverse effect on the business and ultimately lead to a failure to deliver on its strategic objectives.</p>	<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 aligned to pay and reward framework • Regular, supportive one-to-one meetings between people leaders and their direct reports • Regular employee satisfaction surveys, review of results by management and implementation of actions to address themes • Equal opportunities, diversity and inclusion policy • Gender pay gap reporting
<p>Risk level </p> <p>Risk exposure trend </p>		

11. Stability of energy suppliers

<p>Rising wholesale energy costs are resulting in multiple energy suppliers entering administration or becoming insolvent, leading to unpaid debts and loss of pipeline revenue.</p>	<ul style="list-style-type: none"> • Customers (energy suppliers) enter administration or become insolvent • Unpaid debts not transferred as part of the SoLR process are irrecoverable • Loss of contracted smart meter order pipeline and future revenue potential 	<ul style="list-style-type: none"> • Experienced credit control facility and robust commercial billing arrangements • Regular and formal Board review of key management information in relation to the Group's cash and debtor positions • Monitoring of market developments, through formal and informal channels • Contracts in place with larger energy suppliers, which has already resulted in some positive results from the SoLR process
<p>Risk level </p> <p>Risk exposure trend – n/a new risk</p>		



We are very pleased to report financial results ahead of market expectations once again."

Gavin Urwin
Chief Financial Officer

Another year of strong performance

We have delivered strong financial results marginally ahead of previously upgraded market expectations, with the resilience of our business model being demonstrated again in 2021.

Financial highlights

Alternative performance measures¹

Index-linked annualised recurring revenue (ILARR)²

£85.9m **12%**
increase
(2020: £77.0m)

Pre-exceptional EBITDA²

£52.8m **6%**
increase
(2020: £49.9m)
17% increase on a like-for-like basis³

Underlying profit before taxation²

£18.3m **20%**
increase
(2020: £15.2m)
28% increase on a like-for-like basis³

Underlying basic earnings per share²

9.60p Flat
(2020: 9.56p)

Statutory performance measures¹

Revenue

£108.5m **5%**
increase
(2020: £103.0m)

Statutory EBITDA

£46.3m **80%**
decrease
(2019: £231.6m)

Statutory profit before taxation

£8.3m **96%**
decrease
(2020: £195.0m)

Statutory basic earnings per share

3.20p **98%**
decrease
(2020: 171.65p)

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

² 2020 measures include the financial performance of the disposed Industrial & Commercial (I&C) portfolio up to the date of sale on 22 April 2020.

³ Like-for-like percentage is adjusted for the I&C meter portfolio disposal in 2020 and acquisition of large-power I&C metering and data portfolio in 2021.

In 2021 we again faced a challenging macro environment with COVID-19 impacting the early part of the year and the UK energy market facing considerable turbulence in the latter part of the year. With this in mind, we are very pleased to report financial results ahead of market expectations once again, underpinned by consistent growth across our key metrics.

2021 has seen us make significant investment in our established CaRe verticals. Capital expenditure on metering, data and grid-scale battery storage assets in the year totalled c.£112m, over double our corresponding expenditure in the prior year, and we invested c.£8m in the acquisition of a large-power Industrial & Commercial (I&C) metering and data portfolio detailed on page 30.

We had a net cash position at 31 December 2021 of £117.7m (31 December 2020: £40.2m), supported by the c.£170m net cash proceeds raised from our successful equity placing in October and strong internal cash generation. Following the refinancing of our debt in September, we finished the year with access to our full £420m revolving credit facility and are thus in a strong position to support the delivery of our existing meter and battery pipelines.

Revenue

	31 December 2021	31 December 2020	Percentage change
	£m	£m	
Asset Management	82.9	78.7	5%
Asset Installation	22.0	19.7	12%
Energy Management	3.6	4.6	(22%)
Group revenue	108.5	103.0	5%

Asset management revenues, which include new revenues from the acquisition of the large-power I&C metering and data portfolio in April 2021, are up on the prior year despite loss of revenue from the prior year I&C meter portfolio disposal. Excluding both transactions, asset management revenues have increased by c.8% on a like-for-like basis on the prior year. This reflects the flow-through effect of increased meter installations at the end of 2020 and into 2021 as COVID-19 restrictions eased and the run rate was restored to a normalised rate.

Asset installation revenues increased 12% to £22.0m as compared with the prior year, reflecting the recovery of non-essential field work which was suspended for the majority of 2020. Whilst our connections and infrastructure services have taken longer to recover than anticipated, we saw a higher-than-usual volume of transactional meter works through the year as access to consumer properties reopened.

As expected, energy management revenues experienced a reduction of 22% to £3.6m. Despite the resumption of key customer projects, we saw projects run at a lower capacity due to the slow recovery of the broader hospitality industry post COVID-19, with revised scope changes to align with customer budget constraints.

Gross margins

Overall, the depreciation-adjusted gross margin at the Group level increased by 6% to 77% (2020: 71%). 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 increased by £11.3m driven in the first instance by the favourable asset management and asset installation revenue movements detailed above. The remaining increase is attributable to our continued and dedicated focus on operational efficiency and cost control within the asset installation business, which has reported a positive gross profit margin, excluding exceptional cost of sales arising as a result of COVID-19, of 36% in 2021 (2020: 16%). Efforts to control the Group's operating cost base in order to increase efficiency in the labour force, including an appropriate balance between direct labour and sub-contractors, have driven a reduction in cost of sales with minimal inefficiency being reported in profit and loss in the year. This focus on operational efficiency and cost control has allowed the business to invest in and strengthen other areas which will ensure we continue to drive efficiency in our operations, and innovation in our services.

The energy management gross margin has increased to 24% (2020: 22%), with the 2020 margin impacted by a non-recurring 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

Pre-exceptional EBITDA provides a more ready comparison of trading, year on year, showing an increase of 6% to £52.8m (2020: £49.9m). Similar to revenue, this includes the effect of the large-power I&C metering and data portfolio acquired in the year offset by lost revenue from the 2020 I&C meter portfolio disposal. Excluding these transactions, like-for-like pre-exceptional EBITDA increased by c.17% on the prior year. The primary drivers for this growth are detailed above within the Revenue and Gross margin sections.

Administrative costs, excluding depreciation and amortisation, have increased by c.£4m year on year, largely driven by the following:

- c.£1m of this increase relates to expenditure incurred to restore our supporting functions to a normalised state following COVID-19 lockdowns, in areas such as marketing, training, recruitment and professional services.
- As noted above we have worked hard to drive operational efficiency and cost control within our asset installation business, and a key enabler of this has been continued investment (c.£1m) in our IT and support systems with the aim of unifying legacy platforms in areas such as field service management, warehousing and logistics.

FINANCIAL REVIEW continued

EBITDA continued

- The considerable turbulence in the UK energy market in the second half of the year, as a result of increases in wholesale gas prices, has placed significant pressure on energy suppliers and caused a large number of companies to exit the market. Whilst the Supplier of Last Resort (SoLR) process provides us with a degree of protection over the long term, we are exposed in the short term where there are unpaid charges incurred prior to the supplier exiting the market. During 2021 we saw an increase in bad debt charges of c.£1m year on year.

Consistent with the prior year, costs directly attributable to COVID-19, including staff costs that would ordinarily be capitalised, have been recognised within exceptional costs (detailed below).

Statutory EBITDA decreased to £46.3m (2020: £231.6m) mainly as a result of the non-recurring gain of £194.7m arising from the I&C meter portfolio disposal in the prior year.

Operational and pre-tax profits

Depreciation costs on general property, plant and equipment, excluding meter assets, have decreased by £0.3m to £4.1m (2020: £4.4m) due to the effect of disposals and fully depreciated assets across the various asset classes.

Depreciation costs on meter assets are in line with the prior year at £24.7m. The effects of the 2020 I&C meter portfolio disposal, for which a c.£1.8m depreciation charge was recognised in 2020, have been partially offset by additional depreciation recognised as a result of the 2021 large-power I&C metering and data portfolio acquisition together with the net effect of additions and removals across the various meter types.

As expected, amortisation costs on our intangible assets increased by £1.1m to £4.1m in 2021 (2020: £3.0m) following the implementation of our Groupwide Enterprise Resource Planning system, which went fully live in April 2020.

Finance costs decreased to £3.5m excluding exceptional costs (2020: £4.7m), reflecting the reduced debt position on our revolving credit facility.

Overall, underlying profit before taxation increased by 20% to £18.3m due to a flow-through of the above points.

Exceptional items

The operating charge to the income statement in respect of exceptional items of £6.5m (2020: £13.1m excluding the gain on the I&C meter portfolio disposal) is driven largely by £5.9m of losses on the traditional and first-generation smart meter ('SMETS1') portfolio (2020: £6.0m).

Consistent with the prior year, management has deemed it appropriate to classify costs attributable to COVID-19 as exceptional in line with the Group's accounting policy. Net costs of £0.3m (2020: £6.9m) have been treated as such, broken down as follows:

- £0.8m (2020: £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 been recognised as exceptional in line with the same principles as those applied in the prior year. This amount is substantially reduced due to the lifting of restrictions in 2021, and largely represents costs related to the Scottish workforce being unable to work in the early part of the year.
- In the prior year, management had recognised an exceptional bad debt charge of £0.5m in relation to a sub-portfolio of smaller, independent customers, who were identified as having a potentially elevated credit risk as a direct consequence of COVID-19 and were provided for on a specific basis. As at 31 December 2021 this provision has been reduced to £nil, reflecting positive recovery trends over the past twelve months, and giving rise to a £0.4m credit in the current year financial statements (net of write offs). Whilst we will continue to monitor the situation, we are of the view that there is no longer significant uncertainty regarding the impact of COVID-19 on our customer default risk. Consistent with the recognition of the original impairment loss in the prior year, we have recognised this write back as exceptional.
- A successful COVID-19 insurance claim against business recovery costs of £0.1m was also received in the year, recognised as an exceptional credit in line with the recognition of the original costs in the prior year.

Other operating exceptional items total £0.3m (2020: £0.1m) and comprise acquisition-related costs incurred as part of the large-power I&C metering and data portfolio acquisition in April 2021.

The finance charge to the income statement in respect of exceptional items of £1.7m (2020: £0.1m) primarily comprises accelerated amortisation of loan arrangement fees in relation to the refinancing of the loan facility detailed on page 74.

Effective tax rate

The effective tax rate on statutory profits was 54% (2020: 1%). The effective tax rate on pre-exceptional profits was 39% (2020: 31%). This remains high due to a change in the deferred tax rate, following the UK Government's enactment of the Finance Bill 2021 in May, which confirmed an increase in the rate of corporation tax from 19% to 25% from 1 April 2023. This has been applied to the Group's brought-forward deferred tax liabilities on its portfolio of meter assets, giving rise to an opening balance impact of c.£2.5m recognised as a charge in the current period. Excluding the impact of this rate change, the full-year effective tax rate on pre-exceptional profits is 18.5% as expected and 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 £12.2m (2020: £8.5m) is primarily made up of £11.0m (2020: £7.1m) in respect of accelerated capital allowances.

Earnings per share

Underlying basic earnings per share (EPS), which excludes exceptional costs, amortisation of certain intangibles and their associated tax effect, was 9.60p (2020: 9.56p), reflecting the underlying profitability of the Group. Statutory earnings per share decreased to 3.20p (2020: 171.65p) as a result of the exceptional gain on the I&C meter portfolio disposal driving higher statutory profits in the prior year.

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

Dividend

A 25p per share dividend in respect of FY 2020 was approved at the Group's Annual General Meeting in May, and the fourth and final instalment of this was paid in July 2021.

In line with the Group's policy announced last year, a 27.5p per share dividend is proposed in respect of FY 2021, representing 10% growth on the FY 2020 dividend as planned. Consistent with FY 2020, this is expected to be settled in four equal quarterly instalments. Two instalments have already been paid, in October 2021 and January 2022 respectively, with the following timetable for the remaining instalments:

Instalment	Ex-dividend date	Record date	Payment date
3	31 March 2022	1 April 2022	28 April 2022
4	30 June 2022	1 July 2022	28 July 2022

The Board remains comfortable that future dividend payment amounts are sufficiently secured by income from our existing metering and data asset base and its long-term index-linked cash flows.

Cash flow

Operating cash inflow generated in 2021 was strong at £62.2m (2020: £43.9m), driven by growth in our underlying cash earnings and an overall working capital inflow. This operating cash flow is net of a restricted cash balance of £1.3m that has been recognised in 2021 (2020: £1.6m) in relation to amounts received from energy suppliers on the I&C assets disposed of in the prior year, together with trading collateral held as part of our grid-scale battery business.

Capital expenditure on property, plant and equipment was £108.2m (2020: £41.8m), excluding right-of-use asset additions of £5.3m primarily in relation to land leases secured as part of our grid-scale acquisitions. Of this, £82.4m (2020: £40.3m) was invested in revenue-generating metering and data assets. This capital expenditure increased as the prior year was significantly impacted by COVID-19.

Of the remaining capital expenditure in the year, £24.5m relates to construction of grid-scale battery storage sites, classified as assets under construction within the Property, plant and equipment note to the financial statements. The majority of this spend has arisen on our Burwell site, which went live in January 2022. In addition to this construction spend, there was a £4.7m cash outflow on sites in development and under construction, detailed in note 21 to the financial statements.

An £8.4m cash outflow funded the acquisition of the large-power I&C metering and data portfolio. See note 20 to the consolidated financial statements for further details.

A further £2.8m (2020: £4.1m) investment has been made in intangible assets, primarily comprising development of software to support the metering and installations business. This has reduced on the prior year as a result of the Groupwide Enterprise Resource Planning system that went live across the Group in H1 2020, with a reduction in capital investment post 'go live' as expected.

Decision-making in practice:

Capital fundraising



During the year, the Board reassessed the Group's capital structure and approved decisions to refinance the Group's revolving credit facility, and raise new equity (together "the transactions"), to fund the delivery of our smart meter and grid-scale battery storage pipelines.

In reaching its decision, the Board considered the existing funding structure of the Group and potential constraints, together with the level of funding required to deliver the Group's pipelines. They reviewed financial projections, assessed the alternative financing options available, including capital recycling through the sale of assets, and considered the impact of each option on the business.

Over this process the Board gave consideration to our key stakeholders, in particular:

Shareholders – in determining their approach, the Board received feedback from advisers on investor appetite for

a fund raising. During the fundraising process, the Executive Directors hosted a presentation to investors, setting out the investment case. Follow up calls were then held as required. The funding will allow the Group to continue to invest in revenue-generating assets, securing long-term returns for shareholders while maintaining leverage at a suitable level.

Lenders – the Board sought feedback from advisers on lenders' attitudes to leverage. Once the strategy was determined, presentation and discussion sessions were held with both existing and potentially new bank syndicate members to provide an understanding of our plans and financial position before negotiation of the financing terms.

Employees – the transactions strengthen the Group's balance sheet. This in turn protects the interests of our employees, and the future growth supported by the funding will generate new opportunities for our people.

FINANCIAL REVIEW continued

Financial resources

From a financing perspective, 2021 was a significant year. With an increasing requirement for capital, driven by the growth in our meter and grid-scale battery pipelines, the business made the decision to raise additional funds via an equity placing. Concurrently, we entered negotiations with our syndicate of lenders to refinance our revolving credit facility to better suit the developing needs of the business.

Our equity placing successfully completed on 4 October 2021 with the support of both existing shareholders and new investors, raising gross proceeds of £175.1m in line with management's targets. After the deduction of £4.9m of issue costs net proceeds were £170.2m, of which £53.3m was used to settle all outstanding principal amounts under our existing revolving credit facility. This has rebased our leverage at 31 December 2021 and will help the business maintain a prudent leverage position over the medium term.

As part of the refinancing, all outstanding amounts under the existing facility were settled. Concurrently, the Group undertook a commercial negotiation, facilitated by debt advisory specialists, to enter into a new facility on market terms. The new facility has total available commitments of £420m and matures in December 2025. The new facility is provided by a syndicate of lenders, including the lenders of the existing facility and new lenders. Unamortised arrangement fees on the existing facility of £1.5m have been accelerated and recognised as an exceptional finance cost in the consolidated income statement together with £0.2m of legal and professional fees arising on the refinancing.

Transaction costs of £2.4m directly attributable to the establishment of the new facility will be amortised over the remaining term to 2025. For the year ended 31 December 2021, £0.6m of amortisation of transaction costs has been recognised within underlying profit in the consolidated income statement (2020: £0.7m) of which £0.2m relates to the new facility. Interest of £0.6m (2020: £2.3m) and £1.9m of non-utilisation fees (2020: £1.6m) have also been recognised.

Drawdowns made following the refinancing were fully repaid by 31 December 2021, leaving the Group with access to its full £420m commitment at this date. We therefore remain in a net cash position at 31 December 2021 of £117.7m (31 December 2020: net cash of £40.2m). This excludes restricted cash and lease liabilities accounted for under IFRS 16. Our available cash and unutilised element of the revolving credit facility stood at £537.7m (31 December 2020: £340.2m) and we had cash in bank of £117.7m at 31 December 2021 (31 December 2020: £40.2m), again excluding restricted cash.

The Group was fully compliant with all its bank covenants through the year and at 31 December 2021. Our financial resources continue to provide the financial flexibility required to maximise pipeline growth in a capital-efficient way.

The Strategic report on pages 1 to 75 was approved by the Board of Directors on 15 March 2022 and signed on its behalf below.

On behalf of the Board

Gavin Urwin
Chief Financial Officer
15 March 2022

Definitions of alternative performance measures

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

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

Reconciliation of statutory to underlying results

SMS uses alternative performance measures, defined on page 74, to present a clear view of what the Group considers to be the results of its underlying, sustainable business operations. Excluding certain items enables consistent year-on-year comparisons and aids a better understanding of business performance. A reconciliation of these performance measures is disclosed below:

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m	Percentage change
Index-linked annualised recurring revenue	85.9	77.0	12%
Group revenue	108.5	103.0	5%
Statutory profit from operations	13.5	199.6	
Amortisation of intangibles	4.1	3.0	
Depreciation	28.7	29.1	
Statutory EBITDA	46.3	231.6	(80%)
Exceptional items ¹ (EBITDA-related)	6.5	(181.7)	
Pre-exceptional EBITDA	52.8	49.9	6%
Net interest (excluding exceptional)	(3.5)	(4.5)	
Depreciation	(28.7)	(29.1)	
Amortisation of intangibles included in underlying profit before taxation ²	(2.3)	(1.1)	
Underlying profit before taxation	18.3	15.2	20%
Exceptional items ¹ (EBITDA)	(6.5)	181.7	
Exceptional items ¹ (interest)	(1.7)	(0.1)	
Amortisation of intangibles excluded in underlying profit before taxation	(1.8)	(1.9)	
Statutory profit before taxation	8.3	195.0	(96%)
Taxation	(4.5)	(1.5)	
Statutory profit after taxation	3.8	193.5	(98%)
Amortisation of intangibles excluded in underlying profit after taxation	1.8	1.9	
Exceptional items ¹ (EBITDA and interest)	8.2	(181.6)	
Tax effect of adjustments	(2.4)	(3.0)	
Underlying profit after taxation	11.4	10.8	6%
Weighted average number of ordinary shares (basic)	118,330,817	112,715,328	
Underlying basic EPS (pence)	9.60	9.56	
Weighted average number of ordinary shares (diluted)	118,972,527	113,637,882	
Underlying diluted EPS (pence)	9.55	9.49	

1 Exceptional items are those material items of income and expense which, because of the nature or expected infrequency of the events giving rise to them, merit separate presentation on the consolidated income statement.

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

Governance

77 Chairman's introduction to governance

78 Board of Directors

80 Corporate governance report

90 Audit Committee Report

96 Nomination Committee Report

98 Remuneration Committee report

115 Directors' Report

118 Statement of Directors' Responsibilities

CHAIRMAN'S INTRODUCTION TO GOVERNANCE



Ethical, fair and diligent governance underpins all our business activities, built on the foundations of our culture and values."

Miriam Greenwood
Non-executive Chairman

Key governance activities in the year included:

- Ongoing monitoring of COVID-19 developments and the Group's response to these
- Approval to purchase a further 200MW of grid-scale battery storage sites from the Group's established pipeline
- Approval to purchase an Industrial and Commercial large-powered metering and data portfolio
- Appointment of Gavin Urwin as Chief Financial Officer and Executive Director
- Monitoring of the broader turbulence in the UK energy market and assessment of potential impacts on the business
- Review and approval of the decision to increase the Group's funding capacity through an equity placing and a refinancing of the revolving credit facility
- Participation in the Hive Inclusion Works programme
- Review of progress against the Group's 'net-zero by 2030' roadmap
- Review of output from the Group's annual employee engagement survey, including progress against the prior year action plan

Dear Shareholder

Every year brings different challenges and 2021 was no different. Not only were we managing operations against the ongoing backdrop of the COVID-19 pandemic, but we found ourselves faced with significant turbulence in the UK energy market. These events serve as a reminder of the importance of ensuring that all our stakeholder interests remain at the centre of the Board's discussions and decisions.

It is my responsibility as Chairman to ensure that the Group has sound corporate governance and that the Board continues to be effective. This is managed by ensuring that the Group and the Board are acting in the best interests of shareholders and our various stakeholders and making sure that the Board discharges its responsibilities appropriately. This includes ensuring that all important matters, in particular strategic decisions, receive adequate time and attention at Board meetings.

Throughout the year, the Board continued to oversee the implementation of the Group's strategic framework, monitoring progress against each of our four strategic objectives and engaging with senior management to ensure we remain agile in responding to our evolving environment. In making decisions, the Board always endeavours to take a purpose-led approach.

We continue to shape and develop our culture, with a renewed focus on equality, diversity and inclusion (EDI) led by the Board through the launch of our partnership with the Hive Inclusion Works programme, detailed further on page 56. We remain driven by our core values and behaviours, following their refresh in 2019, and were proud to see c.75% of our employees respond to our Group employee engagement survey this year (an increase of 25 percentage points on the inaugural survey in the prior year).

On behalf of the Board, and in my role as Chairman, I am pleased to introduce our Corporate governance report for the year ended 31 December 2021. Consistent with prior years, we adopt the Quoted Companies Alliance's Corporate Governance Code (the QCA Code), published in April 2018, and I am delighted to confirm that the Board has applied the principles and complied with all the provisions of the QCA Code throughout FY 2021. Our Corporate governance report on pages 80 to 89 sets this out. 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.

I would like to take this opportunity to thank all our stakeholders for their support and pay a special thanks to the executive leadership team, our employees and my Board colleagues for their hard work, commitment, and dedication to the Company.

Miriam Greenwood
Non-executive Chairman

15 March 2022

BOARD OF DIRECTORS



Miriam Greenwood OBE DL
Non-executive Chairman



Alan Foy
Chief Executive Officer



Gavin Urwin
Chief Financial Officer



Tim Mortlock
Chief Operating Officer

A N R I H

N

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 2021, Miriam was appointed as a non-executive director of Aquila Energy Efficiency Trust. In addition, she holds non-executive director positions at Gulf International Bank (UK) Limited, the UK subsidiary of Gulf International Bank, at Eclipse Shipping Limited and at River and Mercantile Group plc, where she also chairs the remuneration committee. Beyond board roles, Miriam is an adviser to Ofgem on the current RIIO-2 price control and to the Mayor of London's Energy Efficiency Fund. A Deputy Lieutenant of the City of Edinburgh, Miriam was awarded an OBE for services to corporate finance.

Date of appointment

24 December 2009

Background and experience

Alan has been Chief Executive Officer of SMS since 2009. 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.

Alan stepped down as Chief Executive Officer and Executive Director on 1 March 2022.

Date of appointment

31 March 2021

Background and experience

Gavin is a member of the Institute of Chartered Accountants of Scotland with over 20 years' experience of working across multiple sectors including professional services, support services, FMCG and retail. Gavin joined SMS having previously been Chief Financial Officer of M&Co, a UK and international family-owned retail and property business.

Prior to joining M&Co Gavin held senior finance positions at both William Grant & Sons and Aggreko PLC. During his ten years at Aggreko, Gavin worked both at a corporate level as Group Financial Controller & Head of Financial Planning and Analysis, and operationally as Finance Director of both the Northern European and then Europe, Middle East & Africa divisions.

External appointments

Gavin is a member of the Audit & Risk Committee of The Robertson Trust, a charity based in Scotland.

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.

Tim was appointed as Chief Executive Officer on 1 March 2022.



Graeme Bissett
Senior Independent
Non-executive Director

A N R I H



Ruth Leak
Independent
Non-executive Director

A N R I H



Jamie Richards
Independent
Non-executive Director

A N R I H



Craig McGinn
Group Company Secretary
and General Counsel for
the Group

Date of appointment
1 June 2016

Background and experience

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

External appointments

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

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.

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

During 2021, Ruth was appointed as a non-executive director and chair of the Quality Committee at the Financial Ombudsman Service. Ruth is also an active member of the 'Women in Technology' mentoring programme operated by Reed.

Date of appointment
23 April 2020

Background and experience

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

External appointments

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

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 the highest standards of corporate governance. He is a Qualified Solicitor in Scotland, England and Wales and a member of the International Association of Privacy Professionals (IAPP). Craig joined SMS in October 2016 having previously been a partner in the international legal firm CMS Cameron McKenna, and at Dundas & Wilson prior to its merger with CMS.

Key to Committees

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

Board structure

Overall framework

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

Board of Directors (the 'Board')

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

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

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

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



Board Committees

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

Each Committee has its own Terms of Reference, approved by the Board, which are reviewed annually and are available on the Company's website at www.sms-plc.com/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.

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

▶ Audit Committee report pages 90 to 95

Nomination Committee

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

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

▶ Nomination Committee report pages 96 to 97

Remuneration Committee

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

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

▶ Remuneration Committee report pages 98 to 114

Information Technology Committee

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

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

Health, Safety and Sustainability Committee

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

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

Board Committee updates

During 2021, the Terms of Reference for each of the Board Committees were refreshed but there were no significant amendments made as a result.

There were no changes to the Committees. Further details of their activities in the year can be found below and in their respective reports on pages 90 to 114.

Information Technology Committee

The Information Technology Committee is chaired by Ruth Leak, an information technology specialist, and comprises all of the Non-executive Directors. The Chief Executive Officer, Chief Financial Officer and 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 implement this strategy and oversees the development and implementation of those information technology projects deemed to be of significant importance to the Group. It also acts as a forum for consideration of which current developments in technology have the potential to offer value to SMS. The Committee ensures appropriate information technology standards and procedures are in place, including those related to the Data Protection Act 2018 and, in close liaison with the Audit Committee, it ensures that information and technology risks are identified, assessed and managed with actions implemented as appropriate.

The Committee met twice in 2021. During the year, the Committee undertook the following key activities:

- oversaw the refresh of the Group's IT platform with the migration of all production services to a dedicated data centre to provide greater resilience to localised hardware failures and any site availability issues as well as enhanced recovery security. Application migration is ongoing and due to be completed in 2022;
- reviewed advances in information security technology, including the launch of a Security Operations Centre managed service, providing enhanced monitoring of all major infrastructure; and
- discussed management's presentation on a proposal to launch an in-depth review of both systems and data architecture within the Group. This will assess current systems capabilities regarding stability and resilience and seek opportunities to realise efficiency improvements and improve operational flexibility to more readily support business change, including new business service lines. A formal plan will be presented to the Committee in 2022 for approval.

Health, Safety and Sustainability Committee

The Health, Safety and Sustainability (HSS) Committee is chaired by Miriam Greenwood and comprises all the Non-executive Directors. Other individuals such as the Chief Executive Officer, Chief Financial Officer, 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 implement this strategy and oversees the development and implementation of those projects deemed to be of significant importance to the Group. The Committee reviews the health and sustainability performance of the Group by monitoring key performance indicators and monitoring the operational, environmental 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 twice during 2021. During the year, the Committee undertook the following key activities:

- the Committee reviewed the Group's inaugural Sustainability Report, together with enhancements to the Company website including a dedicated Sustainability landing page. These represent significant achievements, demonstrating the commitment at both management and Board level to improving the quality of our reporting in this area;
- following the announcement of the Group's 'net-zero by 2030' target in 2021, the Committee closely monitored progress against the Group's roadmap and associated milestones. This included a detailed review of the Cardiff office for fabric, efficiency and control improvements alongside renewable generation opportunities, together with commencement of the transition of the Group's fleet of vehicles to low and zero carbon alternatives; and
- the Committee continued to engage with several initiatives to strengthen the Group's environmental, social and governance (ESG) profile, including ongoing work with ESG rating agencies and assessment of feedback from the agencies' ratings to identify key opportunities for improvement. The Committee also approved the engagement of a new ESG rating agency, S&P Global.

CORPORATE GOVERNANCE REPORT continued

Roles and responsibilities

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

Role	Responsibility
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 tabled. Sets the agenda to take full account of the issues and concerns of the Directors and ensures that the links between shareholders, the Board and management are strong.
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 in relation to 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. 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 the Directors are subject to election by shareholders at the first Annual General Meeting (AGM) after their appointment to the Board and, in response to shareholder feedback, were and shall continue to be subject to annual re-election.

Additional appointments

The Chairman, Non-executive Directors and Chief Financial Officer 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 other Executive Directors have no third-party commitments.

Independent advice

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

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

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

How the Board operates

Meetings and attendance

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

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

In 2021, 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
- management on specific topics as relevant.

A part of each Board meeting is dedicated to the discussion of specific strategy matters. Any conflicts of interest are declared at the start of each Board meeting and appropriate action is taken where necessary to ensure independent judgement is not overridden. 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 2021.

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 2021 is set out below. All the Directors attended every Board and Committee meeting they were entitled to attend.

	Board Maximum 8	Audit Committee Maximum 3	Remuneration Committee Maximum 3	Nomination Committee Maximum 1	Information Technology Committee Maximum 2	Health, Safety and Sustainability Committee Maximum 2
Executive Directors						
Alan Foy ¹	○○○○○○○○	○○○	○○○	○	○○	○○
David Thompson ^{1,2}	○○	○	-	-	-	○
Gavin Urwin ^{1,3}	○○○○○○○	○○	-	-	○○	○
Tim Mortlock ¹	○○○○○○○○	○○○	-	-	○○	○○
Non-executive Directors						
Miriam Greenwood	○○○○○○○○	○○○	○○○	○	○○	○○
Graeme Bissett	○○○○○○○○	○○○	○○○	○	○○	○○
Ruth Leak	○○○○○○○○	○○○	○○○	○	○○	○○
Jamie Richards	○○○○○○○○	○○○	○○○	○	○○	○○

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

2 David Thompson resigned as Chief Financial Officer on 31 March 2021. He attended all the Board and Board Committee meetings that took place up to this date.

3 Gavin Urwin was appointed as Chief Financial Officer on 31 March 2021 and attended all the Board and Board Committee meetings that took place from that date. In addition, he attended one Board meeting and one Audit Committee meeting as an observer prior to his appointment.

CORPORATE GOVERNANCE REPORT continued

Matters reserved for the Board

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

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

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

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

Board activities

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

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

The information below is a non-exhaustive list of the key areas of focus for the Board and topics discussed during the year to 31 December 2021:

- **Fit for growth** – the Board oversaw the preparation and approval of the 2022 budget and reviewed the Group's updated corporate forecast following the budget process. Discussion of business development opportunities and engagement in evaluating the ongoing strategic direction for the business remained key focus areas, with ongoing review of the Group's investment in grid-scale battery storage and exploration of developing carbon reduction (CaRe) asset classes. The Board reviewed and approved the decision to raise funds through an equity placing and to refinance the revolving credit facility. Following announcement of the Group's 'net-zero by 2030' target in 2020, the Board has tracked progress against the planned roadmap. In the latter part of the year, the Board's attention also turned to the monitoring of the independent energy supplier crisis and assessment of potential impacts on the business.
- **Performance** – at every meeting, the Board discussed the Chief Executive Officer's report on performance of operations, the Chief Financial Officer's report on financial performance, and quarterly market metrics. Performance was assessed against the approved budget and variances understood in the context of market and industry developments.
- **Governance** – the Board discussed the following: appointment of Gavin Urwin as Chief Financial Officer, full-year preliminary results, Annual report and accounts, Notice of AGM and dividend recommendation, Capital Markets event, half-yearly results, 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 the General Data Protection Regulation (GDPR), risk and risk tolerance.

Internal control

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

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

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

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

Board review

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

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

FY 2021 Board evaluation

For 2021 an external review is being undertaken. The review process involves one-to-one sessions between the evaluation team and each Executive and Non-executive Director, as well as observing at least one Board meeting. This is designed to look at the effectiveness of the Board and its Committees.

Once the 2021 evaluation process is complete, 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 2020 feedback process.

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 41 to 45. The Board is regularly updated on wider stakeholder engagement by the Executive Directors and via the reports it receives from senior management in the Board and Committee papers, allowing Board members to stay abreast of the topics that matter most to stakeholders and to the business, and to enable the Board to understand and consider these issues in its decision-making. We explain here how, during the year, the Board has engaged with our stakeholders.

Material matters requiring the Board's consideration are outlined on page 9.

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.

The Group's principal risk around its metering and grid-scale battery supply chain, detailed further on page 66, was carefully monitored by the Board through 2021 in light of the global supply chain issues that emerged, underpinned by driver shortages caused by COVID-19 and Brexit restrictions. Working closely with senior management, the Board has helped drive several mitigating actions to manage this risk and secure sufficient stock of meters and batteries to ensure the Group can meet its installation obligations. This has included approval of new vendors to diversify the supply chain and, in the case of meters, approval to increase the Group's stock holding in its UK warehouses to 26 weeks' supply.

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 2021 budget and performance, and discuss the Group's growth strategy and, specifically, its progress within the grid-scale battery storage market. 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 September 2021. 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



During the year the HSS Committee presented to the Board on progress made against the Group's roadmap to 'net-zero by 2030', together with updates on the Group's ESG strategy and ratings.

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. The Chief Operating Officer attends the Department for Business, Energy & Industrial Strategy metering working groups on a regular basis.

Shareholders



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

The Chief Executive Officer and the Chairman hosted virtual meetings with major shareholders in 2021 to provide a general update on the business. Such meetings provide a more open line of engagement between Board members and key investors and it is intended that these will take place on a regular basis.

On 23 June 2021, the Chief Executive Officer hosted the Group's inaugural Capital Markets event, presented virtually, with the support of the Chief Operating Officer, Chief Financial Officer and other representatives from the senior management team. The wider Board was extensively involved in the preparation process for this event, reviewing and advising on the presentation and supporting script. The event was very well received, generating a further channel of engagement between the executive team and investors and staff alike. See page 42 for more details on the event.

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

The AGM is also an important opportunity for the Board to share directly with shareholders the performance and strategic direction of the Company. See further details in the section entitled The Board's relationship with shareholders on page 88.

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.

A key focus area for the Board in the latter part of the year was the impact of unprecedented increases in wholesale gas prices, most notably leading to several energy suppliers exiting the market. To facilitate the Board's oversight of this issue, regular updates were provided by the Chief Financial Officer on the status of the Group's customer debt at risk of non-collection, and subsequent impacts on net profit. Portfolio analysis was also prepared and presented by the Chief Operating Officer to provide the wider Board with assurance that the Group's contracted smart meter order pipeline was not at risk. See page 31 for more details. As part of its monitoring, the Board requested that the business seek regular feedback from customers on their financial position and meter portfolios, and focused on providing continuity of service to end consumers during the Supplier of Last Resort process.

Employees



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

During the year, the Remuneration Committee received updates from the Group HR Director on gender pay reporting and the new pay and reward framework. The wider Board also received reports on equality, diversity and inclusion activity and a new talent management and succession planning framework. The results of the 2021 Best Companies external employee engagement survey were shared and the proposed action plan, together with progress made on actions following the 2020 survey, were discussed.

Non-executive Director Jamie Richards is responsible from a Board perspective for workforce engagement. COVID-19 has unfortunately continued to hinder our original intentions for Jamie to meet with employees and attend certain events. A plan for 2022 is under review.

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

Shareholder activities in the year



March 2021	Full-year 2020 results presentation
	Full-year 2020 results virtual roadshow
May 2021	Citi investor roadshow
	AGM
June 2021	Peel Hunt Industrials & Support Services conference
	Capital Markets Day
July 2021	H1 2021 trading update and calls with investors
Aug 2021	Non-deal roadshow with US and ESG investors
Sept 2021	H1 2021 results presentation
	H1 2021 results virtual roadshow
	Citi Small/Mid-Cap and Growth conference
Nov 2021	Investec Best Ideas conference
Jan 2022	FY 2021 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 2021 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 Chairman and the Chief Executive Officer met with major shareholders over video conference. A variety of topics were discussed.

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

On the day of interim and full-year results announcements, equity research analysts are invited to attend management's presentation, which is followed by a question-and-answer session addressed by the Chief Executive Officer, 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 2021 AGM will be held in May 2022 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, giving shareholders an opportunity to ask questions, engage with members of the Board and learn more about the Company.

The Chairman is also available to answer questions throughout the year, upon request by investors. If investors have any matters that they wish to raise outside the forum of the AGM 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 pages 52 to 57 for further details. The Group's culture is assessed through compliance reviews, internal audits and the provision of formal and informal channels for employees to speak up, including a whistleblowing hotline that allows employees to make disclosures in confidence. The Company ensures action is taken to address behaviour that falls short of the Company's expectations. The Board believes that in a business like the Group, which is growing rapidly both in employee numbers and size of operations, a mix of informal and formal channels provides a 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 also has the opportunity to provide a written statement to the Chairman, for circulation to the Board, if he or she has any concerns about the operation of the Board or the management.

Whistleblowing

The Group encourages staff to report any concerns which they feel need to be brought to the attention of management concerning any possible impropriety, financial or otherwise. The Group has put in place a whistleblowing procedure where employees can confidentially report any concerns or wrongdoing. This procedure may be used to report incidents of fraud, bribery and corruption, discrimination, bullying or harassment, 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. All issues raised are fully investigated and appropriate action taken.

There was one whistleblowing report raised in the year ended 31 December 2021, in the category of staff qualification. Investigation concluded that the case was not upheld.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic report on pages 1 to 75. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial review section on pages 70 to 75 together with the impact of the debt refinancing and equity raise in September 2021 and October 2021 respectively.

The Directors confirm that, having considered various scenarios of future performance and forecast capital expenditure, they are satisfied that the Company and the Group have adequate resources to continue in business for the foreseeable future (for the period from the balance sheet date to 31 December 2023). 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

15 March 2022

AUDIT COMMITTEE REPORT



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

¹ Gavin Urwin was appointed on 31 March 2021 and attended all Audit Committee meetings following his appointment. He also attended all Audit Committee meetings from 8 February 2021, the date he joined the Group as CFO-Designate.

Main activities in 2021

- Review and approval of interim and year-end financial statements and supporting schedules, including management papers on significant areas of judgement.
- Review of reports prepared by the external auditor, including its annual audit plan and a report on the year-end financial statements.
- Review and approval of the Group's annual Internal Audit Plan and oversight of the evolution of the Group's risk management and internal audit policies and procedures.
- Review of the recognition and reporting of the Group's key transactions in the year, including a business combination and several asset acquisitions.
- Monitoring the impact of energy price rises in the market and the resulting collapse of several independent UK energy suppliers on the Group, including management's reporting of this through market communications and the Annual report and accounts.

Role of the Committee

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

Audit Committee membership

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

The Committee meets at least three times a year, generally just prior to Board meetings, to facilitate immediate and efficient reporting to the Board, with additional meetings where necessary. The external auditor, the Head of Internal Audit, the Chief Executive Officer, 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 Internal Audit.

Objectives and responsibilities

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

In fulfilment of these objectives the Committee:

- reviews the effectiveness of the Group's internal financial, operational and compliance controls and risk management processes, including arrangements for employees to raise concerns (in confidence);
- reviews the annual internal audit programme and considers the findings of any internal investigations and management's response;
- reviews SMS's financial statements and announcements and considers whether these statements and announcements provide a fair, balanced and understandable view of the strategy, business model and performance of the Group and of the associated risks;

- considers the appropriateness of accounting policies and significant accounting judgements and the disclosure of these in the financial statements; and
- recommends the appointment of the external auditor, approves their remuneration and oversees their work and overall effectiveness, including their relationship with management.

Internal control and risk management

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

The Group has in place an internal control environment to protect the business from the material risks which have been identified. Policies and procedures, including clearly defined levels of delegated authority, are clearly communicated across the Group. Management is responsible for establishing and maintaining adequate internal controls and the Committee has responsibility for monitoring the effectiveness of these controls. It achieves this through reports received from the Company and from both the internal and external auditors.

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

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

During the year, the Committee 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.

There was one whistleblowing report raised in the year ended 31 December 2021, in the category of staff qualification. Investigation concluded that there was no substance to the report.

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

Internal audit

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

Throughout 2021, Group Internal Audit has worked with the Board, the executive leadership team and members of management to support the continued development of a robust risk management framework upon which it can place reliance for identifying areas of risk to be considered for inclusion in the annual Internal Audit Plan.

A full risk-based annual Internal Audit Plan for 2021 was reviewed and approved by the Committee in December 2020. The programme focused on addressing several key risk areas including cyber security, grid-scale batteries, operational governance, financial controls and business continuity and disaster recovery planning. Reviews were carried out, findings reported to the Committee, recommendations tracked and their close-out monitored. No significant weaknesses were identified from the reviews undertaken by Group Internal Audit during the reporting period and throughout the financial year.

The Audit Plan for 2022 was approved by the Committee in November 2021.

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

Going concern

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

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.

The Committee considered the continued 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 2021, including:

- the involvement of the Committee in the preparation of the Annual report and accounts 2021 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 2021, presented to the Committee prior to final sign-off;
- review and consideration of the draft Annual report and accounts 2021 in advance of the final sign-off; and
- the final sign-off process by the Board.

Fair, balanced and understandable – what does this mean?

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

Fair

- Is the whole story presented?
- Is the narrative reporting in the front of the Annual report and accounts 2021 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 2021 straightforward and transparent?
- Is the layout clear with good linkage throughout?

Significant matters considered in relation to the Annual report and accounts 2021

Significant areas considered by the Committee in relation to the 2021 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 continued focus to the impact of COVID-19 on the business, which was more prevalent at the beginning of the year as a result of reduced engineering activity in periods of lockdown. 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 in the earlier part of the year.</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 in the first half of the year, 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 2021 continued

Area of judgement	Matter considered	Action
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>Due to the uncertainties associated with the timing of the domestic smart meter rollout, the expected useful life and carrying value of traditional meters requires significant judgement, as does the level of recoverability of termination income. These assumptions are used in deriving the depreciation rates applied and the impairment calculation performed on carrying value.</p> <p>Several factors are considered in assessing the expected pace of the smart meter replacement programme, including the number of smart meters still to be installed and the churn of assets.</p>	<p>The Committee considered the judgements made by management, including the quantum and disclosure of relevant amounts.</p> <p>The Committee confirmed with management that there have been no changes to accounting estimates with regard to meter assets. The Committee considered market and UK Government developments regarding the smart meter rollout and concluded that this was reasonable.</p> <p>The Committee considered the accounting estimates and judgements used to arrive at the expected useful economic life of the traditional meter assets and their carrying value at 31 December 2021.</p> <p>Losses on disposal of de-appointed meters have been recognised after allowance for termination income and, following management's impairment assessment of traditional meter assets, no impairment charge was recorded at the end of the year. The financial statements provide detailed commentary on the estimates and judgements involved and on the financial effect. The Committee considers that the position presented in the financial statements provides a reasonable view of the carrying value of traditional meter assets.</p> <p>The Committee is satisfied that charges for losses on disposal, net of termination income, and for impairment of this asset class, should be recorded as exceptional items, as this classification will assist understanding of the performance of the continuing meter estate comprising Industrial & 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>

Climate change

The Audit Committee discussed the impact of climate change on the Group. These considerations did not have a material impact on the financial reporting judgements and estimates, consistent with the assessment that climate change is not expected to have a significant impact on the Group's going concern assessment to 31 December 2023. Qualitative exploration of potential areas of concern, including an evaluation of climate exposure on our physical assets such as offices, warehouses and vehicles, has been carried out and we have identified areas of potential climate-related risk, such as extreme weather events which could affect our physical locations and road-based employees. Overall, the risk of climate-related change on the Group is considered low.

External auditor

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

External auditor appointment, independence and effectiveness

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

Every year, the Committee assesses the effectiveness of the audit process and the external auditor. In carrying out its assessment in 2021 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 2021. 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 2022. Accordingly, a resolution proposing EY's reappointment will be tabled at the forthcoming Annual General Meeting.

Graeme Bissett

Chair of the Audit Committee

15 March 2022

NOMINATION COMMITTEE REPORT



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

Main activities in 2021

- The appointment of Gavin Urwin as Chief Financial Officer to succeed David Thompson from 31 March 2021.
- Review of the succession plans for Executive and senior management roles, including potential candidates for such roles, their backgrounds and experience, and how such candidates would contribute towards the Company's objectives
- Consideration of the independence and time commitments of Non-Executive Directors

Nomination Committee membership

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

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

During 2021, the Committee met on one occasion. However, in addition, several informal meetings and discussions were held with the Chief Executive Officer and others as part of the process to appoint a new Chief Financial Officer.

Role of the Committee

The Committee regularly reviews the structure, size and composition of the Board and its Committees to ensure they continue to provide informed and constructive support and challenge to the management team. The Committee is responsible for identifying and reviewing suitable candidates through a formal and transparent process, and for ensuring that plans are in place for orderly succession to the Board. It also oversees the development of a pipeline for succession to senior management roles.

Succession planning

The Committee met with the Chief Executive Officer and Group HR Director to review succession plans. The focus of these discussions was to review our succession planning strategy and ensure robust plans were in place for members of the Executive Committee and their direct reports. The Committee will keep succession planning under close review in 2022 to implement the actions identified by the evaluation.

At the end of January 2022, Alan Foy tendered his resignation as Chief Executive Officer. He subsequently left the Group at the start of March 2022. We were fortunate that Tim Mortlock, then Chief Operating Officer, was well placed to assume the role to lead the executive management of the Group ensuring continuity and minimising disruption to the business. Tim Mortlock had already been identified in our succession plan as the preferred successor for the Chief Executive Officer role. The Committee unanimously agreed that he should be appointed as Chief Executive Officer and his appointment was confirmed on 1 March 2022.

Board inclusion and diversity

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

Alongside the Board, the Committee continues to champion the benefits of diversity – be it religious, ethnic or gender diversity, or diversity of social backgrounds or cognitive and personal strengths at Board, Committee and senior management level. Appointments are always based on merit and we continue to challenge our external search consultants where necessary, to ensure that diversity is always considered when drawing up candidate shortlists

Appointment of new Chief Financial Officer

We commenced the search for a new Chief Financial Officer following David Thompson's decision to leave the Group to pursue another opportunity. After almost five years with SMS, including three years as Chief Financial Officer, David has seen the Company through a period of remarkable change and development. I would like to express the Board's thanks to David for his highly valued contribution and wish him well in his new role.

We engaged Odgers Berndtson to lead the search for a new Chief Financial Officer. The Committee reviewed the expertise and experience requirements for the Chief Financial Officer role and developed a specification for candidates. Reports on potential appointees were provided and reviewed by the Committee, which then selected a short-list, held interviews and, after careful consideration, made a recommendation to the Board. In determining its recommendation, the Committee had regard to a broad range of factors, including: the candidates' backgrounds, skillsets and experience; their ability to express independent judgement and contribute across a broad range of topics; their ability to devote sufficient time to the Company; and whether their appointment would contribute to the Board's diversity objectives.

The selection process was rigorous and transparent with Directors being given ample time to review and interview candidates and hold detailed discussions before making its recommendation. Odgers Berndtson has no other connection with the Group or with individual Directors except for the provision of other senior executive search services.

As a result, Gavin Urwin joined the Group in February 2021 as CFO-Designate, and was appointed to the Board as Chief Financial Officer with effect from 31 March 2021. Gavin's biographical details are set out on page 78.

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

Miriam Greenwood

Chair of the Nomination Committee

15 March 2022

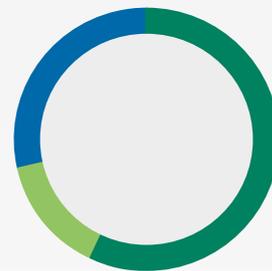
Board composition in 2021

Gender



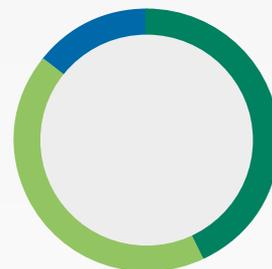
5
Male
2
Female

Tenure



4
1–3 years
1
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



Introduction by Jamie Richards, Remuneration Committee Chair

On behalf of the Board and the Remuneration Committee, I am pleased to present the Remuneration Committee Report (the Report) for the financial year ended 31 December 2021. This report includes my annual statement, the directors' remuneration policy (the Policy) and our annual report on remuneration. Whilst not required as an AIM listed business, but in line with corporate governance best practice, the Company intends to put three resolutions to shareholders at the AGM in May 2022; an advisory vote on the Report (excluding the Policy section), a binding vote on the Policy and a binding vote to approve the proposed new long-term incentive plan (LTIP).

Role of the Committee

The primary role of the Remuneration Committee is unchanged from previous years and is to determine and recommend a fair and incentivising reward structure aligned with Group strategy and performance.

Our reward package for Executive Directors is structured such that:

- the fixed element of pay – salary, pension and benefits – is set at an appropriate level by reference to the markets in which we operate;
- Executives are entitled to both short-term and long-term incentives, in the form of cash and share bonuses, options and proposed LTIP; and
- the remuneration packages reward achievement of a balanced portfolio of measures which are designed to reflect our goal of delivering sustainable value for shareholders over the long term.

The Committee continues to oversee the workforce remuneration and the operation of related policies and benefits and endeavours to ensure we have appropriate incentive structures to attract and retain our valued workforce. The Remuneration Committee is responsible for ensuring the alignment of the remuneration structure of the Executive Directors with the policies for the wider workforce, in particular having regard to our workforce remuneration and ensuring alignment with strategy and culture, so that we are able to recruit, retain and motivate our executives and our wider workforce.

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

Areas of activity in 2021

- Reviewed and approved the Directors' Remuneration Report in the FY 2020 Annual Report and Accounts.
- Reviewed the financial and strategic FY 2021 bonus metrics and targets.
- Discussed and approved the FY 2020 Executive annual bonus payments.
- Received an update on new Group reward framework career levels and pay structure.
- Reviewed and approved option awards to Executives and senior management.
- Reviewed and recommended the Gender Pay Gap Report for 2021 to the Board for approval.
- Reviewed the Policy and considered the design of a new long-term incentive plan.

Areas of focus in 2022

- Review and approve the Directors' Remuneration Report in the FY 2021 Annual Report and Accounts.
- Develop and seek approval for a revised Remuneration Policy.
- Communicate with shareholders on the proposed new LTIP and seek approval at the AGM.
- Set the financial and strategic bonus metrics and targets for FY 2022.
- Discuss and approve the bonus payments for FY 2021.
- Review and approve vesting levels for existing long-term incentive awards for FY 2021.
- If approved by shareholders, make awards under the new LTIP.
- Determine the remuneration packages for the Executive Directors.
- Review remuneration packages for senior management below Board level and the wider workforce.

Summary of 2021 performance outcomes

Although we have continued to experience significant external challenges throughout the year, overall performance has been stronger than initially anticipated across the business with full year pre-exceptional EBITDA at £52.8m and underlying PBT at £18.3m being higher than expected at the start of the year. For FY21, to ensure that management focused on the key financial and strategic drivers that were critical for the business during a period of growth coupled with continued uncertainty from the ongoing pandemic and its effect on our operations and market, the Executive Directors' annual bonus was based on underlying profit before tax, ILARR, H&S and personal performance objectives, which aligned with our strategic initiatives. Full details are available on pages 112 to 113. As a result of the strong performance in the year, the annual bonus paid out at c.82% of maximum. The Committee supports shareholder sentiment that outcomes should reflect the experience of the company, stakeholders and colleagues. Therefore, as is the case every year, the Committee also evaluated Executive performance in the round against a range of factors to assess whether the level of annual bonus pay out was appropriate. Given the key role that the Chief Executive Officer (CEO), Chief Operating Officer (COO) and Chief Financial Officer (CFO) played in implementing the strategy, and managing the operation of the business amid challenging circumstances, to produce these results the Committee felt that the pay out of incentives was appropriate.

Implementation of the Policy for 2022

At the start of 2022 the Committee commenced its annual review of the Executive remuneration package. As part of this review, the Committee considered the current position of pay relative to the external market, as well as the approach to the annual pay review for the wider workforce and wider societal and shareholder expectations. This review has indicated that some changes are required to bring the Executive remuneration packages into line with evolving market benchmarks and practices. The proposed changes to the Remuneration policy support our strategy to serve our customers, protect the environment and look after our people while continuing to deliver long-term sustainable value for shareholders. Full details of the proposed changes to the Remuneration policy are explained on page 107.

I hope that you find this report clear, transparent and informative. The Committee has sought to promote a remuneration environment that strongly aligns the commercial direction of the Group with the interests of shareholders, whilst reflecting best practice developments and market trends.

I welcome any shareholder feedback and hope you will continue to be supportive of the implementation of our Policy.

ANNUAL STATEMENT FROM THE CHAIR OF THE REMUNERATION COMMITTEE

Our Remuneration Committee

Determining the remuneration for the Executive Directors is a key focus of the Committee. The Committee oversees SMS's overall remuneration policy, strategy and implementation to ensure that the Policy is aligned with the key objectives. 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 Remuneration Committee is currently made up of four Independent Non-executive Directors, including Jamie Richards as Chair of the Committee. The Remuneration Committee formally met three times during the year and the attendance at those meetings is shown on page 98. In addition, three informal meetings were held to further discuss the annual review of the Executive remuneration package. The Company Secretary attends all the Committee meetings as Secretary to the Committee and, by invitation, they are also attended by the Executive Directors, Group 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.

The Remuneration Committee's role 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 performance 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; and
- to review any major changes in employee benefit structures throughout the Group.

The Committee operates according to its terms of reference which have been prepared to comply with relevant statutory, regulatory and corporate governance requirements and best practice. During 2021 the terms of reference were reviewed by the Committee and updated to reflect changes in corporate governance requirements and best practice. The revised terms of reference are available for review on our website at www.sms-plc.com.

REMUNERATION COMMITTEE REPORT continued

ANNUAL STATEMENT FROM THE CHAIR OF THE REMUNERATION COMMITTEE continued

Our remuneration at a glance

The Committee endeavours to ensure transparency in respect of the Company's policies for Executive Directors and senior management remuneration and aims to provide clear reporting on both past remuneration and future policy. The following table summarises how the policy was applied in 2021 and how the proposed remuneration policy will be implemented for FY22:

Elements	Objective	Key features	Implementation FY 2021	Implementation FY 2022
Base salary	To attract and retain management of a high calibre.	Reviewed annually with increases effective from 1 April. Maximum salary increases generally in line with those for wider employees.	1.5% inflation increase awarded to CEO. Increase of 11% awarded to COO after 2020 benchmarking exercise. New CFO was appointed on 31 March 2021 with an annual salary of £222,844	The Committee has carried out a detailed review of all elements of the Directors' remuneration package, including base salary, pension, annual bonus and wider benefits. As a result of this review the CEO salary is to increase to £435,000 as of 1 March 2022 (the date of CEO appointment) and in the case of the CFO and his strong performance in the role following his appointment last year, the CFO's salary is to increase to £300,000 as of 1 April 2022. 2022 inflationary increases for the wider workforce are currently under review.
Benefits	Provide market competitive benefits consistent with the role.	Set at an appropriate level taking into account the individual's circumstances, market practice and other employees in the Group.	Executive Directors received benefits including a car allowance and private health insurance.	The Committee has carried out a detailed review of all elements of the Directors' remuneration package, no changes to benefits are currently proposed. The Committee will continue to keep the benefits policy under review based on developments in market practice
Pension	To provide individuals with retirement arrangements.	Directors are eligible for defined employer contribution and payments into a personal fund. Contributions for Executive Directors will be aligned with the maximum employer pension contribution available to the workforce.	The pension opportunity will be in line with the policy for the workforce.	The Committee has carried out a detailed review of all elements of the Directors' remuneration package, no changes to pension arrangements are currently proposed. Any future changes will be as a result of changes to the pension provision available to the workforce
Annual bonus	Incentivise the achievement of annual financial targets and key strategic objectives.	Maximum opportunity of 100% of salary with one-year performance period.	Based on financial measures and delivery of strategic and personal measures (full details on page pages 112 to 113). Both financial and nonfinancial performance was strong in the year and the bonus paid out at c.82%	The Committee has carried out a detailed review of all elements of the Directors' remuneration package and proposes the maximum opportunities increase to 150% of salary for the CEO and 130% of salary for the CFO, with the maximum of 100% being delivered in cash and the balance being deferred into shares subject to a retention period. The same award weighting will be applied to both elements.

Elements	Objective	Key features	Implementation FY 2021	Implementation FY 2022
Share options	Align Executive Directors' interests with those of our shareholders by incentivising them to deliver the Company strategy and long-term sustainable value for shareholders.	Options vest in annual tranches and cannot be exercised for a period of five years from the grant date. The Committee will review to ensure metrics are aligned with the long-term strategic goals and that formulaic outcomes are carefully evaluated.	300,000 share options awarded to CEO and 250,000 share options awarded to COO under the Unapproved Share Option plan ("the Option Plan"), along with awards to a number of members of senior management.	No further share options will be awarded, as result of the Option Plan expiring during 2021. The Option Plan is being replaced with the proposed new LTIP.
LTIP (subject to shareholder approval at the 2022 AGM)	Incentivises and rewards Executives for the delivery of longer-term strategic objectives and to reward substantial relative and absolute increases in shareholder value.	Annual awards of nil cost options with opportunity levels aligned to the market, at a maximum of 175% of base salary for CEO and 150% for CFO with deferred components. Annual awards are subject to performance against stretching financial and ESG targets measured over a three year period. Awards will fall within an overall headroom cap of 10% of issued share capital consistent with the previous Option Plan. Further details can be found on page 110.	N/A	Subject to shareholder approval on the Policy and plan, awards will be granted during the remainder of FY 2022

REMUNERATION COMMITTEE REPORT continued

ANNUAL STATEMENT FROM THE CHAIR OF THE REMUNERATION COMMITTEE continued

Remuneration for performance in 2021

During 2021 the committee has considered many areas including how to compensate our employees who have worked tirelessly to support our customers and communities in the midst of the continuing pandemic.

As set out in detail on pages 70 to 75, the Group achieved a strong trading performance in 2021, good growth in our index-linked annualised recurring revenue and ended the year with a strong cash position, despite the effects of the pandemic and unprecedented turbulence in the UK energy market.

As at 31 December 2021, the Group had over 4.2 million metering and data assets under management, of which 1.7 million are domestic smart meters. Most importantly, there have been no significant health and safety incidents in the year, reflecting the core priority of the Group to provide a safe and secure operating environment for all our staff (see pages 58 to 59 for details). In addition, the Company completed a £175m equity raise and a refinancing of its revolving credit facility (new facility of £420m through to December 2025), allowing the Group to maintain leverage at prudent levels and strengthen our financial position to pursue further growth opportunities. The Group's strategy requires the deployment of significant capital in the short to medium term to enable SMS to capitalise on our smart meter, grid-scale battery and other CaRe asset opportunities and to achieve the attractive, long-term returns available to those market participants who are both strategically positioned and well-capitalised.

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 CEO, COO and CFO were 82% (2020 75.0%), 82% (2020 80.5%) and 81% (pro-rated from date of appointment) of the maximum respectively.

The Committee considered whether the formula-driven pay-outs under the incentive plans and the resultant total remuneration for Directors were appropriate, looking at the broader context within which the performance was delivered. The Committee determined that there had been a robust link between remuneration and performance. In particular, the Committee noted the following points:

- Underlying profit performance represents a strong achievement, demonstrating the resilience of our business model, despite the challenges the UK energy market faced in 2021.
- A secure platform for growth has been established from our contracted smart meter order book, restoring our average installation run rate to c.30,000 per month, following the impacts of COVID-19 and successfully energising our first grid-scale battery project.
- Sound progress has been made across a number of key strategic initiatives, most notably, the efficient deployment of our growing pipeline of smart meters, energy data and grid-scale battery storage.

The Committee assessed performance against the annual vesting criteria for share options awarded to Executive Directors and senior management, under the extant Option Plan, noting that the plan has now expired for new awards and reflecting the Committee's responsibility under the plan rules to exercise discretion to ensure a fair outcome for all parties including the careful evaluation of formulaic components. The Committee took into account a range of critical factors including the industry-wide technical issues which affected the smart meter regulated market and the resulting delayed rollout period mandated by Ofgem to 2025; the impact of the disposal of a majority of the Company's I&C meter portfolio and simultaneous announcement of an enhanced dividend policy; the extent of successful strategic investment in pre-revenue lines of business including grid-scale batteries; and the effect of the £170m equity raise (net of costs) which was announced in September 2021. Taking all factors into account in the context of the plan rules, the Committee concluded that for all option holders the first four tranches of the 2018 awards and the first two tranches of the 2020 awards would vest at 95% of the maximum, with the balance of 5% lapsing. The first tranche of the 2021 option awards would vest in full at 100% in line with the annual vesting criteria.

Looking back on the year, it is important to recognise our employees for their energy and commitment in responding to the ever-changing environment of the pandemic and the energy market. Continuing to support our employees has been a priority which has been enacted through a range of health and wellbeing projects. From a financial perspective the Company has provided full financial support to all staff who were absent from work due to self-isolation. All employees were awarded a 1% cost of living increase on 1 April 2021. In addition, in March 2021, after sufficient time to allow the business to understand and determine the impact of COVID-19, a one-off payment to represent the six-month delay to the 2020 2.5% cost of living increase was made to all staff.

When setting the Executive Directors' remuneration policy, the Committee takes into account the pay and conditions of employees more generally and, at least once a year, is given full details of the remuneration policy across the Group, with any changes highlighted. So while the balance of the elements of remuneration may differ, there is a consistent overall principle that all colleagues should be paid competitively against the relevant pay benchmark. As part of the employee engagement survey colleagues across the Group were asked how they feel about pay and benefits at SMS. Our colleagues are the heart of our business and the Committee remains committed to building an inclusive workplace, developing employee skills and promoting teamwork. Our ongoing initiatives include:

- supporting colleagues to be at their physical, mental and nutritional best through our health and wellbeing programme;
- creating a sense of belonging by treating everyone fairly and with respect while valuing their individuality and uniqueness; and

- equipping our colleagues with the skills they need to succeed now and in the future through various skills and management training programmes and identifying and developing the next generation of talent.

Executive Director salaries were subject to an annual review process. Following this review at the start of 2021, the Committee agreed to increase the salary of Tim Mortlock by 11% to £245,000 effective 1 April 2021 to align with market benchmarking. Gavin Urwin assumed the role of Chief Financial Officer on 31 March 2021 and in line with the remuneration policy at the time received a salary of £222,844. Due to timing of Gavin Urwin's appointment no salary increase was awarded following the annual review. Our remuneration policies and practices remained unchanged during the year.

The Group HR Director supports the Committee by providing oversight of workforce remuneration and related policies, and the Committee members, as members of the Board, have oversight of the employment surveys and are able to engage with the workforce through the formalised employee forums that were established during 2021. This enables the Committee to advise the Board whether Company policies and practices support culture and strategy. Last year the Committee conducted a market benchmarking exercise to assess our employment grading structure with the recommendation of a single grading system with clear and transparent remuneration structures. This major initiative was launched to all employees in 2021 and has allowed us to deliver a more consistent approach towards career pathways and reward progression throughout the business. The Group HR Director provided briefings to the Committee on implementation across the Group. Where appropriate, external consultants were used to ensure that remuneration levels for all employees continue to be in line with market expectations for their job role, level and experience and a consistent approach is applied across the Group to our pay and reward structure and related job families.

The Committee awarded share options to Executives and senior management in February 2021 under the existing Unapproved Share Option Plan falling within the overall headroom cap of 10% of issued share capital. A large proportion of our people are also eligible to participate in our Sharesave plans which promote share ownership by giving employees an opportunity to invest in SMS shares.

At the start of 2021 it was announced that David Thompson would step down from the Board as CFO, and he ceased to be a Director on 31 March 2021. It was agreed that he would be entitled to his 2020 bonus of £176,490 based on his then current salary and bonus arrangements. He was paid his basic salary and benefits to 31 March 2021, together with a settlement figure of £146,182.

As announced on 28 January 2022, Alan Foy stepped down from the Board as CEO on 1 March 2022. In line with the current remuneration policy, Alan Foy will receive his current salary and benefits to 1 March 2022. He will also receive his 2021 bonus award, payment in lieu of notice and any vested options under the Group's Unapproved 2018 and 2021 Share Option awards.

Policy implementation for 2022

With the expiry of the Option Plan and recent changes to our management team, the Committee has taken the opportunity to conduct a thorough review of each element of the Company's remuneration arrangements to ensure that they remain appropriate and aligned with SMS's business strategy and continue to incentivise the management team to drive for sustainable long-term value creation. The Committee is also mindful of evolving best practice for executive remuneration. A detailed review of all elements of the Executives' remuneration package, including base salary, pension, annual bonus and wider benefits, was conducted. The review was fully informed by independent advice. After careful consideration, the Committee proposes for 2022 a revised policy in relation to Executive remuneration to align with current market practices and further proposes the introduction of a market-standard LTIP for SMS Executive Directors and senior management. The revised remuneration policy and introduction of the LTIP scheme is intended to ensure our remuneration policy continues to drive long-term success and the implementation of our ambitious growth plans. The aim of the revised policy is to achieve a relatively simple, balanced incentive structure with measures and targets that incentivise Executives to develop long-term sustainable growth in shareholder value whilst taking full account of vital ESG responsibilities. The new remuneration policy and LTIP will be presented to Shareholders for approval at our 2022 AGM.

REMUNERATION COMMITTEE REPORT continued

ANNUAL STATEMENT FROM THE CHAIR OF THE REMUNERATION COMMITTEE continued

Long-term incentive plan (LTIP)

The LTIP is structured in the form of annual awards of nil cost options to the Company's senior employees. Maximum opportunity levels will be aligned to the market, at 175% of base salary for the CEO and 150% of base salary for the CFO. All awards will be satisfied within a 10% dilution limit within any rolling ten-year period. The awards will be subject to stretching financial and non-financial performance targets, measured over a three-year period, with phased vesting over an overall five year term in line with market best practice and to provide further alignment with shareholders. Performance measures for the awards to be granted in 2022 will be incremental EBITDA growth, delivery of absolute shareholder return, and ESG measures which are core to SMS's strategy, including health and safety and progress against our net zero targets. The Committee believes that the proposed LTIP will encourage management to focus on executing the strategy to position SMS at the forefront of delivering smart energy solutions and provide the flexibility to make the right investments at the right time and to discourage the use of levers to increase revenue and profit in the short-term at the expense of the long-term shareholder value. The new LTIP will also incorporate the following best practice features:

- Malus and clawback provisions applying for two years post vesting, including corporate failure and reputational damage triggers
- Discretion for the Remuneration Committee to amend the formulaic outcome of each award's vesting (upwards or downwards) to reflect an assessment of underlying business performance
- Discretion for the Remuneration Committee to amend the performance conditions in exceptional circumstances, operating under the principle that the new performance conditions are no easier or more difficult to achieve than was originally intended.

Annual Bonus

Alongside the introduction of the long-term incentive plan, the Committee is proposing changes to the annual bonus to align the terms with appropriate market benchmarks.

Currently the annual bonus is set at a maximum of 100% of base salary, paid in cash. Our intention is that maximum bonus opportunity will move to 150% for CEO and 130% for CFO with this being a maximum of 100% being delivered in cash and the balance being deferred into shares for a period of 2 years, and the same award weighting being applied to both elements.

The Committee also reviewed the performance metrics and for the 2022 financial year these will reflect the following features, flexed to be appropriate to each individual:

- Core objectives – KPI's of underlying PBT, ILARR and health and safety
- Personal financial objectives – examples include growth of sales pipeline and appropriate long-term capital strategy
- Personal non-financial objectives specific to individual roles

Base Salary

Executive Directors, including the skills and experience of the incumbent, the desired balance between fixed to variable pay, short- and long-term remuneration, and the desired market positioning. Based on the CFO, Gavin Urwin's, establishment and strong performance in the role following his appointment to the Board in February 2021 together with Tim Mortlock's promotion to CEO in February 2022, salary increases will be awarded to both of our Executive Directors this year which are higher than the wider workforce average in percentage terms. 2022 cost of living increases for the wider workforce are currently under review and will be implemented from 1 April 2022.

Other changes to policy

In light of evolving market practice and to reflect shareholder expectations, the Committee is proposing to introduce a shareholding guideline for Executives. The CEO will be expected to maintain a shareholding of 2 times salary and the CFO will be expected to maintain a shareholding of 1.5 times salary while they are a Director of the Company. Given that both Executive Directors are relatively new in post, the expectation is that this shareholding will be established over five years and is expected to apply for a period of one year following cessation of employment. The guidelines will apply to shares from incentive awards vesting from the date of adoption of the policy.

Advisers

FIT Remuneration Consultants LLP (FIT) and PriceWaterhouseCoopers (PwC) provided advice to the Committee on matters relating to Executive remuneration, all-employee share awards and proposed Long-term Incentive awards. Both PwC and FIT Remuneration Consultants are considered to be independent of both the Board and each of the Executive and Non-executive Directors. Their advice is considered to be objective and independent. Both FIT and PwC are members of the Remuneration Consultants Group and the voluntary code of conduct of that body is designed to ensure objective and independent advice is given to remuneration committees.

The ongoing work of the Committee will reflect emerging trends in corporate governance, best practice and investor expectations and we monitor developments in these areas on a continual basis. We remain committed to engagement with our shareholders to ensure an open and transparent dialogue on the issue of executive remuneration arrangements at SMS. We trust that you find this report to be informative, and we hope to receive your support for the Annual report on remuneration, revised Policy and new LTIP at our forthcoming AGM.

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

Jamie Richards

Chair of the Remuneration Committee

15 March 2022

DIRECTORS' REMUNERATION POLICY (THE POLICY)

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

The Policy will be displayed on the Group's website (www.sms-plc.com), in the Investor Relations section.

Policy principles

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

Objectives of Remuneration Policy

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

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

- the fixed elements of pay, salary, pension and benefits are benchmarked against comparable companies of similar size and complexity;
- Executive Directors and senior management are entitled to both short-term and long-term incentives, in the form of cash bonuses and share interests. Both the short-term and long-term incentives are underpinned by performance criteria linked to the Group's performance; and

- remuneration rewards the achievement of specific KPIs which include, inter alia, the delivery of long-term value to shareholders, at all times underpinned by a safe operating environment, compliance with relevant health and safety policies, and outstanding service to customers.

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

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

REMUNERATION COMMITTEE REPORT continued

DIRECTORS' REMUNERATION POLICY (THE POLICY) continued

Consideration of employment conditions elsewhere in the Group

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

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

Decision-making process

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

Incentive plan discretions

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

Service contracts and policy on payment for loss of office

It is the Company's policy to require 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 it appropriate to protect its interests, it may also make additional payments in exchange for non-compete/non-solicitation or other terms which extend beyond those in the Director's contract of employment. The Committee has discretion to contribute towards outplacement services and 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. In relation to the proposed LTIP if an employee leaves employment, or is on notice to leave, on or before the vesting date, the employee will forfeit their award.

Treatment of annual bonus on termination of employment

The Committee has discretion to determine that in the event an Executive Director leaves the Company, bonus payments may be paid once performance has been measured and on a pro-rated basis for the time spent in active employment with the Company.

Shareholder views

The Committee welcomes the views of shareholders in respect of pay policy as well as those views expressed on behalf of shareholders by their respective proxy advisers. The Committee documents all remuneration-related comments made at the Company's AGM and within feedback received during consultation with shareholders throughout the year. Any feedback received is fully considered by the Committee and amendments may be made to the remuneration policy where thought necessary. The Committee seeks to build an active and productive dialogue with investors on developments in the remuneration aspects of corporate governance generally.

Period for policy

Subject to approval by shareholders at the AGM in May 2022, the policy will come into effect from the date of the AGM and is intended to apply for a period of three years. The Committee is satisfied that the proposed remuneration policy is in the best interests of shareholders and does not promote excessive risk-taking. The Committee retains discretion to make non-significant changes to the policy without reverting to shareholders.

Proposed changes to Policy

Share ownership guidelines

The Committee have introduced a policy of encouraging Executive Directors to acquire and retain shares in the Company, with the objective of further aligning their long-term interests with those of other shareholders. The CEO will be expected to maintain a shareholding of 2 times salary and the CFO will be expected to maintain a shareholding of 1.5 times salary while they are a Director of the Company. Shares that count towards achieving these guidelines include shares beneficially owned by an Executive Director or by a connected person, as recognised by the Committee, deferred bonus shares and Share Options / LTIP awards which have vested and so are no longer subject to performance conditions but are subject to post-vesting deferral provisions. Executive Directors are expected to build their shareholding over a 5-year period but are not required to make personal share purchases if awards do not vest through failing to meet performance conditions, and so a newly-appointed Director may not reach the required level within the period, depending on the Company's performance against target over the period. In this instance, the Committee will review the circumstances and agree an appropriate forward plan. The Committee retains the discretion to grant dispensation from these requirements in exceptional circumstances. After ceasing employment Executive Directors must retain a level of shareholding for one year. There is no particular requirement for Non-executive Directors to hold shares but they are encouraged to acquire a holding over time.

LTIP

Following the lapse of the Company's historic option scheme, the Committee has designed a new long term incentive plan which:

- Is fit for purpose to incentivise the delivery of the Board's ambitious growth plans following the 2021 equity raise;
- Enables the Company to attract and retain the key talent required to achieve these targets in an increasingly buoyant market; and
- Supports the new CEO and the relatively new CFO in building up a meaningful shareholding in the Company.

Following this review, the Committee is proposing to introduce a market-standard long-term incentive, structured in the form of annual awards of nil cost options to the Company's senior employees. Opportunity levels will be aligned to the market, at 175% of base salary for the CEO and 150% of base salary for the CFO. All awards will be satisfied within a 10% dilution limit within any rolling ten year period.

As an AIM listed business, SMS is not required to comply with the UK Corporate Governance Code, however we recognise the importance of good governance and transparency for shareholders. As such, in designing the new LTIP the Remuneration Committee has aimed to apply the Code as far as appropriate for a company of SMS's size, for example by ensuring a total vesting and holding period of five years, allowing discretion to the Committee to override formulaic outcomes, and best practice malus and clawback provisions. The awards will be subject to stretching financial and non-financial performance targets, measured over a three year period, with phased vesting over an overall five year term in line with market best practice and the requirements of the UK Corporate Governance Code.

Bonus

The Committee proposes that the maximum bonus opportunity will move to 150% for CEO and 130% for CFO, with this being a maximum of 100% delivered in cash and the balance being deferred into shares for a period of 2 years, and the same award weighting being applied to both elements.

REMUNERATION COMMITTEE REPORT continued

DIRECTORS' REMUNERATION POLICY (THE POLICY) continued

Executive Directors' remuneration

The main components of the Policy for the year ended 31 December 2021, 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. Share options |
| | 6. Long-term incentive plan (from 2022 and subject to shareholder approval) |

Fixed – 1. Base salary		
Purpose and link to strategy	Operation	Link to performance
Base salaries are set to recognise individual skill, experience and performance, as well as the market value of the role, so as to attract, retain and motivate the most qualified staff to deliver against our strategy and KPIs, implement our business model, manage our risks and exploit our opportunities, while remaining disciplined about fixed cost management.	<p>Salaries are typically reviewed annually, and take into account:</p> <ul style="list-style-type: none"> • Company performance; • the scope of the role, and the experience and performance of the individual Director; • average workforce salary adjustments within the Company; and • the size, complexity and growth rate of the Company. <p>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.</p>	Base salary is not conditional on performance. Any salary increases will generally be in line with those awarded to salaried employees.

2022 application
Based on benchmarking of AIM50 companies Executive remuneration was reviewed in line with market trends and as a result of Tim Mortlock's recent promotion to CEO he has been awarded a salary of £435,000, effective from 1 March 2022 and due to Gavin Urwin's establishment and strong performance in the role following his appointment to the Board in February 2021 a salary of £300,000 has been awarded, effective from 1 April 2022.

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.	<p>Reviewed from time to time to ensure that benefits, when taken together with other elements of remuneration, remain market-competitive. Benefits include car allowance and private medical healthcare. Other benefits may be introduced to ensure benefits overall are competitive and appropriate to the circumstances.</p> <p>Limitation: Benefits are set by the Committee at levels appropriate for our business relative to the market.</p> <p>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.</p>	Benefits are not conditional on performance, but we believe they enhance recruitment and retention of talent and improve staff wellbeing.

Fixed – 3. Pension

Purpose and link to strategy	Operation	Link to performance
To provide retirement benefits which, when taken together with other elements of the remuneration package, will enable the Company to attract and retain Executives of a high calibre.	<p>The Executive Directors (together with all other eligible staff) are able to participate in the Company's defined contribution (money purchase) pension scheme.</p> <p>Limitation: Company contributions are based on percentage of salary, ranging from the statutory minimum to a maximum of 5% of salary.</p>	Pension contributions are not conditional on performance.

Variable – 4. Annual bonus

Purpose and link to strategy	Operation	Link to performance
To reward Executives for achieving key financial, operational and strategic annual goals, by selecting measures that drive long-term shareholder value.	<p>The Executive Directors (together with the senior management team) participate in a discretionary, annual, performance-related bonus scheme. Targets are set at the beginning of each year based on the recommendations of the Remuneration Committee.</p> <p>For 2022 the proposed maximum opportunity is equal to 150% of salary for the CEO and 130% of salary for the CFO, with this being a maximum of 100% being delivered in cash and the balance being deferred into shares for a period of 2 years, and the same award weighting being applied to both elements.</p> <p>The Committee applies discretion to the final bonus payout, taking into account performance against targets and underlying performance of the Company.</p> <p>Bonus may be subject to clawback or malus being applied, if appropriate, in the event of financial misstatement, error, misconduct, reputational damage or corporate failure, which has led to an over-payment.</p>	<p>The Committee determines annual metrics based on approved budgets and priorities for the forthcoming year. The annual bonus is based on three weighted areas: Core objectives, personal financial objectives and personal non-financial objectives. Performance measures under each area are determined annually and the Committee is able to adjust the weighting of the areas annually based on prevailing business needs. Targets are considered to be commercially sensitive and will be disclosed retrospectively following completion of the relevant financial year.</p>

2022 application

Core performance measures are the same for both the CEO and CFO and are aligned to the Company's KPIs of underlying PBT, ILARR and Health and Safety. The financial element of the bonuses start to be earned for threshold performance rising on a straight-line to the maximum for exceeding budget performance.

Personal Financial performance measure will vary each year depending on business context and strategy, for 2022 these have been set for the CEO to further grow our sales / asset pipeline in particular the development of sales pipeline and product in developing CaRe products and increase in our absolute share price performance. The CFO personal financial objectives for 2022 are set to ensure the business has a clear long-term capital strategy for sound funding of business growth and operations and efficient working capital management.

Personal Non-Financial performance measures focus on leadership, structure, team, culture and behaviour.

For 2022 the proposed maximum opportunity is equal to 150% of salary for the CEO and 130% of salary for the CFO, with this being a maximum of 100% being delivered in cash and the balance being deferred into shares for a period of 2 years, and the same award weighting being applied to both elements.

REMUNERATION COMMITTEE REPORT continued

DIRECTORS' REMUNERATION POLICY (THE POLICY) continued

Variable – 5. 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 and will apply discretion as is appropriate to achieve fairness to all parties and to consider carefully the outcome of formulaic components.	The Committee will determine market capitalisation targets, financial targets and individual objectives to ensure they are aligned with the corporate strategy.
2022 application		
No further awards to made under this plan as the plan has lapsed having reached the end of its 10-year award period.		
Variable – 6. Long-term incentive plan (LTIP)		
Purpose and link to strategy	Operation	Link to performance
Incentivises and rewards Executives for the delivery of longer-term strategic objectives and substantial relative and absolute increases in shareholder value.	LTIP awards may be granted each year in the form of a conditional award of shares, with vested awards released to participants in tranches. Annual awards of nil cost options over plc shares will be granted to participants. Awards will be subject to a three year performance period. Subject to the achievement of performance targets, the options will then vest in tranches after three, four and five years subject to continued employment until the relevant vesting date (75% on the third anniversary of grant, 12.5% on the fourth anniversary, and 12.5% on the fifth anniversary). The maximum award is 175% of salary for CEO and 150% of salary for CFO. The Remuneration Committee will have customary discretion rights and the ability to override formulaic outcomes in line with corporate governance principles to achieve fairness to all parties.	Targets are reviewed annually ahead of each grant to ensure they are aligned to the business strategy and performance outlook. The majority of the awards will be based on financial performance and shareholder return. The Remuneration Committee retains discretion in exceptional circumstances to change performance measures and targets and the weightings attached to performance measures part-way through a performance period if there is a significant and material event which causes the Remuneration Committee to believe the original measures, weightings and targets are no longer appropriate. Discretion may also be exercised in cases where the Remuneration Committee believe that the vesting outcome is not a fair and accurate reflection of business performance
2022 application		
The first award will be granted following the 2022 AGM if the LTIP is approved by shareholders, with the first performance period measuring the three financial years from 1 January 2022.		
Performance will be measured over three full financial years beginning 1 January 2022 against a scorecard including the following financial and non-financial metrics:		
<ul style="list-style-type: none"> • Pre-exceptional EBITDA • Absolute Total Shareholder Return • Health and safety • ESG 		
Full details of the targets will be set out in an RNS announcement issued immediately after the LTIP award is granted or subsequently if they are determined later.		

Non-executive Directors' remuneration

The remuneration of the Non-executive Directors, including the Chairman, is determined by the Executive Directors after external benchmarking. Non-executive Directors and the Chairman do not participate in incentive arrangements or receive other remuneration in addition to their fees.

Each of the Non-executive Directors has a letter of appointment stating their annual fee and that their appointment is for a term of three years. Their appointment may be terminated on three months' written notice at any time.

Non-executive Directors fees		
Purpose and link to strategy	Operation	Link to performance
To attract and retain Non-executive Directors with appropriate skills, experience, independence and knowledge of the Company and its business.	Fee levels for Non-executive Directors are generally reviewed by the Board annually. Remuneration comprises an annual fee for acting as a Non-executive Director and serving as a member of any Committees. Additional fees are paid in respect of service as Chairman of a Committee or as Senior Independent Director. When reviewing fees, reference is made to fees for the same comparator group as is used for Executive Directors, as well as information gathered from a number of remuneration surveys, and assessment of the extent of the duties performed and the size of the Company.	None

The Executive Director's instructed a detailed benchmarking exercise to be performed by PwC in relation to the Non-executive Director fees. As a result of this review the Executive Directors have considered a number of internal and external factors which contribute to the time commitment a Non-executive Directors role is likely to require, these included the business maturity, strategic challenges and leadership changes. In addition, the Non-executive base fees have been held without inflationary increase since 2019. It has been proposed that an increase to the Non-executive Director fees is awarded and as of the 1 April 2022 the base fee will increase to £47,500, a fee of £7,500 will be attached to being chair of a committee, a fee of £7,000 will be awarded to the Senior Independent Director and the Chairman of the Company will receive an increased fee of £110,000 inclusive of all committee chair positions held.

REMUNERATION COMMITTEE REPORT continued

ANNUAL REPORT ON REMUNERATION

Directors' remuneration emoluments for the financial year ended 31 December 2021

	Fees/ basic salary £	Annual bonus £	Pension contribution £	Benefits in kind £	2021 Total £	2020 Total £
Executive						
Alan Foy	370,274	304,378	—	19,490	694,142	795,805
Tim Mortlock	240,499	200,900	10,845	8,026	460,270	508,316
Gavin Urwin ¹	167,133	135,996	8,357	5,909	317,395	—
David Thompson ²	56,749	—	2,270	836	59,855	486,308
Non-executive						
Miriam Greenwood ⁵	96,390	—	—	—	96,390	69,968
Graeme Bissett	45,900	—	—	—	45,900	45,900
Ruth Leak	45,900	—	—	—	45,900	45,900
Jamie Richards ⁴	45,900	—	—	—	45,900	31,836
Willie MacDiarmid ⁵	—	—	—	—	—	44,252
Total	1,068,745	641,274	21,472	34,261	1,765,752	2,028,285

1 Gavin Urwin's remuneration for 2021 is from the date of appointment as a Director, which was on 31 March 2021. Gavin Urwin's bonus has been pro rated to reflect his date of appointment.

2 David Thompson resigned on 31 March 2021.

3 Miriam Greenwood's remuneration for 2020 reflects the date of appointment to Chairman, which was on 23 June 2020.

4 Jamie Richards' remuneration for 2020 is from the date of appointment as a Director, which was on 23 April 2020.

5 Willie MacDiarmid resigned as a Director on 23 June 2020.

With the exception of the bonus, which is discretionary as detailed in the remuneration policy on page 109, all other elements of Directors' remuneration are fixed.

On 31 March 2021 Gavin Urwin was appointed as a Director and Chief Financial Officer. David Thompson resigned as a Director of the Company with effect from 31 March 2021. This report reflects their remuneration and rewards from the date of their respective appointment/resignation.

The Committee has discretion to determine that in the event an Executive Director leaves the Company, bonus payments may be paid once performance has been measured and on a pro-rated basis for the time spent in active employment with the Company. David Thompson was awarded a settlement figure of £146,182 in addition to his 2020 bonus of £176,490.

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. Inflation-linked pay rises of 1% were granted to Executive Directors from 1 April 2021. Executive remuneration was reviewed in line with market trends and as a result, an increase of 11% was awarded to the COO effective from 1 April 2021.

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 2021 – with the exception of Gavin Urwin and David Thompson, whose figures are disclosed from the dates of their respective appointment/resignation as noted above.

Bonus

Details of the measures, to the extent they are not commercially sensitive, are shown below.

Financial performance

As a result of strong underlying financial performance, the Group exceeded the threshold of underlying profit before tax, and ILARR for the purposes of awarding the 2021 annual bonuses allocated to the Executive Directors.

	Threshold £m	Maximum £m	Actual £m	Actual payout (Maximum payout)
Underlying PBT	16.6	19.25	18.3	CEO 17% (25%), COO 17% (25%), CFO 17% (25%)
ILARR	83.6	86.0	85.8	CEO 20% (25%), COO 20% (25%), 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.

	Actual payout (Maximum payout)
Operational objectives	CEO 35% (35%), COO 41% (45%), CFO 40% (45%)

Individual strategic performance

The personal element of the bonus is focused on the Executive Directors' individual contributions in each of the following categories: leadership, structure, team, culture and behaviour. The Committee assesses each element against targets set at the start of the year.

	Actual payout (Maximum payout)
Individual strategic objectives	CEO 10% (15%), COO 4% (5%), CFO 4% (5%)

The Committee may use discretion to adjust payments where necessary.

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 23 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.

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, Chief Operating Officer and Chief Financial Officer. The Executive Directors also currently participate in the Company's life assurance scheme.

Directors' interests

The Directors who held office at 31 December 2021 had the following interests in the shares of the Company:

	Ordinary shares	
	2021 £0.01 each	2020 £0.01 each
Executive		
Alan Foy ¹	5,953,201	5,953,201
Tim Mortlock	7,485	5,263
Gavin Urwin	2,222	-
David Thompson	-	3,000
Non-executive		
Miriam Greenwood	25,461	23,350
Graeme Bissett	18,093	15,316
Jamie Richards	3,909	3,909
	6,010,371	6,004,039

¹ Includes 900,000 ordinary shares held by The Metis Trust, of which Alan Foy is a trustee but not a beneficiary and 372,350 ordinary shares held by Metis Investments Ltd, of which Alan Foy is a Director.

REMUNERATION COMMITTEE REPORT continued

ANNUAL REPORT ON REMUNERATION continued

Directors' share options

Aggregate emoluments disclosed on page 112 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					
Alan Foy	Unapproved	500,000	700.0p	13/07/18	01/01/23
	Unapproved	300,000	705.4p	10/02/21	01/01/26
Tim Mortlock ¹	Unapproved	133,250	350.0p	12/11/14	12/11/19
	Unapproved	333,333	700.0p	13/07/18	01/01/23
	Unapproved	250,000	705.4p	10/02/21	01/01/26

¹ Tim Mortlock holds 133,250 shares as part of the 2014 Share Option Plan, these shares are fully vested and to date have not been exercised.

The share price at 31 December 2021 was £8.41. The weighted average share price at the date of exercise of options exercised during the year ended 31 December 2021 was £8.36 (2020: £6.06).

The plan is structured with options vesting in annual tranches. The vesting of each annual tranche takes place by reference to a distinct annual performance period and is subject to annual targets including a market capitalisation target, non-market performance criteria based on financial targets and individual objectives, which are set at the beginning of the corresponding performance period.

The share options cannot be exercised for a period of five years from the grant date, other than in specific circumstances. Tranches which did not vest due to a missed market capitalisation target will subsequently automatically vest in future years if the future year market capitalisation target is met or on the occurrence of certain events which would cause all tranches to vest. The Remuneration Committee has discretion in relation to the vesting of awards where certain other criteria are not met. The Remuneration Committee additionally has the power to make changes to existing granted share options (for example in relation to the option price or number of options granted) where changes are made to the capital structure of the Company.

Share options were awarded to Alan Foy and Tim Mortlock in February 2021 under the existing Unapproved Share Option Plan.

The vesting outcome of the outstanding 2018 and 2021 options held by the Executive Directors was assessed by the Committee during the year, as described on page 102. The Committee concluded that the first four tranches of the 2018 awards would vest at 95% of the maximum, (Alan Foy 380,000 share options and Tim Mortlock 253,333 share options), with the balance of 5% lapsing. The first tranche of the 2021 option awards would vest in full at 100% in line with the annual vesting criteria. (Alan Foy 60,000 share options and Tim Mortlock 50,000 share options). The earliest exercisable date is 1 January 2023 for the 2018 options and 1 January 2026 for the 2021 options.

Further details of share options granted by the Company at 31 December 2021 are given in note 25 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 2021.

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 ('CaRe') assets.

Subsidiaries of the Company are listed on page 174 of the Annual report and accounts 2021.

Statutory information

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

The Strategic report (found on pages 1 to 75) and the Corporate governance report (found on pages 76 to 118) 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, one in each of the Republic of Ireland and Australia.

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 2021, 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 23 to the Financial statements.

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

A Director may be appointed by an ordinary resolution of shareholders in a general meeting, following recommendation by the Nomination Committee in accordance with its Terms of Reference, as approved by the Board or by a member (or members) entitled to vote at such a meeting. Alternatively, a Director may be appointed following retirement by rotation if the Director chooses to seek re-election at a general meeting. In addition, the Directors may appoint a Director to fill a vacancy or act as an additional Director, provided that the individual retires at the next Annual General Meeting (AGM) and, if they wish to continue, that they offer themselves for election.

The Company has voluntarily implemented a policy where each Director stands for re-election at every AGM.

A Director may be removed by the Company in circumstances set out in the Company's Articles of Association or by an ordinary resolution of the Company.

Directors' qualifying indemnity provisions

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

Dividends

In line with the Group's enhanced dividend policy, SMS currently intends to pay a 27.5p per share dividend in respect of FY 2021 (a 10% increase on the 25p per share dividend issued in respect of FY 2020), with the intention of continuing to annually increase this by 10% for each of the financial years FY 2022, FY 2023 and FY 2024. The FY 2021 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 2022 and July 2022 respectively.

FY 2021 dividend timetable:

Instalment	Ex-dividend date	Record date	Payment date	Dividend per share
1	30 September 2021	1 October 2021	28 October 2021	6.875p
2	6 January 2022	7 January 2022	27 January 2022	6.875p
3	31 March 2022	1 April 2022	28 April 2022	6.875p
4	30 June 2022	1 July 2022	28 July 2022	6.875p

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 2021.

Employees

Employee involvement and communication is paramount to the Company's success. The Group's policy of operating through subsidiaries helps ensure close communication and sharing of information with employees on matters likely to affect their interests. In addition, the workforce is kept up to date on the various financial and economic factors affecting the performance of the Group. Periodic updates on Group performance are circulated, typically following the announcement of both interim and annual financial results, with a condensed employee version of the Annual report and accounts made available to all staff.

The marketing team manages internal communications, maintaining an informative network throughout our national organisation which ensures our people remain up to date on all aspects of the SMS journey. Communication tools include quarterly newsletters, podcasts, employee resource groups, videos, emails and various forms of social media, providing employees with industry insights and key information on Group activity, such as wellbeing initiatives, charitable donations and progress towards our net-zero target. Regular COVID-19 updates continued to form a crucial aspect of our internal communications through 2021: from progress updates on installations to enhanced safety protocols, and from mental health support to information on our proposed hybrid work approach once it is considered safe to resume office working.

Business updates are currently delivered by video or email by the executive leadership team.

The Group seeks to engage with employees on matters affecting them, through channels including employee surveys (internal and external), an employee forum, written feedback and face-to-face sessions. The Stakeholder engagement section on pages 41 to 45 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 52 to 57.

The involvement and support of employees in maximising the Company's performance is encouraged through its Share Incentive Plan, which is open to all qualifying employees at all levels. As an HMRC-approved, tax-efficient plan, the Share Incentive Plan supports the engagement and retention of our workforce by providing returns that are driven by the performance of the Company. The terms of this arrangement are detailed further on page 117. 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 25 to the Financial statements, which is incorporated by reference into this Report.

The Group operates an equal opportunity, diversity, and inclusion policy, supported by face-to-face and eLearning, detailed further on page 55.

It is the policy of the Group to support the employment of people with protected characteristics and to ensure that recruitment, training, career development and promotion opportunities are available to all. As such, SMS is a 'Disability-Confident', 'Mindful' and 'Accredited Living Wage' employer and we are also proud signatories of the Race at Work Charter as well as the Pregnancy Loss Pledge via the Miscarriage Association.

External auditor

As detailed on page 95, the Audit Committee recommended, and the Board approved, the proposal that the current auditor, Ernst & Young LLP, be reappointed as auditor of the Company at the AGM. Ernst & Young LLP has expressed its willingness to continue in office as auditor and a resolution to reappoint Ernst & Young LLP as the Company's auditor will therefore be proposed to shareholders at the AGM.

Directors' statement as to disclosure of information to auditor

Each of the Directors at the date of approval of the Annual report and accounts 2021 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 2021, which are incorporated by reference into this Directors' report.

Going concern

After making enquiries, we, the Directors, have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future (for the period from the balance sheet date to 31 December 2023). 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 134 to 135, which is incorporated by reference here.

Political contributions

No political contributions were made during the year (2020: £Nil).

Post balance sheet events

Relevant post balance sheet events requiring disclosure are included in note 31 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 £0.01 each which are listed on AIM, a market operated by the London Stock Exchange (AIM: SMS.L). As at 31 December 2021, the issued share capital of the Company was £1,333,216 comprising 133,321,555 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 24 to the Financial statements. All the information detailed in note 24 forms part of this Directors' report and is incorporated into it by reference.

The Company was authorised at the 2020 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 £376,792. 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 2020 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 34,191 of its own shares (2020: 28,354) from the market for the purpose of satisfying its Matching Share obligations under the SIP. The nominal value of the shares purchased was £342 (2020: £284) and the aggregate amount of consideration paid was £0.3m (2020: £0.2m).

Substantial shareholdings

On 1 February 2022, 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 LLP	21,335,432	16.00%
PrimeStone Capital LLP	13,058,058	9.79%
Hargreave Hale Ltd	8,260,148	6.20%
Fidelity Investments	6,803,253	5.10%
Steve Timoney	5,644,344	4.23%
Bank Julius Baer & Co ¹	5,053,201	3.79%
Soros Fund Management LLC	3,674,644	2.76%
Fidelity Investments	3,595,420	2.70%
Canaccord Genuity Wealth Management	3,580,788	2.69%
Jupiter Asset Management	3,325,967	2.49%

¹ The shareholding in the name of Bank Julius Baer relates to shares transferred to them by Alan Foy in security for a personal lending transaction. The Metis Trust is closely associated to Alan Foy and holds a further 900,000 shares. Alan Foy is a trustee of the Metis Trust but not a beneficiary.

Approved by the Board of Directors on 15 March 2022 and signed on its behalf below.

On behalf of the Board

Gavin Urwin
Chief Financial Officer

15 March 2022

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN THE PREPARATION OF FINANCIAL STATEMENTS

The Directors are responsible for preparing the Directors' report, the Strategic report, the Directors' remuneration report, the separate Corporate governance statement and the Financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Company financial statements for each financial year. The Directors are required by the AIM Rules of the London Stock Exchange to prepare Group financial statements in accordance with UK-adopted international accounting standards ('IFRSs'), and have elected under company law to prepare the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 The Financial Reporting Standard Applicable in the UK and Republic of Ireland.

The Group financial statements are required by law, and by IFRSs, to present fairly the financial position and performance of the Group; and the Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- for the Group financial statements, state whether they have been prepared in accordance with UK-adopted international accounting standards and, for the Company financial statements, state whether applicable UK accounting standards including FRS 102 have been followed, subject to any material departures disclosed and explained in the Company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Smart Metering Systems plc website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

This responsibility statement was approved by the Board of Directors on 15 March 2022 and signed on its behalf below.

By order of the Board

Craig McGinn
Company Secretary and General Counsel
15 March 2022

Financial statements

120	Independent auditor's report
129	Consolidated income statement
130	Consolidated statement of comprehensive income
131	Consolidated statement of financial position
132	Consolidated statement of changes in equity
133	Consolidated statement of cash flows
134	Accounting policies
147	Notes to the financial statements
179	Parent company balance sheet
180	Parent company statement of changes in equity
181	Notes to the parent company financial statements

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 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;

- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Smart Metering Systems plc (the 'parent company') and its subsidiaries (the 'Group') for the year ended 31 December 2021 which comprise:

Group	Parent company
Consolidated balance sheet as at 31 December 2021	Balance sheet as at 31 December 2021
Consolidated income statement for the year then ended	Statement of changes in equity for the year then ended 31 December 2021
Consolidated statement of comprehensive income for the year then ended 31 December 2021	Statement of cash flows for the year then ended 31 December 2021
Consolidated statement of changes in equity for the year then ended 31 December 2021	Related notes 1 to 8 to the financial statements including a summary of significant accounting policies
Consolidated statement of cash flows for the year then ended 31 December 2021	
Related notes 1 to 31 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards and, as regards to the parent company financial statements, as applied in accordance with section 408 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, 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 and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to going concern

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

- In conjunction with our walkthrough of the Group's financial close process, we confirmed our understanding of management's going concern assessment process and also engaged with management early to ensure all key factors were considered in their assessment;
- We obtained management's going concern assessment, including the cash forecasts and covenant calculations for the going concern period ending 31 December 2023. 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 in each forecast 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.

Conclusions relating to going concern continued

- We considered the mitigating factors included in the cash forecasts and covenant calculations that are within control of the Group. This included assessing the Group's non-operating cash outflows and evaluating the Group'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 its liquidity or breaching financial covenants 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 2021 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 £420m, which is undrawn as at 31 December 2021. The full amount of these facilities matures in 2025. We have obtained and reviewed the new facility documentation, understood the key terms and associated covenants. We have confirmed compliance with covenants at the year end and throughout the going concern period.

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 December 2023.

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 six 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 98% 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 £0.8m 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.

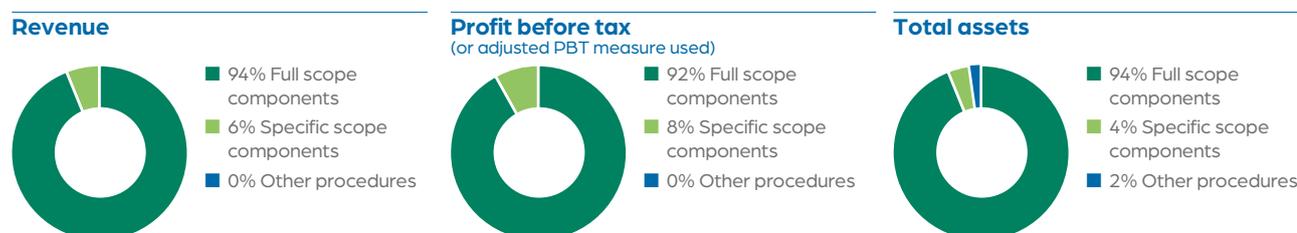
In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 21 (2020:15) reporting components of the Group, we selected 10 (2020: 11) components covering entities within the UK and Ireland, which represent the principal business units within the Group.

Of the 10 components selected, we performed an audit of the complete financial information of 4 (2020:4) components ("full scope components") which were selected based on their size or risk characteristics. For the remaining 6 (2020:7) components ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The reporting components where we performed audit procedures accounted for 100% (2020: 100%) of the Group's Profit before tax before exceptional items, the measure used to calculate materiality, 100% (2020: 100%) of the Group's Revenue and 98% (2020: 100%) of the Group's Total assets. For the current year, the full scope components contributed 92% (2020: 87%) of the Group's Profit before tax before exceptional items measure used to calculate materiality, 94% (2020: 91%) of the Group's Revenue and 94% (2020: 94%) of the Group's Total assets. The specific scope components contributed 8% (2020: 13%) of the Group's Profit before tax before exceptional items measure used to calculate materiality, 6% (2020: 9%) of the Group's Revenue and 4% (2020: 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.

The remaining 11 reporting components (2020:4) did not contribute to the Group's Profit before tax before exceptional items. For these components, we performed other procedures, including analytical review, testing of consolidation journals and intercompany eliminations to respond to any potential risks of material misstatement to the Group financial statements.

The charts below illustrate the coverage obtained from the work performed by our audit teams.



Involvement with component teams

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

Climate change

There has been increasing interest from stakeholders as to how climate change will impact the Group. Given the nature of the business management does not consider there to be a material impact from climate change. These considerations are explained on page 95 in the Audit Committee Report, which forms part of the "Other information," rather than the audited financial statements. Our procedures on these disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated.

As explained in the Basis of Preparation note, climate change risks are still developing, and are interdependent upon each other, and consequently financial statements cannot capture all possible future outcomes as these are not yet known. The degree of certainty of these changes may also mean that they cannot be taken into account when determining asset and liability valuations and the timing of future cash flows under the requirements of UK adopted international accounting standards.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on:

the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>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 (£367m value of risk, PY comparative £315m)</p> <p><i>Refer to the Audit Committee Report (page 94); Accounting policies (page 137); and note 11 of the Consolidated Financial Statements</i></p> <p>i/ Traditional meters</p> <p>Management prepared an assessment of potential impairment indicators in relation to the traditional meter portfolio which indicated that there remained significant headroom in relation to the traditional meter portfolio.</p> <p>Management concluded that it would not be appropriate to recognise a reversal of the historical impairment charge on consideration of the declining nature of the portfolio, with the smart meter roll out still in place, albeit extended to 31 December 2025, and the uncertainty as to whether the rollout period changing will have a major impact on the behaviour of energy suppliers and the knock-on impact on installation run rates. Therefore, management conclude that the above noted components that triggered the impairment, remain prevalent in the current year.</p>	<p>i/ Traditional meters</p> <p>We obtained management's impairment assessment which concluded that there are impairment indicators present due to the declining nature of the traditional meter portfolio.</p> <p>We identified controls designed by management to determine the appropriateness of the assumptions included within the impairment model.</p> <p>We conducted substantive audit procedures and did not test controls.</p> <p>We audited management's impairment calculation relating to traditional meters by;</p> <ul style="list-style-type: none"> • Challenging the assumptions forming the basis of the cashflows being the profile of removal of meters from the wall; the recoverability of termination income for the meters remaining on the wall; the expected churn in customers between energy suppliers; the recurring rental expected to be earned on the existing portfolio and termination income earned; and the expected inflationary increase. • We assessed the discount rate used in the impairment model with the assistance of EY's valuation experts. • We performed sensitivity testing of the assumptions considered key to determine if there remained headroom. • We reconciled the carrying value of the traditional meter portfolio to our fixed asset testing. • We tested the mathematical accuracy of the calculation. • We considered the appropriateness of the related disclosures in the Group Financial Statements. We assessed the appropriateness of classifying the loss on disposal of meters removed from the wall as an exceptional item given the declining nature of this traditional meter portfolio. 	<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>The SMETS1 meters are being removed from the wall because of the uncertainty surrounding the transitional issues. We confirmed that in the current year the Data Communications Company has issued an extended timeline through to the end of 2022, for completion of the Data Communications Company (DCC) Enrolment and Adoption programme. The completion of this programme will mean that the meters removed from the wall can be re-used.</p> <p>The group team performed full scope audit procedures over this risk area, 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 (£367m value of total meter assets, PY comparative £315m)</p> <p><i>Refer to Audit Committee Report (page 93); Accounting policies (page 136) and note 11 in the Consolidated Financial Statements.</i></p> <p>As at 31 December 2021, the Group carried total meter assets amounting to £367m (2020: £315m). This includes internal operational costs that have been capitalised in the current year.</p> <p>Covid-19 had a significant impact on non-essential field work in the prior year resulting in a significantly reduced number of installations. In the current year only £0.8m (2020: £6.1m) of Covid-19 related inefficiencies were recognised through the income statement and installations have therefore increased.</p> <p>A significant proportion of the Group's smart meters are fitted by its in-house engineering team. The costs directly attributable to bringing the asset to the condition and location necessary for it to be capable of operating in the manner intended by management are capitalised in line with IAS 16.</p> <p>The significant risk relates to the judgements made by management when assessing the appropriate categories and proportion of direct costs of installation, overheads and other expenses directly attributable to the installation of each meter.</p>	<p>We identified controls designed by management to determine the categories and proportion of direct costs of installation, overheads and other expenses directly attributable to bringing the meter assets into use by the Group's in-house engineering teams and evaluated the design effectiveness of these controls.</p> <p>We evaluated the judgement applied by management to assess the appropriate categories and proportion of direct costs of installation, overheads and other expenses directly attributable to installation of meter assets. This included:</p> <ul style="list-style-type: none"> • Assessment of the capitalisation methodology applied and testing of the mathematical integrity of the model; • Assessment of the judgements made in relation to the impact of Covid-19 on the costs to be capitalised vs. expensed to ensure that they had only capitalised appropriate costs; • Testing of the time recording data utilised to determine the proportion of engineers' time spent installing; • Agreement of the costs to the audited trial balance; and • Testing of costs capitalised to ensure they related to directly attributable costs of fitting the meter. Costs that did not relate to the meter fitting were excluded. The excluded costs included inefficiencies in meter fitting, time spent on training and time spent on transactional work. • Benchmarking the average installation cost capitalised to contracted third party installation costs to assess the reasonableness of the amount capitalised. • Assessment of the classification of costs for capitalisation, costs to be included in exceptional items as a direct consequence of Covid-19 and costs charged to the income statement. • We performed full and specific scope audit procedures over this risk area, which covered 100% of the risk amount. 	<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 the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £0.8 million (2020: £0.6 million), which is 5% (2020: 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. 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 £9.3 million (2020: £3.7 million), which is 2% (2020: 2%) of total equity.

Performance materiality

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

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2020: 50%) of our planning materiality, namely £0.6 million (2020: £0.3 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 £0.4 million (2020: £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 £0.04 million (2020: £0.03 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 118, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information within the annual report.

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

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

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

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and parent company and determined that the most significant are those that relate to the reporting framework (IFRS, FRS 102, Companies Act 2006, AIM Rules for Company; QCA Code) and the relevant tax compliance regulations in the UK and Ireland. In addition, we concluded that there are certain significant laws and regulations that may have an effect on the determination of the amounts and disclosures in the financial statements and those laws and regulations relating to health and safety, employee matters, environmental and bribery and corruption practices;
- We understood how SMS is complying with those frameworks by making enquiries of directors, internal audit, those responsible for legal and compliance procedures and the Company Secretary. We corroborated our enquires through our review of the board minutes and papers provided to the Audit Committee, as well as consideration of the results of our audit procedures across the Group to either corroborate or provide contrary evidence which was then followed up;
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur, by meeting with management within various parts of the business to understand where they considered there was susceptibility to fraud. We also considered performance targets and their influence on efforts made by management to manage earnings or influence the perceptions of analysts. Where this risk was considered higher, we performed audit procedures to address the fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error;

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

15 March 2022

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2021

	Notes	2021 Before exceptional items £'000	2021 Exceptional items ¹ £'000	2021 Total £'000	2020 Before exceptional items £'000	2020 Exceptional items £'000	2020 Total £'000
Revenue	2	108,480	–	108,480	102,982	–	102,982
Cost of sales	3	(48,316)	(829)	(49,145)	(49,980)	(4,890)	(54,870)
Gross profit		60,164	(829)	59,335	53,002	(4,890)	48,112
Administrative expenses	3	(41,866)	(5,649)	(47,515)	(36,845)	(8,085)	(44,930)
Other operating income	3	1,696	–	1,696	1,723	–	1,723
Gain on disposal of subsidiary	4	–	–	–	–	194,713	194,713
Profit from operations	3	19,994	(6,478)	13,516	17,880	181,738	199,618
Finance costs	6	(3,488)	(1,742)	(5,230)	(4,705)	(115)	(4,820)
Finance income	6	7	–	7	166	–	166
Profit before taxation		16,513	(8,220)	8,293	13,341	181,623	194,964
Taxation	7	(6,479)	1,978	(4,501)	(4,103)	2,618	(1,485)
Profit for the year attributable to owners of the parent		10,034	(6,242)	3,792	9,238	184,241	193,479

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	2021	2020
Basic earnings per share (pence)	8	3.20	171.65
Diluted earnings per share (pence)	8	3.19	170.26

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

	2021 Before exceptional items £'000	2021 Exceptional items £'000	2021 Total £'000	2020 Before exceptional items £'000	2020 Exceptional items £'000	2020 Total £'000
Profit for the year	10,034	(6,242)	3,792	9,238	184,241	193,479
Other comprehensive income¹						
Exchange differences on translation of foreign operations	(46)	–	(46)	67	–	67
Other comprehensive income for the year, net of tax	(46)	–	(46)	67	–	67
Total comprehensive income for the year attributable to owners of the parent	9,988	(6,242)	3,746	9,305	184,241	193,546

¹ May be reclassified to profit or loss.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	Notes	2021 £'000	2020 £'000
Assets			
Non-current assets			
Intangible assets	10, 13	25,463	24,923
Property, plant and equipment	11	415,901	328,338
Investments	12	75	75
Other assets	18	1,651	1,308
Trade and other receivables	15	–	12
Total non-current assets		443,090	354,656
Current assets			
Inventories	14	22,980	27,650
Other assets	18	550	641
Trade and other receivables	15	47,631	37,164
Income tax recoverable		–	576
Cash and cash equivalents	16	117,687	40,236
Restricted cash	16	1,299	1,627
Total current assets		190,147	107,894
Total assets		633,237	462,550
Liabilities			
Current liabilities			
Trade and other payables	17	56,489	41,958
Lease liabilities	18	999	936
Other liabilities	18	638	388
Bank loans and overdrafts	18	–	–
Total current liabilities		58,126	43,282
Non-current liabilities			
Bank loans	18	–	–
Lease liabilities	18	7,574	4,315
Deferred tax liabilities	22	12,199	8,511
Provisions	18	798	–
Other long-term liabilities	18	750	–
Total non-current liabilities		21,321	12,826
Total liabilities		79,447	56,108
Net assets		553,790	406,442
Equity			
Share capital	24	1,333	1,129
Share premium		332,048	160,471
Other reserve	26	9,562	9,562
Own share reserve	24	(825)	(749)
Foreign currency translation reserve		(45)	1
Retained earnings		211,717	236,028
Total equity attributable to owners of the parent		553,790	406,442

The financial statements on pages 129 to 178 were approved and authorised for issue by the Board of Directors and signed on its behalf by:

Gavin Urwin

Director

15 March 2022

Company registration number

SC367563

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

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 2020	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 24)	1	365	–	–	–	–	366
Movement in own shares (note 24)	–	–	–	19	–	(180)	(161)
Share-based payments (note 25)	–	–	–	–	–	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
Total profit for the year	–	–	–	–	–	3,792	3,792
Total other comprehensive income for the year	–	–	–	–	(46)	–	(46)
Transactions with owners in their capacity as owners							
Dividends (note 9)	–	–	–	–	–	(29,060)	(29,060)
Shares issued (note 24)	204	171,577	–	–	–	–	171,781
Movement in own shares (note 24)	–	–	–	(76)	–	(203)	(279)
Share-based payments (note 25)	–	–	–	–	–	841	841
Income tax effect of share options	–	–	–	–	–	319	319
As at 31 December 2021	1,333	332,048	9,562	(825)	(45)	211,717	553,790

See notes 24 and 26 for details of the Own share reserve and Other reserve.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

	2021 £'000	2020 £'000
Operating activities		
Profit before taxation	8,293	194,964
Finance costs	3,488	4,705
Finance income	(7)	(166)
Foreign exchange loss	29	4
Exceptional items: gain on disposal of subsidiary (note 4)	–	(194,713)
Exceptional items: other ¹	7,288	6,148
Depreciation	28,712	29,057
Amortisation of intangibles	4,060	2,957
Share-based payment expense	841	626
RDEC income	(489)	(536)
Loss on disposal of property, plant and equipment	2,457	1,028
Loss on disposal of intangible assets	–	12
Movement in inventories	3,359	(648)
Movement in trade and other receivables ²	(7,671)	6,461
Movement in restricted cash	328	(1,627)
Movement in trade and other payables ²	11,078	(4,361)
Cash generated from operations	61,766	43,911
Income tax received	403	–
Net cash generated from operations	62,169	43,911
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
Payments for acquisition of subsidiaries, net of cash acquired	(4,749)	(2,438)
Payment for acquisition of new business	(8,433)	–
Payments to acquire property, plant and equipment	(108,214)	(41,796)
Proceeds on disposal of property, plant and equipment	2,508	4,779
Payments to acquire intangible assets	(2,831)	(4,056)
Finance income received	7	166
Net cash (used in)/generated from investing activities	(121,712)	235,681
Financing activities		
New borrowings	53,250	15,000
Borrowings repaid	(53,250)	(285,000)
Principal elements of lease payments	(1,247)	(1,155)
Finance costs paid	(4,200)	(6,272)
Net proceeds from share issue	171,781	362
Purchase of own shares	(279)	(161)
Dividends paid	(29,060)	(12,226)
Net cash generated from/(used in) financing activities	136,995	(289,452)
Net increase/(decrease) in cash and cash equivalents	77,452	(9,860)
Exchange (gain)/loss on cash and cash equivalents	(1)	4
Cash and cash equivalents at the beginning of the financial year	40,236	50,092
Cash and cash equivalents at the end of the financial year (note 16)	117,687	40,236

1 Other exceptional items include £5,546,000 for losses on our meter portfolio and the £1,742,000 exceptional finance cost. In 2020, non-cash exceptional items included £6,033,000 for losses on our meter portfolio and the £115,000 exceptional finance cost.

2 In 2020, the movement in trade and other receivables included an adjustment of £4,922,000 and the movement in trade and other payables included an adjustment of £237,000 for working capital disposed of as part of the subsidiary sale.

3 In 2020, Payments to dispose of subsidiary of £11,589,000 included 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 2021 were approved and authorised for issue in accordance with a resolution of the Directors on 15 March 2022. Smart Metering Systems plc (SMS) is a public limited company limited by shares and incorporated in Scotland, with its registered office at 2nd Floor, 48 St. Vincent Street, Glasgow G2 5TS. The Company's ordinary shares are traded on AIM.

Basis of preparation

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

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

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

In preparing the consolidated financial statements management has considered the impact of climate change, particularly in the context of the disclosures included in the Strategic report and the Group's net-zero carbon target. These considerations did not have a material impact on the financial reporting judgements and estimates, consistent with the assessment that climate change is not expected to have a significant impact on the Group's going concern assessment to December 2023. Qualitative explorations of potential areas of concern, including an evaluation of climate exposure on our physical assets such as offices, warehouses and vehicles, has been carried out and we have identified areas of potential climate-related risk, such as extreme weather events which could affect our physical locations and road-based employees. Overall, the risk of climate-related change on the Group is considered low.

Going concern

Management prepares budgets and forecasts on a five-year forward-looking basis. These forecasts cover operational cash flows and investment capital expenditure and are prepared based on management's estimation of installation run rates through the UK smart meter rollout. The Directors have performed their assessment of the entity's ability to continue as a going concern, from the date of issue of these financial statements to 31 December 2023. Over the course of the COVID-19 pandemic, forecasts have continued to be reviewed in detail to ensure any estimated potential impact of COVID-19 restrictions and regulations has been appropriately incorporated, along with the Group's proposed responses. Following the lifting of restrictions and resumption of core services, no significant COVID-19 adjustments have been required in management's latest forecasts.

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 continued in the early part of 2021 through the second national lockdown. Since April 2021, following the easing of restrictions, the Group has operated above its pre-COVID-19 run rate. As anticipated, the main impact of COVID-19 has been one of timing and management does not expect any significant longer-term effects on the business as a result of the pandemic.

Management has modelled several different meter installation and grid-scale battery storage scenarios, including a downside scenario which assumed a slower rollout of new meter installations over the year and delayed the energisation of grid-scale battery storage sites. The scenario proved that the business would still have sufficient cash flow to continue to operate, banking covenants would remain satisfied with adequate headroom, and adequate cash would be available to cover liabilities and operating costs. This modelling provides confidence to management that, even in adverse circumstances, the business will still have sufficient resources to continue to operate.

In September 2021, the Group completed the refinancing of its revolving credit facility in order to support ongoing investment in its established carbon reduction ('CaRe') assets. The total available funding under the new loan facility is £420m and the maturity date is December 2025. In addition, in early October 2021, the Group completed a successful equity placing, raising proceeds of c.£175m. These proceeds were used to make a voluntary prepayment under the Group's refinanced loan facility of the full outstanding principal of c.£53m. At the date of approving the financial statements, the Group had access to the full £420m of its revolving credit facility with no amount drawn down. 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 2021. The financial covenants attached to the refinanced facility are that EBITDA should be no less than 4.00x interest and net debt should be no more than 4.75x EBITDA. At 31 December 2021 these stood at 16.11x and -2.07x respectively, on account of a net cash-positive position, demonstrating significant headroom. The Group does not expect to breach these covenants in the period from the date of release of these financial statements to 31 December 2023.

The Group was in a net cash position of £117.7m at 31 December 2021 following the equity placing and the subsequent voluntary prepayment of its loan facility (31 December 2020: £40.2m net cash) and, at that date, undrawn facilities were £420m (31 December 2020: £300m). The Group balance sheet shows consolidated net assets of £553.8m (31 December 2020: £406.4m), of which £366.7m (31 December 2020: £315.5m) relates to revenue-generating meter and data assets. The liquidity of the Group thus remains strong and continues to provide the financial flexibility required to support the Group's long-term growth prospects.

The Group has not had to rely on any government support schemes as a result of COVID-19. With significant coverage provided by existing long-term, inflation-linked and recurring cash flows, the Group remains committed to its enhanced dividend policy. It proposes a 27.5p per share annualised dividend in respect of FY 2021. The first of four cash instalments, a total of £7.8m, was paid in October 2021.

Based on the current cash flow projections and facilities in place and having given consideration to various outcomes of future performance and forecast capital expenditure, including extreme downside scenarios, the Directors consider it appropriate to continue to prepare the financial statements on a going concern basis and are of the view that there are no material uncertainties regarding the Group's going concern status.

Basis of consolidation

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

The acquisition method of accounting is used to account for business combinations by the Group (refer to policy on page 140).

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

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

Foreign currency translation

Group companies

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

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

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

Transactions and balances

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

ACCOUNTING POLICIES continued

Foreign currency translation continued

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

Use of estimates and judgements

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

Critical accounting judgements

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

- 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 £0.8m 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, 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
 - as at 31 December 2021, 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 in the prior year resulted in an additional £0.5m impairment loss. This provision has been reduced to £nil as at 31 December 2021, reflecting positive recovery trends over the past twelve months, giving rise to a £0.4m credit in the current year financial statements (net of write-offs). Whilst management will continue to monitor the situation in case of any changed circumstances arising from the pandemic, it is of the view that there is no longer significant uncertainty regarding the impact of COVID-19 on customer default risk. Consistent with the recognition of the original impairment loss in the prior year, management has taken the judgement to recognise this write-back as exceptional;
- 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 (2021: £38.2m, 2020: £19.8m) and depreciated as part of property, plant and equipment depreciation. Judgement is required by management to ascertain the appropriate categories and proportion of overheads and other expenses that are directly attributable to installation of meter assets. Typically, capitalised costs will include staff costs, and a systematic allocation of any production overheads deemed to be directly attributable to the process of installing a meter owned by the Group. Other general and administrative overheads, such as sales, marketing and training costs, are expensed directly to profit and loss; and
- 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 the premature retirement of these revenue-generating assets that is outside the Group's control. The residual value of the traditional meter asset portfolio of £nil reflects 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. A loss on disposal of traditional meter assets was recognised as an exceptional cost in the year ended 31 December 2021; and
 - technical communication issues for some first-generation smart meter assets (SMETS1 meters) on supplier churn have continued through 2021, with the Data Communications Company (DCC) Enrolment and Adoption programme now due to extend through to the end of 2022. 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 made the judgement to recognise losses arising on the disposal of these meters as exceptional until resolution by the Enrolment and Adoption programme is complete.

- identification of indicators of impairment of the meter asset portfolio in accordance with IAS 36 and assumptions applied in determining the carrying value of the portfolio of meter assets:
 - due to the uncertainties associated with the timing of the UK domestic smart meter rollout, the expected useful life and carrying value of traditional meters requires significant judgement, as does the level of recoverability of termination income. These assumptions are used in deriving the depreciation rates applied and the impairment calculation performed on carrying value. For the traditional meters, as the UK smart meter rollout progresses, our portfolio of traditional meter assets is diminishing. It is therefore crucial that the recoverability of the carrying value of our meter assets, recognised in Property, plant and equipment, be assessed. The two main drivers for assessing this recoverability are:
 - 1) the timing of the removals of these meters – this decision lies with the end consumer and removals are largely undertaken by third parties, which means we have little control over the timing and quantity of these removals; and
 - 2) the estimated future cash flows from termination income – these are derived using historical data and analysis around the risk of churn between contracted and non-contracted customers. The assessment includes consideration of the extent to which termination income and future rental income are received as traditional meters continue to be removed from the wall.

In 2021, this assessment has identified that the carrying value of the traditional meter assets portfolio is recoverable and, therefore, no impairment charge has been recognised (2020: £nil).

- potential indicators of impairment have also been assessed in relation to our smart and I&C meters, including consideration of the temporary industry transitional issues experienced with some SMETS1 assets as detailed above. Management has concluded that there is no significant risk of impairment with regards to the Group's smart and I&C meters at 31 December 2021, consistent with the prior year.

Key sources of estimation uncertainty

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

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 better understand the elements of financial performance in that year facilitating comparison with prior periods and to better assess trends in financial performance.

Termination fee income is reported as part of Other operating income in the consolidated statement of comprehensive income given its materiality and nature. Any termination fee income arising on the loss of meter assets is reported within Administrative expenses as a component of net gain or loss on disposal. Termination fee income does not arise from the principal activities of the Group. Any such gain or loss on disposal relating to traditional meter assets and SMETS1 meter assets is disclosed as an exceptional item.

Government grants

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

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

ACCOUNTING POLICIES continued

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 on Cash and cash equivalents.

Impairment

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

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

Further information about the impairment of trade receivables and accrued income, and the Group's exposure to credit risks, can be found in note 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 twelve months after the reporting period. Due to their short-term nature, carrying value is considered to approximate fair value.

Bank loans

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

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

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

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

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

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

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

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

ACCOUNTING POLICIES continued

Leases continued

Group as a lessee continued

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 2021 was 4.7% (31 December 2020: 4.8%).

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

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

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

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

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

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

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

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.

Asset acquisitions

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

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

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

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

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

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

Research and development

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

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

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

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

- | | |
|---|------------------------------------|
| • Development of ADM™ units | 10% on cost, straight line |
| • Development of internally generated information technology systems ('IT development') | 20% and 50% on cost, straight line |

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

Capitalised IT development expenditure is disclosed within Intangible assets as part of IT development and software. All costs capitalised within this category relate to information technology and, with the exception of one system, are 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.

ACCOUNTING POLICIES continued

Intangible assets

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

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

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

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

Intangible assets are amortised over their useful lives as follows:

- IT development and software 20% and 50% on cost, straight line
- Intangibles recognised upon acquisition:
 - Customer contracts 20% on cost, straight line
 - Trademarks 33% on cost, straight line

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

As part of a business acquisition in 2021 (see note 20 for details), the Group acquired a portfolio of customer contracts which are amortised over the average remaining contract term of five years. All other customer contracts recognised upon acquisition were fully amortised in the year.

In preparing the consolidated financial statements management considered the impact of the IFRS Interpretations Committee's March 2021 decision, that clarifies the treatment and recognition of cloud computing implementation costs. These considerations did not have a material impact on the consolidated financial statements in the year ended 31 December 2021.

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. In the prior year the CGUs were defined in line with the Group's operating segments. However, given the ongoing business development within the energy management segment and the diversification of energy assets as a result, management has deemed it appropriate to separate out the Solo Energy business as a standalone CGU. See note 13 for further details.

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 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.

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. 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 Industrial & Commercial meters 5%
 - ADM™ units 10%
 - Traditional meters to 1 July 2025
- Plant and machinery 33%
- Fixtures, fittings and equipment 20% and 33%
- Motor vehicles 25%
- Right-of-use assets Shorter of the asset's useful life and the lease term

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 April 2021:

- Construction of grid-scale battery storage sites

At 31 December 2020, SMS had acquired two special purpose vehicles, enabling the Group 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. At 31 December 2020, the Company accounted for work in progress acquired, together with the fair value uplift applied to the acquisition balance sheets in relation to development and construction rights, and additional costs of development incurred up to 31 December 2020, as part of Inventories on the consolidated balance sheet.

A change in management's business intention regarding these grid-scale battery storage sites, implemented as part of the Group's wider strategy and effective from 1 April 2021, is accounted for on a prospective basis in the 2021 financial statements and has resulted in a £4.1m reclassification of amounts previously recognised as Inventory to Assets under construction within Property, plant and equipment (see note 11). There has been no material change in the amounts capitalised as a result of this reclassification.

ACCOUNTING POLICIES continued

Property, plant and equipment continued

With effect from 1 April 2021, acquired development and construction rights together with directly attributable costs incurred in relation to the construction of the grid-scale battery storage sites are accounted for under IAS 16: Property, plant and equipment. These are recorded at cost and classified as part of Assets under construction within Property, plant and equipment. Whilst under construction no depreciation is recorded.

The following change in estimates with regard to property, plant and equipment was made with effect from 1 January 2020:

- With respect to the domestic traditional meter asset portfolio, the useful life of all opening assets was extended from 31 December 2022 to 1 July 2025 to reflect the UK Government's confirmation on 18 June 2020 that it would 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 was 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 continued 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 was 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.

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.

At 31 December 2020: 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.

With effect from 1 April 2021 work in progress in relation to grid-scale batteries is recognised as part of Property, plant and equipment. See Accounting policies – property, plant and equipment for details.

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 and;
- amounts held as collateral in order to trade electricity on the wholesale market as part of the Group's grid-scale battery storage business. Whilst no grid-scale battery storage sites were operational at 31 December 2021, collateral was in place at this date in preparation for the commencement of wholesale trading services in early FY 2022. These monies are held in designated trading accounts and 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 services 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.

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.

ACCOUNTING POLICIES continued

Standards and interpretations

New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for its annual reporting period commencing 1 January 2021:

Standard or interpretation		Effective date
IFRS 16 (amendment)	'Leases', COVID-19 – Related rent concessions	1 June 2020
IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (amendment)	Interest rate benchmark reform – Phase 2	1 January 2021

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 affect future periods significantly.

The Group's revolving credit facility previously attracted interest at a fixed margin over the three-month London Inter-Bank Offered Rate (LIBOR). Under the new facility established in September 2021, LIBOR was replaced by the Sterling Overnight Index Average (SONIA) and the transition was managed carefully with the Group's lending agent. There has not been any material change in the overall cost of borrowing as a result of this. Overall, interest rate benchmark reform is not anticipated to have a significant impact on the Group's risk management strategy.

New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2021 reporting periods and have not been early-adopted by the Group.

The amendments to IAS 12 Income Taxes, regarding deferred tax related to assets and liabilities arising from a single transaction, will apply to the Group as a lessee under IFRS 16. Its potential effects are under consideration.

All other standards are not expected to have a material impact on the entity in the current or future reporting periods, or on foreseeable future transactions.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

1 Segmental reporting

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

- Asset management, which comprises regulated management of gas and electric meters, ADM™ units and energy data assets within the UK;
- Asset installation, which comprises installation of domestic and I&C gas meters and electricity meters throughout the UK; and
- Energy management, which comprises the provision of energy consultancy services and, following the acquisition of Solo Energy Limited, the management of Distributed Energy Resources (DER).

For the purpose of making decisions about resource allocation and performance assessment, it is the operating results of the three core divisions listed above that are monitored by management and the Group's chief operating decision-maker, being the SMS Board. It is these divisions, therefore, that are defined as the Group's reportable operating segments.

Segment performance is mainly evaluated based on gross profit.

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

31 December 2021	Asset management £'000	Asset installation £'000	Energy management £'000	Unallocated £'000	Total operations £'000
Segment revenue	82,828	74,208	3,620	–	160,656
Inter-segment revenue	–	(52,176)	–	–	(52,176)
Revenue from external customers	82,828	22,032	3,620	–	108,480
Cost of sales	(31,479)	(14,081)	(2,756)	–	(48,316)
Segment gross profit – pre-exceptional cost of sales	51,349	7,951	864	–	60,164
Exceptional items (cost of sales)	–	(829)	–	–	(829)
Segment gross profit	51,349	7,122	864	–	59,335
Other operating costs/income	–	–	1,256	(33,373)	(32,117)
Depreciation	–	(196)	–	(3,797)	(3,993)
Amortisation of intangibles	(1,725)	–	(31)	(2,304)	(4,060)
Profit/(loss) from operations – pre-exceptional operating items	49,624	6,926	2,089	(39,474)	19,165
Exceptional items (operating)	(6,213)	–	–	564	(5,649)
Profit/(loss) from operations	43,411	6,926	2,089	(38,910)	13,516
Net finance costs: other	(3,132)	–	(161)	(188)	(3,481)
Net finance costs: exceptional	(1,742)	–	–	–	(1,742)
Profit/(loss) before tax	38,537	6,926	1,928	(39,098)	8,293
Tax expense	–	–	–	–	(4,501)
Profit for year					3,792

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 2021

1 Segmental reporting continued

31 December 2020	Asset management (restated) £'000	Asset installation £'000	Energy management £'000	Unallocated (restated) £'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 – restated ¹	(1,642)	–	(32)	(1,283)	(2,957)
Profit/(loss) from operations – pre-exceptional operating items – restated¹	45,823	(1,757)	966	(32,042)	12,990
Exceptional items (operating)	188,612	(928)	–	(1,056)	186,628
Profit/(loss) from operations – restated¹	234,435	(2,685)	966	(33,098)	199,618
Net finance costs: other	(4,399)	–	(33)	(107)	(4,539)
Net finance costs: exceptional	(115)	–	–	–	(115)
Profit/(loss) before tax – restated¹	229,921	(2,685)	933	(33,205)	194,964
Tax expense					(1,485)
Profit for year					193,479

¹ Amortisation of the Group's Enterprise Resourcing Planning system, which went live in full in 2020, has been reclassified from Asset management to Unallocated to reflect its Groupwide use. This is in line with the current year disclosure.

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

Depreciation of £24.7m (2020: £24.7m) 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 2019, a small minority of operations are based in the Republic of Ireland.

The Group has two major customers that each generated 10% or more of total Group turnover, as listed below by segment:

	2021 £'000	2020 £'000
Customer 1 – Asset Management	12,647	12,876
Customer 1 – Asset Installation	2,644	359
Customer 2 – Asset Management	8,900	7,816
Customer 2 – Asset Installation	8,025	6,251
	32,216	27,302

Segment assets and liabilities

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

31 December 2020	Asset management (restated) £'000	Asset installation £'000	Energy management £'000	Unallocated (restated) £'000	Total operations £'000
Assets reported by segment					
Intangible assets – restated ¹	9,072	3,497	2,118	10,236	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
	352,676	4,005	9,088	17,138	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

¹ Intangible assets recognised in relation to the Group's Enterprise Resourcing Planning System, which went live in full in 2020, have been reclassified from Asset Management to Unallocated to reflect its Groupwide use. This is in line with the current year disclosure.

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 (restated) £'000	Asset installation £'000	Energy management £'000	Unallocated (restated) £'000	Total operations £'000
Additions to non-current assets					
2021	84,779	90	27,720	3,686	116,275
2020 – restated ¹	42,736	2	2,568	2,811	48,117

¹ Intangible asset additions recognised in relation to the Group's Enterprise Resourcing Planning System, which went live in full in 2020, have been reclassified from Asset Management to Unallocated to reflect its Groupwide use. This is in line with the current year disclosure.

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 2021

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 2021	Asset management £'000	Asset installation £'000	Energy management £'000	Total operations £'000
Major service lines				
Metering	74,358	–	–	74,358
Data management	8,470	–	–	8,470
Utility connections	–	5,852	–	5,852
Transactional meter works	–	15,649	–	15,649
Energy management	–	531	3,620	4,151
	82,828	22,032	3,620	108,480
Timing of revenue recognition				
Services transferred at a point in time	–	15,649	–	15,649
Services transferred over time	82,828	6,383	3,620	92,831
	82,828	22,032	3,620	108,480

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

(b) Assets and liabilities related to contracts with customers

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

	2021 £'000	2020 £'000
Current contract assets	46	47
Total contract assets	46	47
Current contract liabilities	3,732	3,689
Total contract liabilities	3,732	3,689

Trade receivables and unbilled receivables are disclosed in note 15.

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.

(b) Assets and liabilities related to contracts with customers continued

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:

	2021 £'000	2020 £'000
Revenue recognised that was included in the contract liability balance at the beginning of the period	2,636	2,991

No revenue was recognised in 2021 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 (MAP), providing and installing meters to energy suppliers on behalf of the end consumer.

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

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

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

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

If a MAP contract is cancelled, termination fees may be levied on the energy supplier. There has been no change in the accounting for these termination fees and they continue to be classified within Other operating income unless they have arisen on the loss of the meter assets, in which case they are reported within Administrative expenses as a component of net gain or loss on disposal.

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

Asset management services

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

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

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 2021

2 Revenue from contracts with customers continued

(c) Accounting policies and significant judgements continued

Service charges are calculated based on the number of meters appointed and are accrued monthly. As revenue from service charges is attributed to services provided periodically, revenue is always based on the actual level of service provided and, therefore, there is no uncertainty at the end of each reporting period. For charges invoiced to customers monthly revenue is thus recognised over time based on our right to invoice and includes contract RPI uplifts. For charges invoiced to customers annually in advance, including contract RPI uplifts, a contract liability is recognised and subsequently released to the income statement over the year on a straight-line basis. The Group uses the practical expedient under IFRS 15 from adjusting revenue for any significant financial components of one year or less.

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

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

Third-party management services

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

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

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

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

(ii) Data services

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

Service charges are calculated based on the number of meters/ADM™ units appointed and are accrued monthly. As revenue from service charges is attributed to services provided periodically, revenue is always based on the actual level of service provided and, therefore, there is no uncertainty at the end of each reporting period. Service charges, including contract RPI uplifts, are billed to clients annually in advance and therefore a contract liability is recognised and subsequently released to the income statement over the year on a straight-line basis. The Group uses the practical expedient under IFRS 15 from adjusting revenue for any significant financial components of one year or less.

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

(iii) Utility connections services (gas and electricity)

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

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

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

(c) Accounting policies and significant judgements continued

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

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

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

(iv) Transactional meter works

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

In 2020, the Group also started to provide transactional meter works to the third party to whom the Group sold a minority of its meter asset portfolio in April 2020.

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

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

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

(v) Energy management services

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

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

Contracts for specialist consultancy services may include multiple projects. Where these projects are separately identifiable within the contract and are not interrelated, they are accounted for as separate performance obligations. The transaction price is allocated based on the stand-alone charges for each project.

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

(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.

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 2021

2 Revenue from contracts with customers continued

(c) Accounting policies and significant judgements continued

Contract assets and liabilities

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

The timing of revenue recognition, billing and cash collections results in:

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

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

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 their nature and/or amount. These are listed separately here to provide a better understanding of the financial performance of the Group.

	2021 £'000	2020 Restated ² £'000
Profit from operations is stated after (charging)/crediting:		
Cost of sales:		
Direct staff and subcontractor costs	(22,602)	(23,752)
Depreciation of meter assets	(24,719)	(24,672)
Inventory costs	(995)	(1,556)
Total cost of sales (before exceptional items)	(48,316)	(49,980)
Administrative expenses:		
Staff costs	(17,842)	(17,685)
Depreciation:		
– owned assets	(3,087)	(3,403)
– leased assets	(906)	(982)
Amortisation of intangibles	(4,060)	(2,957)
Auditor's remuneration (note 3a)	(392)	(346)
Loss on disposal	(2,457)	(1,040)
Operating lease rentals ¹	(293)	(346)
Research and development costs	(39)	(76)
Other operating charges	(12,790)	(10,010)
Total administrative expenses (before exceptional items)	(41,866)	(36,845)
Exceptional items (note 3b)	(6,478)	181,738
Other operating income (note 3c)	1,696	1,723
Total operating costs	(94,964)	96,636

1 2021 operating lease rentals include £264,000 on short-term leases (2020: £314,000) and £29,000 on leases of low-value assets (2020: £32,000).

2 2020 capitalised staff costs have been reclassified from Other operating charges to Staff costs to align with current year presentation.

(a) Auditor's remuneration

Auditor's remuneration can be analysed as:

	2021 £'000	2020 £'000
Audit of the parent company and consolidated financial statements	133	144
Audit of the financial statements of the Company's subsidiaries	229	172
Other services – audit-related assurance services	30	30
	392	346

(b) Exceptional items

	2021 £'000	2020 £'000
Exceptional operating items		
Gain on disposal of subsidiary	–	194,713
Costs attributable to COVID-19	(265)	(6,857)
Losses on the traditional and SMETS1 meter portfolio	(5,906)	(6,033)
Acquisition-related costs	(307)	–
Other	–	(85)
	(6,478)	181,738
Exceptional finance items		
Facility fees	(1,742)	(115)
	(1,742)	(115)
Total exceptional items	(8,220)	181,623

There are total exceptional items in the consolidated income statement of £8,220,000. Exceptional operating costs primarily comprise £265,000 of costs directly attributable to COVID-19 (see Accounting policies – critical accounting judgements – for further details), £5,906,000 of losses on our traditional and SMETS1 meter portfolio and £307,000 of acquisition-related costs incurred on the large-power I&C meter and data acquisition detailed in note 20.

In 2020, an exceptional gain on the disposal of a subsidiary of £194,713,000 was recognised separately in the consolidated income statement. See note 4 for details. There were total other exceptional items in the consolidated income statement of £13,090,000. Exceptional operating costs comprised £6,857,000 of costs directly attributable to COVID-19, £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 £1,742,000 comprise the acceleration of unamortised arrangement fees relating to the existing facility of £1,506,000 together with £236,000 of legal and professional fees attributable to the extinguishment. In 2020, exceptional finance costs of £115,000 comprised break costs incurred on full voluntary prepayment of the Group's loan facility (see note 18 for details).

The tax effect of exceptional items charged in 2021 is a credit of £1,978,000 (2020: credit of £2,618,000).

(c) Other operating income

	2021 £'000	2020 £'000
Termination fee income	103	985
Government grant income	1,255	738
Other income	338	–
	1,696	1,723

Of the government grant income of £1,255,000 (2020: £738,000) recognised in the year ended 31 December 2021, £489,000 relates to RDECs (2020: £536,000) which are detailed in the Accounting policies. £766,000 relates to grant income received on government-funded energy efficiency projects within the energy management business.

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 2021

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 was recognised separately in the consolidated income statement. Excluding deferred taxation and transaction costs, the gain was £195.4m.

Crail did not meet the definition of a discontinued operation under IFRS 5 on the basis that the minority portfolio of I&C assets disposed did not represent the loss of a separate, major line of business and, although I&C activities were significantly reduced, they were not entirely discontinued.

SMS manages the disposed I&C meter portfolio on behalf of the purchaser, for which it receives 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:

	2021 Number	2020 Number
Administrative staff	488	497
Operational staff	548	546
Sales staff	5	4
IT staff	81	73
Directors (excluding 4 (2020: 4) Non-executive Directors)	3	3
	1,125	1,123

The aggregate payroll costs of the employees, including Executive Directors, were:

	2021 £'000	2020 £'000
Wages and salaries	42,973	39,880
Social security costs	4,694	4,103
Staff pension costs	1,365	1,229
Share-based payment (note 25)	841	626
Director pension costs	21	18
	49,894	45,856

6 Finance costs and finance income

	2021 £'000	2020 £'000
Finance costs		
Bank loans and overdrafts	3,132	4,556
Lease liabilities	75	172
Foreign exchange loss/(gain) on intra-group borrowings	281	(23)
Total pre-exceptional finance costs	3,488	4,705
Exceptional finance costs	1,742	115
Total finance costs	5,230	4,820
Finance income		
Bank interest receivable	7	166
Total finance income	7	166

7 Taxation

	2021 £'000	2020 £'000
Analysis of charge in the year		
Current tax:		
Current income tax expense	93	331
Adjustment to tax charge in respect of previous periods	—	92
Total current income tax	93	423
Deferred tax:		
Origination and reversal of temporary differences	2,087	(198)
Adjustment to tax charge in respect of prior periods	(127)	(304)
Adjustment attributable to change in tax rates	2,448	1,564
Tax on profit	4,501	1,485

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

	2021 £'000	2020 £'000
Profit before tax	8,293	194,964
Tax at the UK corporation tax rate of 19.00% (2020: 19.00%)	1,576	37,043
Expenses not deductible for tax purposes	171	1,565
Income not taxable	—	(38,495)
Adjustments to tax charge in respect of previous periods	(127)	(212)
Impact of deferred tax not recognised	(99)	—
Impact of overseas tax rates	24	20
Change in tax rate ¹	2,956	1,564
Tax expense in the income statement	4,501	1,485

¹ See note 22 for further details.

Current tax credit through equity in the year was £nil (2020: £nil).

8 Earnings per share

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

	2021 £'000	2020 £'000
Profit for the year used for calculation of basic EPS	3,792	193,479
Number of shares	2021	2020
Weighted average number of ordinary shares for the purposes of basic EPS	118,330,817	112,715,328
Effect of potentially dilutive ordinary shares:		
– share options	641,710	922,554
Weighted average number of ordinary shares for the purposes of diluted EPS	118,972,527	113,637,882
EPS:		
– basic (pence)	3.20	171.65
– diluted (pence)	3.19	170.26

9 Dividends

	Year ended 31 December 2021 £'000	Year ended 31 December 2021 Per share (pence)	Year ended 31 December 2020 £'000	Year ended 31 December 2020 Per share (pence)
Paid final dividend	7,107	6.25	—	—
Paid third interim dividend	7,065	6.25	—	—
Paid second interim dividend	7,059	6.25	5,168	4.58
Paid first interim dividend	7,829	6.875	7,058	6.25
Total dividends	29,060	25.625	12,226	10.83

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 2021

9 Dividends continued

In 2021, the paid second interim dividend, paid third interim dividend and paid final dividend are in respect of FY 2020 and the paid first interim dividend is in respect of FY 2021. In 2020, the paid second interim dividend is in respect of FY 2019 and the paid first interim dividend is in respect of FY 2020.

Per the Group's revised dividend policy, a 27.5p per share dividend is proposed in respect of FY 2021. This will be paid to shareholders in four cash instalments.

The first instalment of £7.8m was paid on 28 October 2021 to shareholders on the register at 1 October 2021, with an ex-dividend date of 30 September 2021. The remaining instalments are intended to be paid as follows:

Instalment	Ex-dividend date	Record date	Payment date
2	06 January 2022	07 January 2022	27 January 2022
3	31 March 2022	01 April 2022	28 April 2022
4	30 June 2022	1 July 2022	28 July 2022

These remaining instalments will amount to c.£24m and will be accounted for in 2022.

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 2021, the distributable profits in the parent company were adequate to cover the proposed second interim dividend of c.£8m.

10 Intangible assets

	Goodwill £'000	Intangibles recognised upon acquisition £'000	IT development and software £'000	Total £'000
Cost				
As at 1 January 2020	8,547	2,257	24,445	35,249
Additions	–	–	4,056	4,056
Exchange adjustments	–	–	(12)	(12)
Disposals	60	4	29	93
As at 31 December 2020	8,607	2,261	28,518	39,386
Additions	–	–	2,831	2,831
Acquisitions	859	1,010	–	1,869
Exchange adjustments	(66)	(3)	(31)	(100)
As at 31 December 2021	9,400	3,268	31,318	43,986
Amortisation				
As at 1 January 2020	–	2,171	9,335	11,506
Charge for year	–	32	2,925	2,957
As at 31 December 2020	–	2,203	12,260	14,463
Charge for year	–	179	3,881	4,060
As at 31 December 2021	–	2,382	16,141	18,523
Net book value				
As at 31 December 2021	9,400	886	15,177	25,463
As at 31 December 2020	8,607	58	16,258	24,923
As at 1 January 2020	8,547	86	15,110	23,743

The acquisition of an Industrial & Commercial large-power Half Hourly electricity meter and data portfolio in April 2021 resulted in the recognition of goodwill of £859,000, which has been assigned to the asset management operating segment. In addition, the customer contracts acquired as part of this transaction were valued at £1,010,000 and have been recognised as additions within the Intangibles recognised upon acquisition asset class. See note 20 for further details on this business acquisition.

No goodwill or intangible assets were recognised as a result of acquisitions in 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	Assets under construction £'000	Total £'000
Cost								
As at 1 January 2020	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
Reclassification ¹	–	–	–	–	–	–	4,071	4,071
Additions	–	82,401	126	1,117	28	5,267	24,505	113,444
Acquisitions	–	6,682	–	–	–	–	5,414	12,096
Impairment	–	–	–	–	–	–	–	–
Disposals	(2)	(19,889)	–	(52)	(202)	–	–	(20,145)
Exchange adjustments	–	–	–	(6)	–	(4)	–	(10)
As at 31 December 2021	2,805	461,340	1,170	8,207	5,131	12,273	33,990	524,916
Depreciation								
As at 1 January 2020	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
Charge for year	171	24,719	204	1,555	1,157	1,032	–	28,838
Impairment	–	–	–	–	–	–	–	–
Disposals	1	(6,767)	–	(43)	(134)	–	–	(6,943)
Exchange adjustments	–	–	–	(1)	–	(1)	–	(2)
As at 31 December 2021	851	94,635	994	6,232	3,410	2,893	–	109,015
Net book value								
As at 31 December 2021	1,954	366,705	176	1,975	1,721	9,380	33,990	415,901
As at 31 December 2020	2,128	315,463	254	2,427	2,918	5,148	–	328,338
As at 1 January 2020	2,246	398,717	524	2,744	4,562	3,865	–	412,658

¹ The reclassification of £4,071,000 within Assets under construction relates to costs previously recorded within Inventories at 31 December 2020. See Accounting policies – property, plant and equipment – for further details.

Meter assets

In 2020, meter asset disposals included 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.

In 2021, meter asset acquisitions include the c.15,000 assets acquired as part of the Industrial & Commercial large-power Half Hourly electricity business acquisition. See note 20 for details.

Included within the closing Meter assets net book value of £366,705,000 (2020: £315,463,000) is £16,246,000 (2020: £22,627,000) 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 2021 consolidated financial statements the traditional meter portfolio generated £12,781,000 (2020: £13,140,000) revenue with a corresponding £5,071,000 (2020: £5,668,000) depreciation charge. As at 31 December 2021, £11,787,000 (2020: £13,333,000) of annualised recurring revenue arises from the owned traditional meter portfolio.

The assets are secured by a bond and floating charge (note 18).

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 2021

11 Property, plant and equipment continued

Meter assets continued

For the purpose of impairment testing the traditional meter asset portfolio recognised within "Meter assets" is assessed as a stand-alone cash-generating unit (CGU) and its carrying amount is compared with the recoverable amount. See background information provided in the "Key sources of estimation uncertainty" section in the accounting policies. The recoverable amount is determined based on a value-in-use calculation, which uses the following key assumptions:

- estimated future cash flows from rental income, which are assumed to decline on a straight-line basis;
- estimated future cash flows from termination income, which are derived using historical data and analysis around the risk of churn between contracted and non-contracted customers and the risk of recoverability once issued; and
- a pre-tax discount rate of 1.9%, which reflects the risk attached to the time value of these specific cash flows and is deemed to be best represented by the Group's incremental cost of borrowing on the basis that cash flows are secured by the installed meter and the risk inherent in the decline of the cash flows is already accounted for through the assumptions detailed above.

As a result of this impairment test, it was identified that the value in use of the traditional meter assets CGU exceeded its carrying value and therefore no impairment has been recognised in the year to 31 December 2021.

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

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 had also been no events that would eliminate this excess or any new material indicators of impairment. As a result of COVID-19, and the reduced smart meter installation activity, there was a lower volume of traditional meter asset removals through 2020. Therefore, no impairment was recognised in the period ended 31 December 2020.

No impairment on other meter assets was recognised in 2021 or 2020.

Right-of-use assets

Additions to right-of-use assets during the 2021 financial year were £5,267,000 (2020: £2,265,000).

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

Carrying value	2021 £'000	2020 £'000
Properties ¹	4,502	2,918
Motor vehicles	–	7
Land	4,878	2,223
	9,380	5,148

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	2021 £'000	2020 £'000
Properties	919	948
Motor vehicles	6	13
Land	107	21
	1,032	982

12 Financial asset investments

	Unlisted investments £'000	Total £'000
Cost		
As at 1 January 2020 and 1 January 2021	75	75
Impairment	–	–
As at 31 December 2020 and 31 December 2021	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 which, in the prior year, were defined as the three operating segments identified in note 1. Given the ongoing business development within the energy management segment and the diversification of energy assets as a result, management has deemed it appropriate to separate out the Solo Energy business in the current year as a standalone CGU. All the goodwill previously allocated to the energy management CGU relates to the acquisition of Solo Energy Limited and, therefore, as the Solo Energy business develops it is at this level that goodwill will be monitored for internal management purposes. The corresponding goodwill balance has thus been reclassified in the current year, as seen in the table below.

A segment-level summary of the goodwill allocation is presented below:

	Asset management £'000	Asset installation £'000	Energy management £'000	Solo Energy £'000	Total £'000
Cost					
As at 1 January 2020	4,112	3,497	998	–	8,607
Reclassification	–	–	(998)	998	–
Acquisitions (note 20)	859	–	–	–	859
Exchange adjustments	–	–	–	(66)	(66)
As at 31 December 2021	4,971	3,497	–	932	9,400

Additional goodwill of £859,000 has been recognised in the current year as a result of business combinations, arising on the acquisition of an Industrial & Commercial large-power Half Hourly electricity business. See note 20 for further details. This goodwill has been allocated entirely to asset management on the basis that this is the operating segment that will receive the benefits from the acquisition.

The Group tests goodwill for impairment annually or more frequently if there are indications that goodwill might be impaired. Goodwill is tested for impairment by comparing the carrying amount of each CGU, including goodwill, with the recoverable amount. The recoverable amounts are determined based on value-in-use calculations which require assumptions. The calculations use cash flow projections based on financial budgets approved by the Board covering a one-year period, together with management forecasts for a further four-year period. These budgets and forecasts have regard to historical performance and knowledge of the current market, together with the Group's views on the future achievable growth and the impact of committed cash flows. Specifically, budgets and forecasts used in the assessment of goodwill at 31 December 2021 incorporate the effects of the extended deadline for the UK smart meter rollout to 31 December 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.

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

- **Perpetual growth rate** – the terminal cash flows are extrapolated in perpetuity using a growth rate of 2.25% for asset management (2020: 2.0%) and 1.0% for asset installation and Solo Energy (2020: 1.5% for asset installation and energy management). The rate of 2.25% applied to asset management is derived from historical Retail Price Index increases applied to the segment's index-linked meter rentals, 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 1.0% applied to asset installation and Solo Energy is aligned to the Group's corporate forecast model and is prudently lower than the rate applied to asset management as revenues in these segments are not always index-linked.
- **Discount rate** – the discount rate is initially based on the weighted average cost of capital (WACC) which would be anticipated for a market participant investing in the Group. A specific discount rate is then calculated for each operating segment, taking into account the time value of money, the segment's risk profile and the impact of the current economic climate. The pre-tax discount rates applied are 6.8%, 8.6% and 18.2% for asset management, asset installation and Solo Energy respectively (2020: 6.8% for asset management, 9.0% for asset installation and 11.7% for energy management) and the post-tax discount rates applied are 5.5%, 7.00% and 15.0% for asset management, asset installation and Solo Energy respectively (2020: 5.5% for asset management, 7.25% for asset installation and 8.9% for Solo Energy). The risk premium assigned to the asset installation CGU reflects the shorter-term nature of the underlying revenues within this segment, as compared to the annually-recurring revenue generated by an installed asset. The risk premium assigned to the Solo Energy CGU reflects the pre-revenue status of this part of the business, in which the underlying system is still undergoing development.

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 2021

13 Impairment of goodwill continued

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

	2021 £'000	2020 £'000
Finished goods	22,476	22,676
Work in progress	–	4,701
Consumables	504	273
	22,980	27,650

In the prior year, work in progress related 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 related to the acquisition of companies and £1,262,000 related to the subsequent capitalisation of directly attributable construction costs. This work in progress has been reclassified to Assets under construction within Property, plant and equipment in the current year, in line with the Group's change in accounting policy. See Accounting policies – property, plant and equipment – for further details.

15 Trade and other receivables

	2021 £'000	2020 £'000 restated ¹
Current		
Trade receivables	22,451	20,272
Prepayments and deferred costs	2,520	2,225
Accrued income	19,265	12,442
Other receivables	1,463	1,245
VAT recoverable	1,932	980
	47,631	37,164

¹ £2,038,000 has been reclassified from Prepayments and deferred costs to Accrued income.

Amounts falling due after more than one year:

	2021 £'000	2020 £'000
Accrued income	–	12

Accrued income is made up of the following balances:

	2021 £'000	2020 £'000
Unbilled receivables	18,915	12,395
Contract assets	46	47
Other accrued income	304	–
	19,265	12,442

¹ £2,038,000 has been reclassified from Prepayments and deferred costs to Accrued income and recognised as part of Unbilled receivables.

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 2021 was £4,370,000 (2020: £4,904,000). See note 19 for further details. The ageing profile of trade receivables past due date is shown below:

	2021 £'000	2020 £'000
Current	13,019	13,608
1-30 days	3,728	3,208
31-60 days	1,615	1,914
61-90 days	1,499	1,090
91-120 days	1,705	328
Over 120 days	5,812	4,868
	27,378	25,016
Loss allowance	(3,969)	(4,744)
Amounts offset (see note 19)	(958)	–
	22,451	20,272

Trade receivables are non-interest-bearing and are generally on 30-90-day terms. Trade receivables due from related parties at 31 December 2021 amounted to £nil (2020: £nil).

All trade receivables are denominated in Sterling.

Accrued income, which is made up of unbilled receivables and contract assets, is presented net of any loss allowance and impairment, with amounts being invoiced periodically and customers being the same as those within trade receivables.

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 2021, £50,000,000 of cash was placed on short-term deposit (2020: £nil).

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

	2021 £'000	2020 £'000
Cash at bank	67,687	40,236
Short-term deposits	50,000	–
	117,687	40,236

Restricted cash is excluded from cash and cash equivalents, in line with the Group's accounting policy on page 144 and is disclosed separately in the consolidated statement of financial position.

17 Trade and other payables

	2021 £'000	2020 £'000
Current		
Trade payables	16,638	10,215
Other payables	4,097	3,815
Other taxes	1,519	3,894
Deferred income	2,898	2,498
Advance payments	1,185	1,422
Accruals	30,152	20,114
	56,489	41,958

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

	2021 £'000	2020 £'000
Contract liabilities	3,732	3,689
Other deferred income	351	231
	4,083	3,920

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 2021

17 Trade and other payables continued

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 and provisions

(a) Financial liabilities

	2021 £'000	2020 £'000
Current		
Lease liabilities	999	936
Other liabilities	638	388
Bank loans	–	–
	1,637	1,324
Non-current		
Lease liabilities	7,574	4,315
Other liabilities	1,548	–
Bank loans	–	–
	9,122	4,315

At the start of 2020, the Group had a revolving credit facility of £420m, with a five-year term ending December 2023 (the 'existing facility'). 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 existing facility were reduced from £420m to £300m. There were no other material changes to the terms and conditions. This amendment did not substantially change the existing revolving credit facility, nor did it discharge any obligations. As such, this was deemed to be a modification. There was no material impact to the consolidated income statement in the year ended 31 December 2020 as a result of the modification; £0.1m of break costs incurred as a result of the voluntary prepayment were recognised as an exceptional finance cost.

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 were made by the Group in FY 2020 and, therefore, as at 31 December 2020 there was no outstanding principal or interest. The amount recognised against Bank loans was thus £nil.

Unamortised transaction costs from the initial establishment of the revolving credit facility in December 2018 continued 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 were recognised within the consolidated income statement and the unamortised transaction costs of £1.9m that would ordinarily be deducted from the carrying value of the bank loans were recorded as 'Other assets' at 31 December 2020. In line with the Group's accounting policy, these unamortised transaction costs were reclassified to Bank loans upon the first drawdown in H1 2021.

On 13 September 2021, the Group successfully completed the refinancing of its existing facility to better support the ongoing growth and development of the Group. As part of the refinancing, all outstanding amounts under the existing facility were settled. Concurrently, the Group undertook a commercial negotiation, facilitated by debt advisory specialists, to enter into a new facility on market terms. The new facility has total available commitments of £420m and matures in December 2025. The new facility is provided by a syndicate of lenders, including the lenders of the existing facility and new lenders. Unamortised arrangement fees on the existing facility of £1.5m have been accelerated and recognised as an exceptional finance cost in the consolidated income statement together with £0.2m of legal and professional fees arising on the refinancing. No amount is drawn down on the new facility at 31 December 2021 and transaction costs of £2.4m are amortised over the duration of the new facility to 2025. For the year ended 31 December 2021, £2.1m of transaction costs have been recognised within the consolidated income statement (2020: £0.7m) of which £0.2m relates to the new facility. £1.9m relates to the existing facility of which £1.5m accelerated amortisation of transaction costs has been recognised within Exceptional costs. Interest of £0.6m has been recognised (2020: £2.3m).

Whilst a drawdown of £53m was made under the new facility in H2, this was settled in full in November 2021. Therefore, as at 31 December 2021 there is no outstanding principal or interest. The amount recognised against Bank loans is thus £nil. Unamortised transaction costs of £2.2m, that would ordinarily be deducted against the carrying value of the bank loans, have therefore been reclassified to Other assets at 31 December 2021.

Up until 13 September 2021, the existing facility attracted interest at a rate of 1.85% over three-month LIBOR and 0.65% was payable on undrawn funds. From 13 September 2021, the new facility attracted interest at a rate of 1.85% over three-month SONIA and 0.65% was payable on undrawn funds. Interest continues to be settled quarterly.

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

(b) Changes in liabilities arising from financing activities

Financial liabilities	Lease liabilities £'000	Bank loans £'000
At 1 January 2020	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)
Cash flows (i)	(1,247)	(2,631)
New leases	4,230	–
Other non-cash changes (i)	339	2,379
At 31 December 2021	8,573	(2,201)
Presentational reclassification to Other assets	–	2,201
At 31 December 2021	8,573	–

(i) Cash flows and other non-cash changes

Cash flows on lease liabilities include £1,247,000 of lease payments. Cash flows on bank loans include £53,250,000 of new borrowings less £53,250,000 of borrowings repaid, interest payments of £554,000 and a payment of £2,077,000 for arrangement fees.

Other non-cash changes in lease liabilities include £281,000 of interest charges plus £58,000 arising from changes in lease terms and foreign exchange impact in the year. Other non-cash changes in bank loans include £308,000 of arrangement fees accrued but not yet paid offset with £554,000 of interest charges and £2,133,000 amortisation of arrangement fees (of which £1,506,000 relates to the accelerated amortisation of arrangement fees as a result of the re-financing of the Group's revolving credit facility).

At 31 December 2021, there were no outstanding amounts under the Group's revolving credit facility. Therefore, unamortised arrangement fees of £2,201,000 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 £550,000 have been classified as current Other assets, with the balance of £1,651,000 classified as non-current, in line with the remaining term of the facility.

In 2020, cash flows on lease liabilities included £1,155,000 of lease payments. Cash flows on bank loans included £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 included £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 included £2,276,000 of interest charges and £658,000 amortisation of arrangement fees.

(c) Other liabilities

Other liabilities comprise:

	2021 £'000	2020 £'000
Current		
Deferred consideration on acquisitions	638	388
	638	388
Non-current		
Deferred consideration on acquisitions	750	–
	750	–

Refer to note 21 for further details on the deferred consideration on acquisitions.

(d) Provisions

Provisions comprise:

	2021 £'000	2020 £'000
Non-current		
Provision for restoration costs recognised under IFRS 16	798	–
	798	–

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 2021

18 Financial liabilities and provisions continued

The Group is required to restore the land leased as part of its grid-scale battery storage business, and certain leased warehouses, to the condition required by the terms and conditions of the lease at the end of the respective lease terms (which range between three to ten years for warehouses and 20 to 40 years for land). A provision has been recognised for the present value of the estimated expenditure required to carry out this restoration. These costs have been capitalised as part of the cost of right-of-use assets and are depreciated over the shorter of the term of the lease and the useful life of the assets.

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 2021 (2020: £nil). See note 18 for further details.

There were no overdrafts at 31 December 2021 (2020: none) and the interest charge arising on lease liabilities does not represent a cash interest rate risk for the Group.

The Group's financial assets at 31 December 2021 comprise cash and trade receivables. The cash balance of £117,687,000 (2020: £40,236,000) 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
2021	+70bps	–
2020	+70bps	–

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, 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.

(d) Liquidity risk continued

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 2021				
Contractual maturities of financial liabilities				
Trade payables	16,638	–	–	16,638
Bank loan	–	–	–	–
Other liabilities	638	–	–	638
Other long-term liabilities	–	750	–	750
Lease liabilities	1,280	3,232	5,965	10,477
	18,556	3,982	5,965	28,503
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

The contractual undiscounted cash flows on the bank loan reflect the contractual arrangements in place at the year-end date. As disclosed in note 18, the Group had no outstanding principal at 31 December 2021 or 31 December 2020 and therefore the contractual undiscounted cash flows at 31 December 2021 and 31 December 2020 are £nil in the tables 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 £41,716,000 (2020 restated: £32,725,000), 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, which uses a lifetime expected loss allowance for all trade receivables and accrued income, including contract assets.

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 2021

19 Financial risk management continued

(e) Credit risk continued

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

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

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 in the prior year resulted in an additional £0.5m impairment loss. This provision has been reduced to £nil at 31 December 2021, reflecting positive recovery trends over the past twelve months, giving rise to a £0.4m credit in the current year financial statements (net of write-offs). Whilst management will continue to monitor the situation in case of any changed circumstances arising from the pandemic, it is of the view that there is no longer significant uncertainty regarding the impact of COVID-19 on customer default risk. Consistent with the recognition of the original impairment loss in the prior year, management has taken the judgement to recognise this write back as exceptional.

During the second half of 2021, the global energy market has suffered from unprecedented increases in wholesale gas prices, creating significant volatility within the UK energy market and leading to a number of independent energy suppliers entering administration and exiting the market. This crisis has notably impacted the smaller independent energy suppliers and, 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 the crisis. This subset of trade receivables has been provided for on a specific basis and has resulted in an additional £0.4m impairment loss in the year. Given the continued and changing uncertainty regarding the impact of this crisis on customer default risk, management will continue to monitor the situation and reassess its ECL at each reporting period end accordingly.

On that basis, the loss allowance at 31 December 2021 was determined as £4,370,000 (2020: £4,904,000) 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 2021	160	4,744	4,904
Increase in loss allowance recognised in profit or loss during the year – underlying	241	3,161	3,402
Decrease in loss allowance recognised in profit or loss during the year – exceptional	–	(438)	(438)
Amounts reversed/written off during the year	–	(3,498)	(3,498)
At 31 December 2021	401	3,969	4,370

The overall loss allowance has decreased at 31 December 2021. Whilst the crisis in the energy market has given rise to an additional impairment loss in the year, as detailed above, the impairment loss recognised in relation to COVID-19 in 2020 has been reversed and several individual trade receivables, previously impaired as a result of specific circumstance with customers, have been settled in the year.

Total net impairment losses on financial and contract assets were £2,964,000 in 2021 (2020: £3,229,000) including the £438,000 exceptional credit. Of this amount, £2,964,000 (2020: £3,229,000) relates to amounts arising from trade receivables and accrued income.

Fair value

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

(f) Capital management

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

The Group monitors capital on the basis of a leverage ratio. This ratio is calculated as net debt divided by pre-exceptional EBITDA. Net debt is calculated as total borrowings less cash. Pre-exceptional EBITDA is calculated as operating profit before any significant exceptional items, interest, tax, depreciation and amortisation.

The objective of SMS's strategy is to deliver long-term value to its shareholders whilst maintaining a balance sheet structure that safeguards the Group's financial position. Under the Group's enhanced dividend policy, SMS declared a 25p per share dividend in respect of FY 2020 and proposes a 27.5p per share dividend in respect of FY 2021. The first of three interim dividend instalments was paid in October 2021. The Group's long-term index-linked cash flows from its existing asset base are able to support an intended annual increase of 10% in dividends for each of the financial years FY 2022, FY 2023 and FY 2024. This results in a more predictable return to shareholders and reflects the forecast growth of the business over and above RPI in that period. The Group's strong liquidity position supports the funding of its contracted smart meter order pipeline, which will further add to its long-term index-linked cash flows.

(g) Disclosure of offsetting arrangements

31 December 2021	Gross balances ¹ £'000	Amounts offset ² £'000	Balance sheet ³ £'000
Financial assets			
Trade receivables	23,409	(958)	22,451
Accrued income	20,313	(1,048)	19,265
Financial liabilities			
Trade payables	16,770	(132)	16,638
Accruals	32,026	(1,874)	30,152

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

2 The amounts offset in accordance with the criteria in IAS 32.

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

20 Business combinations

Year ended 31 December 2021

On 6 April 2021 the Group acquired a portfolio of c.15,000 Industrial & Commercial large-power Half Hourly electricity meters from a third party. This acquisition will add c.£1.1m of annualised recurring meter revenue to the Group's ILARR. The Group also took ownership of the Meter Operator (MOP) and data service contracts associated with a portfolio of electricity meters, which will initially generate a further net c.£2m of annualised recurring data revenue. This is reported through the Group's asset management segment.

As part of the transaction, a workforce was transferred with the skills, knowledge and experience to generate revenues from the assets and contracts acquired, and potentially grow the acquired business for the Group. Such a workforce meets the definition of a substantive process under IFRS 3. On the basis that the Group has obtained inputs, a substantive process and outputs, management has concluded that the acquisition meets the definition of a business combination and should be accounted as such under IFRS 3.

Purchase consideration consisted of cash only. Total cash paid was £8,433,000.

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 2021

20 Business combinations continued

Year ended 31 December 2021 continued

The assets and liabilities recognised as a result of the acquisition were as follows:

31 December 2021	Fair value £'000
Intangible assets: customer contracts	1,010
Property, plant and equipment: meter assets	6,682
Inventories	700
Trade and other receivables	1,778
Trade and other payables	(2,368)
Deferred tax liability	(228)
Net identifiable assets acquired	7,574
Add: goodwill	859
Net assets acquired	8,433

No contingent assets or liabilities were acquired. The customer contracts acquired were valued using a multi-period excess earnings method, which assesses the present value of the after-tax cash flows attributable only to these contracts.

The goodwill is attributable to the opportunity to grow this part of the business for the Group. Goodwill will not be deductible for tax purposes.

For the year ended 31 December 2021, the acquired business contributed a net profit before taxation of £1.7m to the Group. If the acquisition had occurred on 1 January 2021, consolidated pro-forma profit for the year ended 31 December 2021 would have been approximately £2.2m.

Acquisition-related costs of £0.3m have been incurred to date, including transaction costs and mobilisation costs to integrate the newly-acquired business into the Group, and have been included as part of exceptional Administrative costs in the consolidated statement of comprehensive income.

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				Holding company ¹
Add Renewables No.3 Limited	10042216	16a Suite 18 Oakham Enterprise Park Ashwell Road Oakham, Rutland LE15 7TU	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 strategy of investment 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 twelve months.

Year ended 31 December 2020 continued

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 the grid-scale battery storage asset is connected to the grid). Target energisation was 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 twelve 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 in the consolidated balance sheet. The acquisitions therefore resulted in goodwill of £nil.

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.

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 2021

21 Asset acquisitions

During the year ended 31 December 2021, the Group acquired 100% of the issued share capital of the following companies:

Name of acquired company	Company number	Registered office prior to acquisition	Purchase consideration £	Acquisition date £	Nature of the company
Newtonwood Energy Storage Limited	11257609	Unit 9, the Green Easter Park, Benyon Road, Reading, Berkshire RG7 2PQ	1,471	9 March 2021	Special purpose vehicle
Brook Farm Energy Storage Limited	10780034	Unit 9, the Green Easter Park, Benyon Road, Reading, Berkshire RG7 2PQ	1,572	11 June 2021	Special purpose vehicle
Berkeley Battery Storage 2 Limited	10942601	Suite 4D Drake House, Dursley, Gloucestershire GL11 4HH	1,306	15 June 2021	Special purpose vehicle
Brentwood Energy Storage Limited	11516707	Unit 8-9 Benyon Road, Silchester, Reading, Berkshire RG7 2PQ	1,401	1 October 2021	Special purpose vehicle

All four companies report in British Pounds Sterling. The acquisitions enable SMS to obtain control over the rights required to develop and commission four grid-scale battery storage sites, totalling 200MW, as part of the Group's strategy of investment in CaRe assets. Grid-scale battery storage is reported through the Group's energy management segment and is a key asset class required by the UK energy system to provide flexibility services to balance the grid and support the continued introduction of more intermittent renewable generation. The acquired sites will be constructed over the next 12 to 24 months.

Details of the purchase consideration are as follows:

Name of acquired company	Cash paid £'000	Deferred consideration £'000	Total consideration £'000
Newtonwood Energy Storage Limited	1,221	250	1,471
Brook Farm Energy Storage Limited	1,572	—	1,572
Berkeley Battery Storage 2 Limited	1,056	250	1,306
Brentwood Energy Storage Limited	901	500	1,401
Total purchase consideration	4,750	1,000	5,750

In respect of three of the four companies, total additional consideration of £750,000 is payable in cash upon energisation (when the grid-scale battery storage asset is connected to the grid). In addition, in respect of one of the four companies, total additional consideration of £250,000 is payable in cash upon the full execution of an extension of the term of the land lease. The payments have been measured at fair value at the acquisition date, ignoring the impact of discounting on the basis that the anticipated payment date is within 24 months of the current reporting date and management consider the impact of discounting over this period to be immaterial.

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

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

	Newtonwood £'000	Brook Farm £'000	Berkeley £'000	Brentwood £'000	Total £'000
Assets under construction	1,272	1,596	1,290	1,256	5,414
Trade and other receivables	199	76	16	145	436
Trade and other payables	—	(100)	—	—	(100)
Total purchase consideration	1,471	1,572	1,306	1,401	5,750

No contingent assets or liabilities were acquired.

The majority of the value gained from acquiring the four sites is attributable to development and construction rights and therefore a significant portion of the total cost of the transaction has been allocated to Assets under construction due to its higher fair value relative to the other net assets acquired.

Transaction costs of £0.2m were incurred and have been capitalised as a component of the cost of the assets acquired, classified as part of Assets under construction within Property, plant and equipment.

22 Deferred taxation

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

	2021 £'000	2020 £'000
Opening deferred tax liability	8,511	13,779
Increase in provision through consolidated statement of comprehensive income	4,408	1,061
Increase/(decrease) in provision through equity	(319)	(714)
Deferred tax in respect of acquisitions and disposals	(401)	(5,615)
Closing deferred tax liability	12,199	8,511

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

	2021 £'000	2020 £'000
Excess of taxation allowances over depreciation on property, plant and equipment	11,036	7,134
Tax losses available	(51)	(125)
Deferred tax asset on share options	(1,438)	(1,676)
Deferred tax on intangibles acquired	1,168	684
Other	1,484	2,494
	12,199	8,511

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

	2021 £'000	2020 £'000
Accelerated capital allowances	3,902	1,688
Tax losses	74	(124)
Deferred tax asset on share options	558	29
Movement in fair value of intangibles	256	626
Other	(382)	(1,158)
	4,408	1,061

At 31 December 2021, the main rate of corporate tax applying to the profits of the Group was 19%. In the Spring Budget 2020, the UK Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). The Government's budget announcements on 3 March 2021 included the confirmation that the rate of corporation tax would increase to 25% from 1 April 2023. This new law was substantively enacted on 24 May 2021. Deferred taxes at the balance sheet date have been re-measured using these enacted tax rates and reflected in these financial statements. The impact of tax rate changes, on both the Group's opening deferred tax liability and current-year total tax timing differences, amounts to £2,956,000.

The Group had unrecognised trading losses of £1,456,000 (2020: £954,000) in subsidiary undertakings at 31 December 2021. The Group also had unrecognised capital losses of £729,000 (2020: £729,000) in subsidiary undertakings at 31 December 2021.

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 2021

23 Related party transactions

(a) Subsidiaries

The Group's subsidiaries at 31 December 2021 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 (see key below table)	Holding	Proportion of shares held	Nature of business
SMS Connections Limited	1	Ordinary shares	100%	Gas utility connections
SMS Meter Assets Limited	1	Ordinary shares	100%	Gas and electric asset management
SMS MAPCO 1 Limited	2	Ordinary shares	100%	Gas and electric asset management
SMS MAPCO 2 Limited	2	Ordinary shares	100%	Gas and electric asset management
SMS Data Management Limited	1	Ordinary shares	100%	Data management
Smart Metering Systems PTY Limited (Australia)	4	Ordinary shares	100%	Data management
UKMA (AF) Limited*	2	Ordinary shares	100%	Funding
SMS Corporate Services Limited	1	Ordinary shares	100%	Administrative services
SMS Asset Management Limited*	2	Ordinary shares	100%	Gas and electric third-party asset management
SMS Energy Services Limited	2	Ordinary shares	100%	Electricity utility connections and management
SMS Data Services Limited*	2	Ordinary shares	100%	Electric asset and data management
CH4 Gas Utility and Maintenance Services Limited*	2	Ordinary shares	100%	Meter installation
SMS Utilities Academy Limited*	2	Ordinary shares	100%	Engineer training and development
Trojan Utilities Limited*	2	Ordinary shares	100%	Meter installation
Qton Solutions Limited*	2	Ordinary shares	100%	Business and domestic software development
Smart Battery Systems Limited	2	Ordinary shares	100%	Holding company
Solo Energy Limited (UK)*	1	Ordinary shares	100%	Renewable asset management
Solo Energy Limited (Ireland)*	3	Ordinary shares	100%	Renewable asset management
Care Assets Limited	2	Ordinary shares	100%	Holding company
Add Renewables No.3 Limited*	2	Ordinary shares	100%	Renewable asset management
Burwell Power Limited*	2	Ordinary shares	100%	Holding company
East Anglia Grid Storage One Limited*	2	Ordinary shares	100%	Renewable asset management
Newtonwood Energy Storage Limited*	2	Ordinary shares	100%	Renewable asset management
Brook Farm Energy Storage Limited*	2	Ordinary shares	100%	Renewable asset management
Berkeley Battery Storage 2 Limited*	2	Ordinary shares	100%	Renewable asset management
Brentwood Energy Storage Limited*	2	Ordinary shares	100%	Renewable asset management

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

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

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

3 Registered office address: West Building, Carrigaline Industrial Estate, Carrigaline, Co. Cork, Republic of Ireland.

4 Registered office address: KPMG, 'Tower 3' Level 38, 300 Bangarook Avenue, Sydney, NSW 2000, Australia.

(b) Key management personnel compensation

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

	2021 £'000	2020 £'000
Short-term employee benefits	2,747	3,024
Post-employment benefits	35	28
Termination benefits	146	—
Share-based payments	262	219
	3,190	3,271

(c) Directors**Directors' emoluments**

Aggregate remuneration for both Executive and Non-executive Directors in respect of qualifying services was:

	2021 £'000	2020 £'000
Aggregate emoluments	1,744	2,010
Company contributions to money purchase pension scheme	21	18
Company contributions to private pension plan	–	–
	1,765	2,028

In 2021, £146,000 was payable to a Director as settlement following resignation (2020: no amount was payable to Directors).

Detailed remuneration disclosures are also provided in the in the Annual report on remuneration on pages 112 to 114.

Emoluments of highest paid Director

	2021 £'000	2020 £'000
Emoluments	694	796

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

	2021 Number	2020 Number
Money purchase schemes	3	2

(d) Other transactions with related parties

During the year, the Group entered into the following transactions with related parties:

- Rent amounting to £10,375 (2020: £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 (2020: £nil) was outstanding in this regard.
- The Group paid dividends to Alan Foy of £906,915 (2020: £441,930), The Metis Trust¹ of £230,625 (2020: £97,470), Metis Investments Limited² of £387,968 (2020: £105,332), Tim Mortlock of £1,501 (2020: £570), Gavin Urwin of £153 (2020: £nil), David Thompson (whilst a Director) of £188 (2020: £325), Miriam Greenwood of £6,129 (2020: £2,529), Willie MacDiarmid³ of £nil (2020: £271), Graeme Bissett of £4,116 (2020: £901) and Jamie Richards of £1,002 (2020: £244).

1 Alan Foy is a trustee but not a beneficiary.

2 Alan Foy is a Director and shareholder.

3 Paid to a connected person.

24 Share capital

	2021 £'000	2020 £'000
Allotted and called up:		
133,321,555 ordinary shares of £0.01 each (2020: 112,946,331 ordinary shares of £0.01 each)	1,333	1,129

On 4 October 2021, the Group successfully completed an equity raise for gross proceeds of c.£175m. The total number of shares issued as a result of the raise was 19,453,777 with a nominal value of £195,000. Net proceeds of £170,154,000 were received, after the deduction of £4,930,000 of directly attributable issue costs. The excess value of the shares over their nominal value of £169,959,000 has been recognised within Share premium.

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 2021

24 Share capital continued

During the year 921,447 (2020: 134,793) ordinary share options were exercised in relation to the Group's employee share plans which are described in note 25. The ordinary shares issued have a nominal value of £9,000 (2020: £1,000) and aggregate consideration of £1,627,000 (2020: £362,000) was received.

In addition, in 2020, 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 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 2021, 139,055 (2020: 140,695) own shares were held in trust with a carrying value of £825,000 (2020: £749,000) and a market value of £1,169,000 (2020: £1,000,000). The Company purchased 34,191 shares (2020: 28,354) from the market during 2021 with a weighted average fair value of £8.15 per share (2020: £5.68).

25 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 ten years from the date of grant. The exercise price of the options is determined by the Directors but shall not be less than the closing price at which the Company's shares are traded on the date of grant.

Summary of options

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

Plan	At 1 January 2021	Granted	Exercised	Forfeited	Expired	At 31 December 2021	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	325,000	–	(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	578,085	–	(175,498)	(4,755)	–	397,832	350.0	12 Nov 2019	12 Nov 2024	84.8
Unapproved	26,066	–	(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	58,520	–	(8,778)	(5,852)	–	43,890	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	–	–	–	–	–	–	550.0	28 Nov 2021	28 Nov 2026	141.0
Unapproved ¹	469,001	–	–	(60,000)	–	409,001	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	469,000	–	–	(60,000)	–	409,000	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	–	–	(60,000)	–	409,000	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
Unapproved ¹	–	468,999	–	(60,000)	–	408,999	700.0	01 Jan 2023	13 Jul 2028	134.3
Unapproved ²	–	12,000	–	–	–	12,000	602.8	13 Sep 2023	12 Sep 2028	266.1
Unapproved ³	–	76,000	–	–	–	76,000	577.4	26 Jun 2025	25 Jun 2030	191.4
Unapproved ⁴	–	290,000	–	–	–	290,000	705.4	10 Feb 2026	09 Feb 2031	210.8
Total	3,452,777	846,999	(921,447)	(350,607)	–	3,027,722				

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.

4 These options relate to the first of five tranches.

(a) Employee option plans continued

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 2021 ranged from 134.3p to 266.1p, as disclosed in the table above (2020: 37.2p to 105.6p). 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.

The following table lists the range of assumptions applied to options granted under the Unapproved Plan during the current and prior years:

	31 December 2021	31 December 2020
Dividend yield (%)	3.3	4.3
Expected volatility (%)	35.96 to 41.33	35.70 to 39.04
Risk-free interest rate (%)	0.09 to 0.39	(0.05) to (0.06)
Expected option life (years)	2.28 to 4.87	3.03 to 5.00
Exercise price (£)	5.77 to 7.05	5.77 to 7.00
Share price at grant date (£)	8.30	5.79 to 5.81
Fair value at grant date (£)	1.34 to 2.66	0.37 to 1.06

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 case. 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 2021 for all options is £563,000 (2020: £357,000).

(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 2021	Awarded shares	Sold/ transferred	Forfeited	At 31 December 2021	Weighted average acquisition price
Partnership	222,119	52,824	(44,628)	–	230,315	5.40
Matching	219,888	52,824	(25,799)	(17,970)	228,943	5.40
Dividend	14,407	13,771	(2,974)	–	25,204	5.80
Total	456,414	119,419	(73,401)	(17,970)	484,462	

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 2021 was approximately £8.18 per share (2020: £6.08). 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 2021 for all Matching Shares is £278,000 (2020: £269,000). 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 2021

26 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.

27 Commitments under operating leases

The Group's commercial leases for certain vehicles, offices, warehouses and land are accounted for under IFRS 16 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 twelve 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 as a result of entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at each year end are as follows:

	2021 £'000	2020 £'000
Future minimum commitments under operating lease agreements are as follows:		
Payable within one year	31	59
Payable within two and five years	14	41
Payable after five years	–	–
	45	100

28 Capital commitments

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

	2021 £'000	2020 £'000
Property, plant and equipment	27,746	–
Intangible assets	–	160
Inventory – work in progress	–	9,370

In 2021, capital expenditure of £27,746,000 contracted for in relation to property, plant and equipment related to the Group's grid-scale battery storage projects under construction.

In 2020, capital expenditure of £9,370,000 contracted for in relation to inventory related to the Group's grid-scale battery storage projects under construction. These costs are now recognised within Property, plant and equipment. See Accounting policies – property, plant and equipment – for further details.

29 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.

30 Ultimate controlling party

There is no ultimate controlling party by virtue of the structure of shareholdings in the Group.

31 Post balance sheet events

Acquisition of grid-scale battery storage project

On 14 February 2022 the Group acquired 100% of the issued share capital of Balance Energy 2 Limited for total purchase consideration of c.£0.8m. The acquisition enables SMS to obtain control over the rights required to develop and commission a 30MW grid-scale battery storage site as part of its ongoing investment strategy in carbon reduction assets.

PARENT COMPANY BALANCE SHEET

As at 31 December 2021

	Notes	2021 £'000	2020 £'000
Fixed assets			
Investments	2	21,694	20,853
Current assets			
Debtors	3	444,828	301,957
Creditors			
Amounts falling due within one year	4	(429)	–
Net current assets		444,399	301,957
Total assets less current liabilities		466,093	322,810
Capital and reserves			
Called-up share capital	6	1,333	1,129
Share premium account		332,048	160,471
Other reserves	7	15,435	14,594
Own share reserve		(825)	(749)
Profit and loss account		118,102	147,365
Equity shareholders' funds		466,093	322,810

No profit and loss account is presented by the Company, as permitted by section 408 of the Companies Act 2006. The profit after taxation dealt with in the financial statements of the Company was £nil for the financial year ended 31 December 2021 (2020: £150,000,000).

The parent company financial statements on pages 179 to 183 were approved and authorised for issue by the Board of Directors and signed on its behalf by:

Gavin Urwin

Director

15 March 2022

Company registration number
SC367563

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

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 2020	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
Total comprehensive income for the year	–	–	–	–	–	–
Transactions with owners in their capacity as owners						
Dividends (note 8)	–	–	–	–	(29,060)	(29,060)
Share-based payments (note 7)	–	–	841	–	–	841
Movement in own shares	–	–	–	(76)	(203)	(279)
Shares issued	204	171,577	–	–	–	171,781
As at 31 December 2021	1,333	332,048	15,435	(825)	118,102	466,093

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

For the year ended 31 December 2021

The parent company financial statements of Smart Metering Systems plc (the 'Company') for the year ended 31 December 2021 were authorised for issue by the Board of Directors on 15 March 2022 and the balance sheet was signed on the Board's behalf by Gavin Urwin. 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 2021. 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

Carrying value	2021 £'000	2020 £'000
At 1 January	20,853	20,227
Share-based payments (note 7)	841	626
Impairment	—	—
At 31 December	21,694	20,853

During 2021 and 2020, 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 2021 and therefore no impairment charge has been recognised in the year ended 31 December 2021.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS continued

For the year ended 31 December 2021

2 Investments continued

Subsidiary undertakings

	Registered Office (see key below table)	Holding	Proportion of shares held	Nature of business
SMS Connections Limited	1	Ordinary shares	100%	Gas utility connections
SMS Meter Assets Limited	1	Ordinary shares	100%	Gas and electric asset management
SMS MAPCO 1 Limited	2	Ordinary shares	100%	Gas and electric asset management
SMS MAPCO 2 Limited	2	Ordinary shares	100%	Gas and electric asset management
SMS Data Management Limited	1	Ordinary shares	100%	Data management
Smart Metering Systems PTY Limited (Australia)	4	Ordinary shares	100%	Data management
UKMA (AF) Limited*	2	Ordinary shares	100%	Funding
SMS Corporate Services Limited	1	Ordinary shares	100%	Administrative services
SMS Asset Management Limited*	2	Ordinary shares	100%	Gas and electric third-party asset management
SMS Energy Services Limited	2	Ordinary shares	100%	Electricity utility connections and management
SMS Data Services Limited*	2	Ordinary shares	100%	Electric asset and data management
CH4 Gas Utility and Maintenance Services Limited*	2	Ordinary shares	100%	Meter installation
SMS Utilities Academy Limited*	2	Ordinary shares	100%	Engineer training and development
Trojan Utilities Limited*	2	Ordinary shares	100%	Meter installation
Qton Solutions Limited*	2	Ordinary shares	100%	Business and domestic software development
Smart Battery Systems Limited	2	Ordinary shares	100%	Holding company
Solo Energy Limited (UK)*	1	Ordinary shares	100%	Renewable asset management
Solo Energy Limited (Ireland)*	3	Ordinary shares	100%	Renewable asset management
Care Assets Limited	2	Ordinary shares	100%	Holding company
Add Renewables No.3 Limited*	2	Ordinary shares	100%	Renewable asset management
Burwell Power Limited*	2	Ordinary shares	100%	Holding company
East Anglia Grid Storage One Limited*	2	Ordinary shares	100%	Renewable asset management
Newtonwood Energy Storage Limited*	2	Ordinary shares	100%	Renewable asset management
Brook Farm Energy Storage Limited*	2	Ordinary shares	100%	Renewable asset management
Berkeley Battery Storage 2 Limited*	2	Ordinary shares	100%	Renewable asset management
Brentwood Energy Storage Limited*	2	Ordinary shares	100%	Renewable asset management

* 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

	2021 £'000	2020 £'000
Amounts owed by Group undertakings	444,828	301,957

Amounts owed by Group undertakings are payable on demand.

4 Creditors: amounts falling due within one year

	2021 £'000	2020 £'000
Amounts owed to Group undertakings	429	–

5 Related party transactions

The Group paid dividends to Alan Foy of £906,915 (2020: £441,930), The Metis Trust¹ of £230,625 (2020: £97,470), Metis Investments Limited² of £387,968 (2020: £105,332), Tim Mortlock of £1,501 (2020: £570), Gavin Urwin of £153 (2020: £nil) David Thompson (whilst a Director) of £188 (2020: £325), Miriam Greenwood of £6,129 (2020: £2,529), Willie MacDiarmid³ of £nil (2020: £271), Graeme Bissett of £4,116 (2020: £901) and Jamie Richards of £1,002 (2020: £244).

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

	2021 £'000	2020 £'000
Allotted and called up:		
133,321,555 ordinary shares of £0.01 each (2020: 112,946,331 ordinary shares of £0.01 each)	1,333	1,129

On 4 October 2021, the Group successfully completed an equity raise for gross proceeds of c.£175m. The total number of shares issued as a result of the raise was 19,453,777 with a nominal value of £195,000. Net proceeds of £170,154,000 were received, after the deduction of £4,930,000 of directly attributable issue costs. The excess value of the shares over their nominal value of £169,959,000 has been recognised within Share premium.

During the year 921,447 (2020: 134,793) ordinary share options were exercised in relation to the Group's employee share plans which are described in note 25 to the consolidated financial statements. The ordinary shares issued have a nominal value of £9,000 (2020: £1,000) and aggregate consideration of £1,627,000 (2020: £362,000) was received.

In addition, in 2020, 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 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 2021, 139,055 (2020: 140,695) own shares were held in trust with a carrying value of £825,000 (2020: £749,000) and a market value of £1,169,000 (2020: £1,000,000). The Company purchased 34,191 shares (2020: 28,354) from the market during 2021 with a weighted average fair value of £8.15 per share (2020: £5.68).

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 to the Group financial statements.

Be smart and stay connected

 sms-plc

 smart-metering-system

 sms-plc

www.sms-plc.com

www.sms-plc.com/corporate

Design and produced by

-INSTINCTIF
PARTNERS

www.creative.instinctif.com

If you have finished reading this report and no longer wish to keep it, please pass it on to other interested readers, return it to SMS or recycle it. Thank you.



This Report has been printed in the UK. Our printers are a Carbon/Neutral[®] printing company. They are FSC[®]-certified and ISO 14001-accredited and Forest Stewardship Council[®] (FSC[®]) chain of custody-certified. All inks used are vegetable-based. This paper is recyclable and acid-free. The report's cover is coated using a biodegradable laminate.



Smart Metering Systems plc
2nd Floor
48 St. Vincent Street
Glasgow G2 5TS

www.sms-plc.com