16 March 2021

Smart Metering Systems plc

Full year results

Resilient performance in an exceptional year with strong execution, delivering against key strategic pillars

Smart Metering Systems plc (AIM: SMS, "SMS", "the Group"), which installs and manages smart meters and carbon reduction ("CaRe") assets to facilitate effective energy management, has published its full year results for the year ended 31 December 2020.

2020 financial performance

£'000	**2020[1]**	**2019**
Alternative performance measures		
Index-linked annualised recurring revenue (ILARR)[2]	76,982	72,553
Pre-exceptional EBITDA[3]	49,894	58,897
Underlying profit before taxation[4]	15,246	15,577
Underlying basic EPS (p)[5]	9.56	11.30
Statutory performance measures		
Group revenue	102,982	114,281
Profit before taxation	194,964	5,462
EBITDA	231,632	50,369
Basic EPS (p)	171.65	3.56
Dividend per share (p)	25.0	6.88
Net cash/(debt)	40,236	(219,168)

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

2 ILARR is the revenue generated from meter rental and data contracts at a point in time. Includes revenue from third-party managed meters. 2019 ILARR is presented on a pro-forma basis for comparative purposes, excluding a net contribution of £17.6m from disposed I&C meter assets.

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

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

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

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

Highlights

Financial

- ILARR at 31 December 2020 up 6% to £77.0m (2019: £72.6m, pro-forma)
- Pre-exceptional EBITDA down £9.0m, or 15%, year-on-year to £49.9m (2019: £58.9m), reflecting the effect of minority asset disposal
- Underlying profit before taxation down £0.4m, or c.2%, year-on-year to £15.2m (2019: £15.6m), reflecting the effect of minority asset disposal
- Excluding the effect of the minority asset disposal there has been underlying growth in profitability on a like-for-like basis
- Net cash at 31 December 2020 of £40.2m (2019: net debt of £219.2m)

Minority asset disposal – completed 22 April 2020

- c.187,000 Industrial & Commercial ('I&C') meter assets disposed of with a weighted average age of 4.7 years
- £290.6m gross cash proceeds received from minority asset disposal
- £194.7m net gain on disposal reported in the year

Dividend

- 25p per share dividend proposed in respect of FY 2020, paid in four instalments starting October 2020
- Intention to increase by 10% per annum until FY 2024
    - 27.5p per share dividend in respect of FY 2021 targeted
    - Covered by long-term index-linked cash flows from existing metering and data asset base

COVID-19
- Continued growth on a like-for-like basis during exceptionally challenging period demonstrates resilience and strength of the business model
- Supporting measures provided to ensure safety of engineers, staff and end consumers
- Emergency works maintained throughout the period, helping keep UK's energy infrastructure operating securely
- No reliance placed on UK Government support during FY 2020

Smart meters
- Despite ongoing national lockdown, meter installation run rate sustained at c.80% of pre-COVID-19 rate in Q4 2020
- Domestic smart meter contract wins post year-end increase contracted smart meter order pipeline to c.2.5 million (from c.2.0 million) that will add c.£50m of ILARR

CaRe assets
- Well positioned to capitalise on decarbonisation trends and policy initiatives
- 90MW of grid-scale battery projects acquired and currently under construction, with rights to acquire a further 100MW obtained post year-end
- In exclusivity to acquire a further 280MW, giving a total pipeline of 470MW which in total will generate c.£20m EBITDA once completed
- Establishing other CaRe assets pipeline, including through its existing partner Columbia Threadneedle European Sustainable Infrastructure Fund (ESIF)

Post year-end acquisition
- Concluded an agreement to acquire an I&C large power electricity meter portfolio and Half Hourly ('HH') data service contracts from a large energy supplier
  - The portfolio will initially generate additional c.£3.1m of ILARR
  - Reinforces strength of SMS end-to-end industry platform

Environmental, Social and Governance ('ESG')
- Dedicated Health, Safety and Sustainability Board Committee headed by the Group's Chairman
- Committed to target of 'net-zero' carbon emissions by 2030
- Established strong ESG credentials: rated 'A' by Morgan Stanley Capital International (MSCI) and 'B' by Carbon Disclosure Project (CDP)

Board changes
- Willie MacDiarmid stepped down from the Board and as Non-executive Chairman on 23 June 2020
- Miriam Greenwood, formerly Senior Independent Non-executive Director, appointed Non-executive Chairman
- Jamie Richards appointed Independent Non-executive Director and chair of the Remuneration Committee
- Gavin Urwin joined as CFO-Designate on 8 February 2021; David Thompson, current CFO, to depart 31 March 2021.

Alan Foy, Chief Executive Officer, commented:

"2020 has been a transformational year for SMS, from which we have emerged a stronger, leaner organisation with a reinforced commitment to our customers, the environment and our people. We have delivered financial results ahead of market expectations in an unprecedented year, demonstrating the strength of our business model.

"Since the end of the year we have won new meter contracts, secured rights to an additional 100MW of grid-scale battery storage projects and purchased an I&C portfolio that will benefit from our end-to-end industry systems. These achievements are testament to SMS's ability to leverage its well-established platform and infrastructure, and to support continuing growth, with significant additional opportunities in CaRe assets.

"The COVID-19 pandemic has accelerated the urgency to decarbonise, decentralise and digitalise the UK's energy systems. For over 25 years SMS has played a pivotal role in UK energy and is now well positioned to transform the economy towards net zero. SMS itself has committed to achieving 'net-zero' carbon emissions by 2030, two decades ahead of the UK's own 'net-zero' target.

"I am exceptionally proud of the way all our staff have responded to the challenges presented by the pandemic in 2020. We maintain our focus on safely serving our customers and are well placed to drive forward our strategy of delivering smart energy solutions to realise a greener, more sustainable future."

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

For further information:

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Notes to Editors

SMS (www.sms-plc.com) installs and manages smart meters, data and carbon reduction ("CaRe") assets to facilitate effective energy management. The Group manages and optimises these assets through its in-house technology and data analytical platform. As at 31 December 2020 SMS had 3.81 million meter and data assets under management.

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

SMS is leading the low-carbon, smart energy revolution in the UK and is committed to reducing its own carbon emissions to 'net- zero' by 2030. In 2019, SMS was awarded the London Stock Exchange Green Economy Mark.

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

SMS's shares are listed on AIM.

Overview

The Group has delivered a strong, resilient financial performance in the year, repaid £270m of debt, strengthened its balance sheet to a cash-positive position, and established an attractive dividend policy underpinned by the existing asset base. Building on this secure platform, SMS continued to grow both its contracted smart meter order pipeline and its other CaRe assets, enabled by smart meters.

This strong and growing pipeline is reinforced by the global trends towards decarbonisation and digitalisation and SMS is well positioned at the heart of this agenda. SMS's CaRe asset classes have long-term, infrastructure characteristics, which provide flexibility around funding options whilst maintaining a prudent leverage position.

In 2020, despite the national and local lockdowns associated with COVID-19, the Group delivered an effective transition to home working with complete continuity in services, and followed this with the rapid and safe remobilisation of field activity as lockdowns were eased.

The Group's remobilisation plan progressed well through the second half of the year, amidst ongoing and varying local restrictions, and during Q4 2020 the Group reached an installation run rate of c.80% of the pre-COVID-19 rate.

Financial review
The Group's financial performance in 2020 demonstrates the underlying financial strength of the business. SMS has remained profitable and continues to grow its long-term, asset-backed, index-linked annual recurring revenues.

ILARR grew 6% on a like-for-like basis to £77.0m as at 31 December 2020, despite the temporary suspension of all non-essential site work between 24 March and 1 June in response to COVID-19. This reflects continued growth in the meter estate from smart meter installations, together with the effect of an annual RPI increase effected in April.
The minority asset disposal in April 2020 enabled the Group to return to a cash-positive position with significant short-term liquidity.

Minority assets disposal
SMS sold a minority of the Group's meter asset portfolio, representing c.187,000 I&C meter assets equivalent to c.£18.4m gross ILARR, for a total gross cash consideration of £290.6m on 12 March 2020.

The transaction reinforced the inherent value of the Group's meter assets, which generate highly stable and long-term index-linked cash flows with limited maintenance requirements. The proceeds of the sale have allowed the Group to reset its leverage, supporting a £270m voluntary prepayment of the Group's revolving credit facility and resulting in a net cash position of £40.2m at 31 December 2020.

Enhanced dividend
SMS proposes a 25p per share dividend in respect of FY 2020 (representing an increase of 3.6x over FY 2019). The first two (of three) interim dividend instalments were paid in October 2020 and January 2021, respectively. The third instalment is intended to be paid in April 2021 with a final dividend in July 2021.

As announced at the half-year results on 15 September 2020, the Board intends to grow this dividend annually, with a 10% annual increase planned for each of the financial years FY 2021, FY 2022, FY 2023 and FY 2024.

SMS thus intends to pay a 27.5p per share dividend in respect of FY 2021. The Board will review this regularly with shareholder value in mind, taking into account a range of factors including expected business performance; however, future dividend payment amounts are covered by income from the Group's existing metering and data asset base and their long-term index-linked cash flows.

COVID-19
National and local lockdowns had a significant impact on field-based activities during the year, from smart meter installation to energy efficiency projects. The business responded effectively and responsibly to these challenges, with an unparalleled focus on the health, safety and the wellbeing of all staff and customers.

Throughout the year, SMS continued to provide essential and emergency services to critical national infrastructure and maintained energy supplies to consumers on a national basis. The Group's engineers continued to deliver essential new connections to care homes and other critical national infrastructure, keeping vulnerable customers on supply.

Development of CaRe assets
In 2020, the Group made significant progress in developing its pipeline of CaRe assets across several verticals, most notably in grid-scale battery storage. SMS now has 90MW under construction (forecast to be energised by the end of 2021), driving forward the Group's strategy of being at the heart of the energy transition in the UK. Rights to a further 100MW of grid-scale battery storage projects have been secured post year-end, from SMS's previously advised pipeline of projects, with construction expected to commence in Q4 2021 (forecast to be energised by the end of 2022). Additionally, the Group is under exclusivity to acquire a further 280MW, giving a total pipeline of 470MW.

The Group has also seen continued momentum in other CaRe verticals, including behind-the-meter solar and storage, Electric Vehicle (EV) infrastructure, data and heat meters and networks. The Board remains confident that the Group is strategically well positioned to capitalise on the trends towards decarbonisation and net zero.

ESG and sustainability
Sustainability underpins the Group's commitment to create long-standing value for stakeholders and achieve its vision to be at the heart of the low-carbon, smart energy revolution that is pivotal to realising a greener, more sustainable world.

Whilst SMS's assets and services already provide a substantial net-positive carbon impact, the Group announced in December 2020 its own commitment to achieving 'net-zero' carbon emissions by 2030, two decades ahead of the UK's own 'net-zero' target.

In 2020, the Group also secured strong ESG ratings - an 'A' by MSCI and 'B' by CDP - and became a signatory to the UN Global Compact and supporter of TCFD.

Throughout 2020, the provision of financial and emotional support to all employees was critical. The significant majority of staff retained their full salaries, supported by a robust financial performance, with no reliance on UK Government support. The Group launched an extensive suite of employee wellbeing resources, conducted its first Groupwide external employee engagement survey, and was recognised for its people initiatives as an 'Employer of the Year' finalist at the Utility Week Awards 2020, amongst other accreditations.

Board changes
Willie MacDiarmid stepped down as Chairman, and from the Board, in June 2020 after six years in the role. Miriam Greenwood, formerly the Senior Independent Non-executive Director, succeeded Willie as Non-executive Chairman.
Jamie Richards joined the Board as Independent Non-executive Director in April 2020.

On 8 February 2021, SMS announced that David Thompson, CFO, will leave the Group on 31 March 2021 and that Gavin Urwin joined the Group as CFO-Designate.

Post-year-end developments
Since the start of 2021, SMS has secured two new domestic smart meter contract wins and concluded an agreement to acquire a portfolio of I&C Half Hourly (HH) electricity meters and data contracts. Further developments in grid-scale battery storage are detailed above.

New domestic smart meter contract wins
SMS has entered into agreements with two of the fastest growing independent energy suppliers to provide services as an integrated domestic smart meter installer and Meter Asset Provider.

Under the terms of the agreement, which include a minimum contracted order commitment, SMS will fund and install domestic smart meters on behalf of the energy suppliers. These wins enhance SMS's contracted smart meter order pipeline to c.2.5 million meters and will add in due course c.£50m to the Group's existing ILARR.

Acquisition of I&C meter portfolio
SMS acquired an I&C large power HH electricity meter portfolio from a large energy supplier.

The c.15,000 I&C meters acquired have an average life of 4.6 years and will add c.£1m to the Group's ILARR. As part of the transaction, which is due to complete in early April 2021, the data service contracts associated with over 20,000 meters will be transferred to SMS, which will initially generate a further c.£2m of data annualised recurring revenue. The agreed consideration for the transaction is c.£8.25m.

This acquisition underpins SMS's competitive position in the I&C sector and reinforces the Group's ability to consolidate its position by leveraging on its existing technology platform and nationwide infrastructure, particularly as the UK's electricity industry moves towards HH settlements in the next few years.

Strategy

The UK smart meter rollout plays a central role in facilitating the transition to a zero-carbon economy. As SMS accelerates its progress following COVID-19, its immediate priorities are to leverage its unique end-to-end platform in order to grow and safely deliver the contracted smart meter order pipeline, to extend its data services and to establish new carbon reduction infrastructure asset classes.

The significant scale of the market opportunities in a rapidly changing energy landscape is reflected in SMS's strategic focus, which is prioritised around four key pillars. This framework provides a clear strategic vision for the Group, to ensure that the business is capable of growing whilst balancing delivery of long-term value for all stakeholders.

- ***Building long-term recurring cash flows from secure infrastructure assets***
  SMS's vertically integrated platform allows the origination of carbon-reducing assets, with the primary focus of the business being to grow ILARR from its meter and data portfolio whilst demonstrating the reliability and security of the new CaRe asset classes and the ongoing management services the Group provides.

- ***Customer excellence and efficient delivery***
  An unrelenting focus on serving the Group's customers. During the year, SMS worked hard to align its resources to the extended UK smart meter rollout, driving the digital conversion of customers to smart meters.

- ***Efficient capital allocation to provide headroom for growth***
  SMS is focused on optimal capital allocation. The disposal of a minority of the I&C meter assets in April 2020 transformed the financial foundations of the business, strengthening its growth platform and demonstrating the inherent value of the assets SMS creates. The Group will maintain prudent leverage and has announced an enhanced and sustainable dividend, which it aims to increase by 10% each year through to 2024.

- ***Sustainable and socially responsible business***
  SMS has a strong ESG focus, reflected in the creation of this new strategic objective. The Group has a robust governance structure including through its recently established Health, Safety and Sustainability Board Committee, which monitors the delivery of the Safety, Health and Wellbeing action plan.

Current trading and outlook

Following the first national lockdown in early 2020, SMS saw a progressive recovery in its installation run rate and, by December 2020, was operating at c.80% of pre-COVID-19 levels. SMS has maintained this operating level through the early part of 2021, despite the strict national lockdown.

At the end of February 2021, the Group's ILARR stood at £77.5m with 3.80 million meter and data assets under management. SMS's existing meter and data ILARR, coupled with a cash-positive position, provides a strong foundation and ability to withstand economic shocks.

As the UK Government's vaccination programme progresses, and as the wider economy emerges from the pandemic, the Group expects a gradual recovery in installation run rates. The c.2.5 million contracted smart meter order pipeline has the potential to add c.£50m ILARR by the end of the rollout period (in real terms) with significant additional opportunities available.

SMS will also continue to expand its pipeline of CaRe assets, buoyed by the trend towards decarbonisation.
The Group continues to trade in line with the Board's expectations.

Operational review

National and local lockdowns associated with COVID-19 had a significant impact on field-based activities during the year, from smart meter installation to energy efficiency projects. However, the business responded effectively and responsibly to these challenges, with an unparalleled focus on the health, safety and the wellbeing of all staff and customers. The Group delivered a seamless transition to home working with complete continuity in services, and followed this with the rapid and safe remobilisation of field activity as lockdowns were eased. Throughout the year, SMS continued to provide essential and emergency services to critical national infrastructure and maintained energy supplies to consumers on a national basis.

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

Asset Management:

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

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

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

3 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.

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

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

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

The UK smart meter rollout continues to present significant opportunities for growth in ILARR from capital deployment into meter assets, an increasingly mature and proven asset class, over the next five years. SMS is also able to grow ILARR by supporting both I&C customers and energy suppliers to collect, settle and benefit from the Half Hourly and real-time data enabled by smart meters, and its ADM™ data logger solutions.

The UK Government's drive to increase smart metering awareness, through its Smart Energy GB campaign, is helping the public understand the benefits of smart meters by showing how they can lead to more efficient energy usage and enable a more flexible, low-carbon energy system.

The Group has also seen continued growth in the 'independent' energy supplier market, which now supplies nearly 30% of households in the UK. This independent market segment, with which SMS is heavily engaged, benefits the most from the Group's turnkey approach, including installation, data and active asset management. Approximately 40% of energy supplies have currently been converted to smart so, in addition to the contracted order pipeline, there remain significant opportunities for SMS to continue to grow its market share through a focus on provision of this turnkey service.

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

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

Performance summary

- ILARR increased by £4.4m,* a 6% increase, to £77.0m, providing a stable foundation for the business
- Owned smart meter portfolio grew 10% to over 1.3 million meters
- Sale of c.£17.6m net ILARR for c.£291m, representing 16.4x net EBITDA
- Growth in contracted smart meter order pipeline to c.2.5m meters at March 2021
- Strong capital position ensures sufficient funding for future contracted pipeline
- Development of Half Hourly data settlement and firmware management services

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

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

The pandemic did slow capital deployment into new smart meter assets, but the corollary was that the Group's portfolio of traditional meters has remained on the wall for longer than expected and has continued to generate revenue over the period through both meter rental and transactional emergency work. The slowdown in meter installations and associated capital deployment also conversely demonstrated the cash-generative nature of the asset base and the strength of long-term underlying recurring revenues.

The Group's metering and data assets provide a solid platform for the future, enabling SMS to focus on continued investment in its people, technology and products and services.

Asset Installation:

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

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

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

- safely deliver the installation of meter assets which provide long-term recurring revenue;
- align the engineering capacity and installation profile over the extended BEIS rollout period, using technology to drive both efficiency improvements and an improved customer experience/appointment booking process;
- expand installation services into non-metering utility infrastructure and energy services activities, in support of new CaRe assets; and
- reduce the carbon footprint of delivery – in particular from the Group's fleet – in line with the 'net zero by 2030' carbon target unveiled in December 2020.

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

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

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

The UK Government's new four-year regulatory framework for the UK smart meter rollout, extending the deadline to 1 July 2025 (which includes a 6-month extension due to COVID-19), reaffirms the importance of the smart meter rollout to the future of the UK energy system. Crucially, the previous requirement on energy suppliers for all 'reasonable steps' to be taken by 30 June 2021 has been replaced with the introduction of annual binding installation targets from 1 July 2021.

SMS is engaged in industry-wide initiatives to continually improve health and safety performance, with smart meter installations providing an ideal opportunity to identify any existing quality issues in the meter or the incoming electrical/gas supply. The Group is engaged in a number of BEIS and regulatory forums to share best practice across the industry.

Performance summary

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

As the UK exited the national lockdown in June, SMS slowly began to return to normalised levels of installation and, by December 2020, installation levels had recovered to c.80% of pre-COVID-19 levels.

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

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

Following the national lockdown, SMS ensured all its engineers were trained in its COVID-19 Business Risk Assessment and associated enhanced processes and protocols through the in-house training academy. In support of ongoing development in CaRe assets within the Energy Management division, the Group also built new facilities in the training academy to support EV charging and domestic battery installation. This positions the business to be at the forefront of the changes happening in the energy industry.

Energy Management:

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

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

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

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

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

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

Performance summary

Despite the economic effect of COVID-19, the division has been able to maintain service delivery for all customers and service lines. The division continues to provide bureau, energy management and environmental consultancy services to a range of blue-chip, typically multi-site, large energy users.

Whilst most of these consultancy and energy management services proceeded seamlessly, COVID-19 had a significant impact in forcing the temporary suspension of all site works between March and June 2020. The majority of works successfully resumed from August onwards but progressed at a slower pace whilst ongoing local and regional restrictions continued to be navigated. This impacted the ability to deploy energy-saving solutions to customers, most notably the delivery of an LED lighting and heating controls project for a large hotel chain. Revenue in this division declined in the year as a result. Fundamentally, however, the Group's contracts have remained intact and management is confident that in-progress projects will successfully continue in 2021.

In addition, SMS has made progress in the origination of CaRe assets, developing the Group's propositions and customer base in several new low-carbon technologies and applications.

Most notably, SMS is now actively operating within the grid-scale battery storage sector.

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

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

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

In addition to the progress across the above three divisions, continued development has been made in the verticals below:

- **Solopower (behind-the-meter smart solar and storage):** Focused initially on the domestic social housing and I&C market, and backed by long-term secured revenues, Solopower uses a combination of roof-mounted solar panels and battery storage, supported by SMS's Flexigrid™ technology platform, to deliver both low-carbon energy (up to 90% of electricity supply) and reduced energy costs (up to 25%). SMS has been successfully delivering pilots for up to 1,500 homes, working with local authorities and housing associations, and the Group intends to launch its fully funded Solopower solution in 2021.

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

- **Heat meters and networks:** SMS is working with customers to develop alternative heat solutions that include heating controls, air-sourced heat pumps, waste to energy, and combined heat and power. Heat represents a huge challenge across the UK, with gas as a source of heat being phased out domestically and lower-carbon sources of heat needing to prove they are economically attractive alternatives. SMS is also delivering a smart heating controls project for a nationwide hotel chain together with addressing the need, legislated via the Heat Network (Metering and Billing) Regulations, for heat meters to be installed on existing and new heat networks.

- **Energy efficiency:** a range of energy efficiency projects are in development with the Group's telecoms, hospitality, banking and retail customers, from LED projects to smart energy controls. Whilst COVID-19 has impacted on the development and delivery of these projects, SMS confidently expect acceleration of progress in 2021.

Financial review

The Group continued to generate ILARR from its 3.81 million revenue-generating assets under management, demonstrating the robust nature of the metering infrastructure asset class and the resilience of the investment strategy in assets with a long-term income stream.

Liquidity was also significantly strengthened in the year as the £290.6m gross cash proceeds from the sale of a minority of meter assets were used to repay the entirety of the Group's debt, leaving the business in a cash-positive position and with access to a £300m revolving credit facility.

As a result of the sale, together with lower capital expenditure on revenue-generating assets through the year, the Group was in a net cash position of £40.2m at 31 December 2020 (31 December 2019: net debt of £219.2m).

The Group's strong cash position during the 2020 lockdown period enabled the Board to take the decision in June to return furlough grants covering the earlier part of the furlough scheme, and SMS was one of the first companies in the UK to do so.

On the strength of the underlying business performance, the intention to increase the dividend from 6.88p for FY 2019 to 25p for FY 2020 was announced, demonstrating the Group's commitment to returning value to shareholders from its installed asset base.

Reconciliation of statutory to underlying results

SMS uses alternative performance measures, defined at the end of this Financial review, to present a clear view of what the Group considers to be the results of its underlying, sustainable business operations. Excluding certain items enables consistent year-on-year comparisons and aids a better understanding of business performance.

A reconciliation of these performance measures is disclosed below:

	Year ended 31 December 2020 £m	Year ended 31 December 2019 £m	Percentage change
Annualised recurring revenue[1]	77.0	72.6	6%
Group revenue	103.0	114.3	(10%)
Statutory profit from operations	199.6	13.8	
Amortisation of intangibles	3.0	1.5	
Depreciation	29.1	35.1	
Statutory EBITDA	231.6	50.4	360%
Exceptional items[2] (EBITDA-related)	(181.7)	8.5	
Pre-exceptional EBITDA	49.9	58.9	(15%)
Net interest (excl. exceptional)	(4.5)	(8.2)	
Depreciation	(29.1)	(35.1)	
Amortisation of intangibles included in underlying profit before taxation[3]	(1.1)	-	
Underlying profit before taxation	15.2	15.6	(2%)
Exceptional items[2] (EBITDA)	181.7	(8.5)	
Exceptional items[2] (interest)	(0.1)	(0.1)	
Amortisation of intangibles excluded in underlying profit before taxation	(1.9)	(1.5)	
Statutory profit before taxation	195.0	5.5	>500%
Taxation	(1.5)	(1.5)	
Statutory profit after taxation	193.5	4.0	>500%
Amortisation of intangibles excluded in underlying profit after taxation	1.9	1.5	
Exceptional items[2] (EBITDA and interest)	(181.6)	8.6	
Tax effect of adjustments	(3.0)	(1.4)	
Underlying profit after taxation	10.8	12.7	(15%)
Weighted average number of ordinary shares (basic)	112,715,328	112,446,154	
Underlying basic EPS (pence)	9.56	11.30	
Weighted average number of ordinary shares (diluted)	113,637,882	113,269,412	
Underlying diluted EPS (pence)	9.49	11.22	

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

2 Exceptional 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.

3 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.

Revenue

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

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

Asset Management revenues are down on the prior year due to the loss of revenue from the asset disposal. Growth in revenue in the year was also lower with the cumulative impact of lower meter installations through Q2 and Q3. The decrease has, in part, been mitigated by the flow-through effect of installations in 2019 and Q1 2020, together with an annual RPI increase in April. Whilst COVID-19 restrictions have slowed growth in the short term, the Group's installed portfolio of 3.81 million revenue-generating assets continues to provide financial resilience.

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

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

Gross margins

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

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

The depreciation-adjusted gross margin for Asset Management has stayed flat at 93%, with the reduction in revenues detailed above offset by a reduction in cost of sales due to lower contractor costs incurred in the data business as a result of COVID-19. The gross margin for Asset Management, including depreciation, has increased by 7% from 55% to 62%, primarily as a result of a change to a depreciation-related accounting estimate, made with effect from 1 January 2020, in relation to SMS's traditional meter assets. With the smart meter exchange programme being extended to 1 July 2025, management has extended the estimated economic life of the traditional meters to match and the depreciation charge therefore reduces. As a result, there has been a £4.8m reduction recognised within depreciation in cost of sales – see note 1(a) to the financial statements for further details.

The Asset Installation business reported a positive pre-exceptional gross profit margin of 16% (2019: negative 25%), excluding exceptional costs of sales arising as a result of COVID-19. The low margin in 2019, driven largely by H1 with a negative gross margin of 48%, was due to the Group's decision to retain its installation capacity to ensure the business was appropriately positioned to benefit from the run rates initially anticipated from progression to the main SMETS2 phase of the smart meter rollout. As initial installation targets in the market started to look increasingly challenging, attention was turned to controlling the Group's operating cost base in order to increase efficiency in the labour force. As a result, the gross profit margin improved to negative 6% in H2 2019.

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

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

EBITDA

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

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

The Group's performance fundamentally demonstrates the financial resilience of the Group's business model, with strong ILARR and a dedicated focus on cost control. Up to March 2020 cost control was focused on right-sizing the Group's internal installation capacity, as detailed above. Towards the end of March, as the pandemic worsened, management turned its attention to ensuring the Group's operating cost base was as streamlined as possible, suspending any non-critical business spend. This focus has held strong all the way through the year with cost savings maximised where possible, mitigating the impact of COVID-19 on the bottom line.

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

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

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

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

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

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

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

Other exceptional items

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

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

Excluding COVID-19 costs, other operating exceptional items total £6.1m and primarily comprise £6.0m of losses on the traditional and SMETS1 meter portfolio, a similar charge to prior years. With the Enrolment and Adoption programme of SMETS1 meters into the DCC extended into 2021, consistent with 2019 the Group has continued to see a small proportion of SMETS1 meters removed from the wall. As these removals are attributable to the temporary industry transition period, management has taken the judgement to recognise losses arising on the disposal of these meters as exceptional.

Operational and pre-tax profits

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

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

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

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

Effective tax rate

The effective tax rate on statutory profits was 1% (2019: 27%). The effective tax rate on pre-exceptional profits was 31% (2019:18%) driven primarily by an increase in the deferred tax rate from 17% to 19%, which has been applied to the Group's brought-forward deferred tax liabilities on its portfolio of meter assets. Excluding the impact of this rate change, the effective tax rate on pre-exceptional profits is 19%, which is broadly in line with the prior year.

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

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

Earnings per share (EPS)

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

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

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

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

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

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

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

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

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

A further £4.1m (2019: £6.9m) investment has been made in intangible assets. This includes development of software to support the installations business, together with investment in a Groupwide Enterprise Resource Planning system that went live across the Group in H1 2020 and consolidates, integrates and updates various business support systems. As detailed above, gross proceeds from the Disposal were used to make a voluntary prepayment under the Group's revolving credit facility, and the total outstanding principal value at 22 April 2020 of £270m, together with outstanding interest and commitment fees of £0.6m, was settled. Drawdowns made since this date were fully repaid by 31 December 2020. In total, £6.3m of interest and loan costs have been paid (2019: £9.2m), including £0.1m of transaction costs incurred in modifying the total commitments available under the facility.

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

Financial resources
Concurrent with the voluntary facility prepayment detailed above, the total available funding under the loan facility was reduced from £420m to £300m on the same terms through to the end of 2023. Commencement of any repayment of the principal by way of a limited excess cash sweeping mechanism is not required until the end of 2022. At the end of

2021 LIBOR will be replaced by Sterling Overnight Index Average (SONIA) but the Group does not expect any material change in the overall cost of borrowing as a result. The Group has not required any new or extended facilities as a result of COVID-19, nor has it needed to renegotiate or waive any of its bank covenants. The Group was fully compliant with all its bank covenants at 31 December 2020.

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

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

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

Definitions of alternative performance measures

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

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

Consolidated income statement
For the year ended 31 December 2020

	Notes	2020 Before exceptional items £'000	2020 Exceptional Items[1] £'000	2020 Total £'000	2019 Before exceptional items £'000	2019 Exceptional items £'000	2019 Total £'000
Revenue	2	**102,982**	**—**	**102,982**	114,281	—	114,281
Cost of sales	3	**(49,980)**	**(4,890)**	**(54,870)**	(72,217)	—	(72,217)
Gross profit		**53,002**	**(4,890)**	**48,112**	42,064	—	42,064
Administrative expenses	3	**(36,845)**	**(8,085)**	**(44,930)**	(25,514)	(8,527)	(34,041)
Other operating income	3	**1,723**	**—**	**1,723**	5,726	—	5,726
Gain on disposal of subsidiary	4	**—**	**194,713**	**194,713**	—	—	—
Profit from operations	3	**17,880**	**181,738**	**199,618**	22,276	(8,527)	13,749
Finance costs	6	**(4,705)**	**(115)**	**(4,820)**	(8,461)	(104)	(8,565)
Finance income	6	**166**	**—**	**166**	278	—	278
Profit before taxation		**13,341**	**181,623**	**194,964**	14,093	(8,631)	5,462
Taxation	7	**(4,103)**	**2,618**	**(1,485)**	(2,584)	1,119	(1,465)
Profit for the year attributable to owners of the parent		**9,238**	**184,241**	**193,479**	11,509	(7,512)	3,997

1 Refer to note 3 for details of exceptional items.

The profit from operations arises from the Group's continuing operations.
Earnings per share attributable to owners of the parent during the year:

	Notes	2020	2019
Basic earnings per share (pence)	8	**171.65**	3.56
Diluted earnings per share (pence)	8	**170.26**	3.53

Consolidated statement of comprehensive income
For the year ended 31 December 2020

	2020 Before exceptional items £'000	2020 Exceptional Items £'000	2020 Total £'000	2019 Before exceptional items £'000	2019 Exceptional items £'000	2019 Total £'000
Profit for the year	**9,238**	**184,241**	**193,479**	11,509	(7,512)	3,997
Other comprehensive income[1]						
Exchange differences on translation of foreign operations	**67**	**—**	**67**	(66)	—	(66)
Other comprehensive income for the year, net of tax	**67**	**—**	**67**	(66)	—	(66)
Total comprehensive income for the year attributable to owners of the parent	**9,305**	**184,241**	**193,546**	11,443	(7,512)	3,931

1 May be reclassified to profit or loss.

Consolidated statement of financial position

As at 31 December 2020

	Notes	2020 £'000	2019 £'000
Assets			
Non-current assets			
Intangible assets	10, 13	**24,923**	23,743
Property, plant and equipment	11	**328,338**	412,658
Investments	12	**75**	75
Other assets	18	**1,308**	—
Trade and other receivables	15	**12**	232
Total non-current assets		**354,656**	436,708
Current assets			
Inventories	14	**27,650**	22,061
Other assets	18	**641**	—
Trade and other receivables	15	**37,164**	48,287
Income tax recoverable		**576**	227
Cash and cash equivalents	16	**40,236**	50,092
Restricted cash	16	**1,627**	—
Total current assets		**107,894**	120,667
Total assets		**462,550**	557,375
Liabilities			
Current liabilities			
Trade and other payables	17	**41,958**	46,796
Lease liabilities	18	**936**	1,013
Other liabilities	18	**388**	—
Bank loans and overdrafts	18	**—**	1,724
Total current liabilities		**43,282**	49,533
Non-current liabilities			
Bank loans	18	**—**	267,536
Lease liabilities	18	**4,315**	2,950
Deferred tax liabilities	21	**8,511**	13,779
Total non-current liabilities		**12,826**	284,265
Total liabilities		**56,108**	333,798
Net assets		**406,442**	223,577
Equity			
Share capital	23	**1,129**	1,128
Share premium		**160,471**	160,106
Other reserve	25	**9,562**	9,562
Own share reserve	23	**(749)**	(768)
Foreign currency translation reserve		**1**	(66)
Retained earnings		**236,028**	53,615
Total equity attributable to owners of the parent		**406,442**	223,577

Consolidated statement of changes in equity
For the year ended 31 December 2020

Attributable to the owners of the parent company:	Share capital £'000	Share premium £'000	Other reserve £'000	Own share reserve £'000	Foreign currency translation reserve £'000	Retained earnings £'000	Total £'000
As at 1 January 2019	1,125	158,861	9,562	(588)	—	57,173	226,133
Total profit for the year	—	—	—	—	—	3,997	3,997
Total other comprehensive income for the year	—	—	—	—	(66)	—	(66)
Transactions with owners in their capacity as owners							
Dividends (note 9)	—	—	—	—	—	(7,079)	(7,079)
Shares issued (note 23)	3	1,245	—	—	—	(829)	419
Movement in own shares (note 23)	—	—	—	(180)	—	(169)	(349)
Share-based payments (note 24)	—	—	—	—	—	671	671
Income tax effect of share options	—	—	—	—	—	(149)	(149)
As at 31 December 2019	1,128	160,106	9,562	(768)	(66)	53,615	223,577
Total profit for the year	—	—	—	—	—	193,479	193,479
Total other comprehensive income for the year	—	—	—	—	67	—	67
Transactions with owners in their capacity as owners							
Dividends (note 9)	—	—	—	—	—	(12,226)	(12,226)
Shares issued (note 23)	1	365	—	—	—	—	366
Movement in own shares (note 23)	—	—	—	19	—	(180)	(161)
Share-based payments (note 24)	—	—	—	—	—	626	626
Income tax effect of share options	—	—	—	—	—	714	714
As at 31 December 2020	**1,129**	**160,471**	**9,562**	**(749)**	**1**	**236,028**	**406,442**

See notes 23 and 25 for details of the own share reserve and other reserve.

Consolidated statement of cash flows
For the year ended 31 December 2020

	2020 £'000	2019 £'000
Operating activities		
Profit before taxation	**194,964**	5,462
Finance costs	**4,705**	8,461
Finance income	**(166)**	(278)
Foreign exchange loss	**4**	—
Exceptional items: gain on disposal of subsidiary (note 4)	**(194,713)**	—
Exceptional items: other[1]	**6,148**	6,326
Depreciation	**29,057**	35,137
Amortisation of intangibles	**2,957**	1,483
Share-based payment expense	**626**	603
RDEC income	**(536)**	—
Loss on disposal of property, plant and equipment	**1,028**	2,280
Loss on disposal of intangible assets	**12**	421
Movement in inventories	**(648)**	(10,049)
Movement in trade and other receivables[2]	**6,461**	(17,503)
Movement in restricted cash	**(1,627)**	—
Movement in trade and other payables[2]	**(4,361)**	9,989
Cash generated from operations	**43,911**	42,332
Income tax received	—	56
Net cash generated from operations	**43,911**	42,388
Investing activities		
Proceeds on disposal of subsidiary, gross	**290,615**	—
Payments to dispose of subsidiary[3]	**(11,589)**	—
Proceeds on disposal of subsidiary, net of payments to dispose	**279,026**	—
Payment for acquisition of subsidiary, net of cash acquired	**(2,438)**	(1,027)
Payments to acquire property, plant and equipment	**(41,796)**	(101,698)
Proceeds on disposal of property, plant and equipment	**4,779**	6,407
Payments to acquire intangible assets	**(4,056)**	(6,936)
Finance income received	**166**	278
Net cash generated from/(used in) investing activities	**235,681**	(102,976)
Financing activities		
New borrowings	**15,000**	270,000
Borrowings repaid	**(285,000)**	(172,114)
Principal elements of lease payments	**(1,155)**	(1,075)
Finance costs paid	**(6,272)**	(9,149)
Net proceeds from share issue	**362**	419
Purchase of own shares	**(161)**	(349)
Dividends paid	**(12,226)**	(7,079)
Net cash generated (used in)/from financing activities	**(289,452)**	80,653
Net (decrease)/increase in cash and cash equivalents	**(9,860)**	20,065
Exchange gain on cash and cash equivalents	**4**	—
Cash and cash equivalents at the beginning of the financial year	**50,092**	30,027
Cash and cash equivalents at the end of the financial year (note 16)	**40,236**	50,092

1 Other non-cash exceptional items include £6,033,000 for losses on our meter portfolio and the £115,000 exceptional finance cost. In 2019, non-cash exceptional items included a £6,837,000 loss on disposal on our meter portfolio, £68,000 cost relating to deferred remuneration arising on the acquisition of a subsidiary in 2016 settled in shares in April 2019, £751,000 stock write-back for returned SMETS1 meters, £93,000 acceleration of loan arrangement fees in relation to the refinancing of the loan facility and £79,000 for non-recurring impairment charges.

2 Movement in trade and other receivables includes an adjustment of £4,922,000 and movement in trade and other payables includes an adjustment of £237,000 for working capital disposed of as part of the subsidiary sale.

3 Payments to dispose of subsidiary of £11,589,000 include cash disposed of £4,681,000 and transaction costs paid in the year of £6,908,000.

Accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The consolidated financial statements of the Group for the year ended 31 December 2020 were approved and authorised for issue in accordance with a resolution of the Directors on 16 March 2021. Smart Metering Systems plc is a public limited company limited by shares and incorporated in Scotland, with its registered office at 2nd Floor, 48 St. Vincent Street, Glasgow G2 5TS. The Company's ordinary shares are traded on AIM.

Basis of preparation

The consolidated financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

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

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

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2020 or 2019 but is derived from those accounts. Statutory accounts for the year ended 31 December 2019 have been delivered to the Registrar of companies and those for 2020 will be delivered in due course. The auditor has reported on both sets of accounts; its reports were unqualified, did not contain an emphasis of matter reference and did not contain statements under section 498 (2) or (3) of the Companies Act 2006.

Going concern

Management prepares budgets and forecasts on a five-year forward-looking basis. These forecasts cover operational cash flows and investment capital expenditure and are prepared based on management's estimation of installation run rates through the UK smart meter rollout. The Directors have performed their assessment of the entity's ability to continue as a going concern, from the date of issue of these financial statements to 31 March 2022.

Following the outbreak of COVID-19, forecasts have been reviewed in detail based on the estimated potential impact of COVID-19 restrictions and regulations, along with the Group's proposed responses. Non-essential field work, including planned installations of smart meters, was suspended from 24 March 2020. However, this was a temporary response measure and, following the UK Government's announcement detailing phased lifting of restrictions, a progressive resumption of all non-essential field work commenced from 1 June 2020. Through the second half of 2020, the Group continued to see a recovery in installation run rates, despite continued local restrictions, and by Q4 2020 was operating at c.80% of the pre-COVID-19 run rate. Where permitted under the UK Government's guidelines, installation activity has continued in the early part of 2021 through the second national lockdown. However, access to consumer properties has been limited and the Group has seen a fall in installation rates as a result. Although these events will impact Group revenues and index-linked annualised recurring revenue (ILARR) in the short term, management is of the view that, subject to no further setbacks with the pandemic, smart meter installations should return to normal levels by the end of 2021. Through all of this, the Group continued to generate ILARR from its 3.8 million revenue-generating assets already on the wall, demonstrating the robust nature of the metering infrastructure asset class.

Management has modelled several different meter installation scenarios, including an extreme downside scenario arising solely from a COVID-19 protracted national lockdown, which assumes that no new installations took place for a period of six months. The scenario proved that the business would still have sufficient cash flow to continue to operate, banking covenants would remain satisfied with adequate headroom, and adequate cash would be available to cover liabilities and operating costs. This modelling provides confidence to management that, even in extreme circumstances, the business will still have sufficient resources to continue to operate. Overall, the main impact of COVID-19 is one of timing and, longer term, management does not anticipate any significant effects on the business as a result of the pandemic.

Management has concluded that no significant structural changes to the business are needed as a result of COVID-19. Following the disposal of a minority of the Group's meter assets, effected by the sale of a wholly owned subsidiary of the Group on 22 April 2020 (the Disposal), gross cash consideration of £290.6m was received (see note 4 for further details). These proceeds were used to make a voluntary prepayment under the Group's existing loan facility of the full outstanding principal of £270m. Concurrently, the total available funding under the loan facility was reduced from £420m to £300m on the same terms through to the end of 2023 (see note 18 for further details). At the date of approving the financial statements, the Group had access to its full £300m revolving credit facility, with no amounts drawn on the facility. The Group has not required any new or extended facilities as a result of COVID-19, nor has it needed to renegotiate or waive any of its bank covenants.

The Group was compliant with all its debt covenants at 31 December 2020. The financial covenants attached to this facility are that EBITDA should be no less than 4.00x interest and net debt should be no more than 5.75x EBITDA. At 31 December 2020 these stood at 8.58x and -1.05x respectively, on account of a net cash-positive position, demonstrating significant headroom. The Group does not expect to breach these covenants in the year from the date of approval of this report.

As a result of the Disposal and the subsequent voluntary prepayment of its loan facility, the Group was in a net cash position of £40.2m at 31 December 2020 (31 December 2019: net debt of £219.2m) and, at that date, undrawn facilities were £300.0m (31 December 2019: £150.0m). The Group balance sheet shows consolidated net assets of £406.4m (31 December 2019: £223.6m), of which £315.5m (31 December 2019: £398.7m) relates to revenue-generating meter and data assets. The liquidity of the Group thus remains strong and continues to provide the financial flexibility required in order to support the Group's long-term growth prospects.

The Group's cash generation over the period from 24 March to 1 June 2020, from its already installed asset portfolio, enabled the return of funds received from the UK Government under the Coronavirus Job Retention Scheme (CJRS), together with withdrawal from the scheme altogether. The Group has not had to rely on any other government support schemes as a result of COVID-19. With confidence in the Group's liquidity position, despite COVID-19, the Directors elected not to suspend payment of the second interim dividend for 2019 and £5.2m was paid out to shareholders on 4 June 2020. With significant coverage provided by existing long-term, inflation-linked and recurring cash flows, the Group also remains committed to its revised dividend policy and proposes a 25p per share annualised dividend in respect of FY 2020. The first of four cash instalments, a total of £7.1m, was paid in October 2020.

Based on the current cash flow projections and facilities in place and having given consideration to various outcomes of future performance and forecast capital expenditure, including extreme downside scenarios, the Directors consider it appropriate to continue to prepare the financial statements on a going concern basis and are of the view that there are no material uncertainties regarding the Group's going concern status.

Basis of consolidation

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

The acquisition method of accounting is used to account for business combinations by the Group.

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.

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

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

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

- presentation of costs attributable to COVID-19 as exceptional:
  - As a result of reduced engineering activity in periods of lockdown due to COVID-19, management has estimated that £6.4m of costs that would ordinarily be capitalised as directly attributable to the installation of meter assets – consisting primarily of staff costs – have remained in underlying profit. Consistent with the Group's accounting policy on exceptional items (see below), these material costs are attributable to a rare macroeconomic event, being the COVID-19 pandemic, and therefore management has taken the judgement to recognise these costs as exceptional; and

  - At 31 December 2020, management has assessed the expected credit losses for trade receivables. COVID-19 has generated global financial uncertainty; however, the potential impact of this on the Group's credit risk is mitigated by the highly regulated nature of the utilities industry and the extensive support made available to energy – and other infrastructure – suppliers by the UK Government. As a result, management has not increased the expected loss rates for the trade receivables portfolio as a whole. Instead, a subset of trade receivables has been identified as having a potentially elevated credit risk, due to a greater risk of administration as a direct consequence of COVID-19. This subset of trade receivables has been provided for on a specific basis and has resulted in an additional £0.5m impairment loss. Given the continued uncertainty regarding the impact of COVID-19 on customer default risk, management will continue to monitor the situation and reassess its expected credit losses at each reporting period end. Management has taken the judgement to recognise this incremental impairment loss as exceptional on the same basis as that outlined above.

- capitalisation of internal installation costs:
  - a significant level of in-house installation of customers' meter assets is carried out by the Group, certain costs of which are capitalised (£19.8m in 2020, £39.7m in 2019) 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 this premature retirement of these revenue generating assets that is outside the Group's control. A loss on disposal of traditional

meter assets was recognised as an exceptional cost in the year ended 31 December 2020. In 2019, the change in accounting policy to reduce the residual value of the traditional meter asset portfolio to £nil (see note 11 for further details) was designed to reflect the consumption of economic benefit from installed assets, being the income earned from the provision of the meter. On disposal, the receipt of termination income, recognised as a component of the net gain or loss on the disposal of these meter assets, will vary depending on the energy supplier and is therefore not within our control. As the receipt of proceeds from disposal is inherently volatile, a loss on disposal can still arise in certain circumstances; and

- technical communication issues for some first-generation smart meter assets (SMETS1 meters) on supplier churn have continued through 2020, with the enrolment and adoption process into the DCC now due to extend into 2021. As a result, the Group has continued to see a small proportion of SMETS1 meters removed from the wall. As these removals are attributable to the temporary industry transition period, management has taken the judgement to recognise losses arising on the disposal of these meters as exceptional until resolution by the enrolment and adoption process is complete.

Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that may have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

- recoverability of carrying value of meter assets portfolio:
  - as the UK smart meter rollout progresses, our portfolio of traditional meter assets is diminishing. It is therefore crucial that the recoverability of the carrying value of our meter assets, recognised in property, plant and equipment, be assessed. The two main drivers for assessing this recoverability are:

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

    No impairment review was considered necessary at 31 December 2020 for the reasons detailed within note 11. The carrying value of the traditional meter assets portfolio is thus considered recoverable and, therefore, no impairment charge has been recognised.

Revenue recognition

Refer to details in note 2.

Exceptional items and separately disclosed items

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

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

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

Financial assets
The Group's financial assets include cash and cash equivalents and trade and other receivables. Investments consist of an immaterial debt investment held at amortised cost.

Classification
The Group classifies its financial assets in the following measurement categories:
- those to be measured subsequently at fair value, either through other comprehensive income (FVOCI) or through profit or loss (FVPL); and
- those to be measured at amortised cost.

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

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

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

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

Trade and other receivables
Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost. They are generally due for settlement within 30 days and are therefore all classified as current. Due to their short-term nature, carrying value is considered to approximate fair value.

Cash and cash equivalents
Refer to accounting policy.

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

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

Further information about the impairment of trade receivables and accrued income, and the Group's exposure to credit risks, can be found in note 19.

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

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

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

Measurement
Trade and other payables and bank overdrafts
Trade and other payables, and overdrafts, are subsequently measured at amortised cost using the effective interest rate method. Trade and other payables are presented as current liabilities unless payment is not due within 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, where the change in present value of cash flows, including any transaction costs paid, exceeds 10%. If a modification is considered an extinguishment of the initial loan, the new modified loan is recorded at fair value and a gain/loss recognised immediately in the consolidated income statement for the difference between the carrying amount of the old loan and the new loan. Any costs incurred are recognised in profit or loss. Where a modification is not significant enough to be an extinguishment, the cash flows under the modified loan are rediscounted at the original effective interest rate and an immediate gain or loss is recognised accordingly in the consolidated income statement on the date of modification. Any costs incurred are recognised over the remaining period of the modified debt, within the effective interest rate.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 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
(i)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.

(ii)Group as a lessee
The Group leases various offices, warehouses and motor vehicles and, following the business combinations disclosed in note 20, land. For offices, warehouses and motor vehicles rental contracts are typically made for fixed periods of three

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

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

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

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

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

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

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee’s incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities at 31 December 2020 was 4.8% (31 December 2019: 4%), representing a small increase due to the new lease liabilities recognised in the year in relation to land acquired as part of the grid-scale business acquisitions detailed in note 20.

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

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

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

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

Payments associated with short-term leases and leases of low-value assets are recognised on a straight line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 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.

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

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

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

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

- Development of ADM™ units 10% on cost straight line
- Development of internally generated information technology systems (IT development) 20% and 50% on cost straight line

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

Capitalised IT development expenditure is disclosed within intangible assets as part of IT development and software. Development and software were previously disclosed separately but were combined into a single asset class for the year ended 31 December 2019 as all costs capitalised within these categories relate to information technology and, with effect from 1 January 2019, costs were amortised over the same useful economic life of five years. A new system was integrated and brought into use during 2020 and associated development costs are amortised over the remaining contract term of two years. All other costs continue to be amortised over five years.

Intangible assets

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

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

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

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

Intangible assets are amortised over their useful lives as follows:

- IT development and software 20% and 50% on cost straight line

- Intangibles recognised upon acquisition:
  - Customer contracts 10% on cost straight line
  - Trademarks 33% on cost straight line

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

Goodwill

Goodwill represents the excess of the consideration transferred over the fair value of the identifiable assets and liabilities of the acquiree at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but is tested annually for impairment, or if there is an indication of impairment, and is carried at cost less accumulated impairment losses. See note 13 for detailed assumptions and methodology. Impairment losses are not subsequently reversed.

Goodwill is allocated to cash-generating units (CGUs) for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised as income immediately.

Detailed assumptions used in the annual impairment test for goodwill, with regard to discount, growth and inflation rates, are set out in note 13 to the accounts.

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

Adjustments to provisional fair values of identifiable assets and liabilities (and to estimates of contingent consideration) arising from additional information, obtained within the measurement period (no more than one year from the acquisition date), about facts and circumstances existing at the acquisition date are adjusted against goodwill. Other adjustments to provisional fair values or changes in contingent consideration are recognised through profit or loss.

Impairment of tangible and intangible assets other than goodwill
At each reporting date, the Group reviews the carrying amounts of its property, plant and equipment and intangibles to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the CGU to which the asset belongs.

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

Detailed assumptions used in the impairment test for meter assets, namely traditional meter assets, are set out in note 11.

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

Property, plant and equipment
Property, plant and equipment is stated at cost, net of accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing part of the property, plant and equipment. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation, respectively. Pursuant to the acquisition of the meter installation businesses on 18 March 2016 certain internal costs to the Group are also capitalised where they are demonstrated as being directly attributable to bringing the meter assets into their usable condition.

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

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

• Freehold property	2%
• Short leasehold property	Shorter of the lease term or 15% and 20%
• Meter assets	Smart and I&C 5% ADM™ units 10% Traditional to 1 July 2025
• Plant and machinery	33% on cost
• Fixtures, fittings and equipment	20% and 33% on cost
• Motor vehicles	25% on cost
• Right-of-use assets	Shorter of the asset's useful life and the lease term

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

Property, plant and equipment is initially recorded at cost.

The following changes in estimates with regard to property, plant and equipment were made with effect from 1 January 2020:

- With respect to the domestic traditional meter asset portfolio, the useful life of all opening assets has been extended from 31 December 2022 to 1 July 2025 to reflect the UK Government's confirmation on 18 June 2020 that it will introduce a new regulatory framework, first proposed in September 2019, for the next phase of the UK smart meter rollout. The new four-year framework will be implemented from 1 July 2021, effectively extending the smart meter rollout to 1 July 2025. It is accepted that the rate of meter exchange to smart meters will vary year by year as the rollout proceeds but there is currently no reliable basis on which to predict the annual profile. Accordingly, a straight line approach to depreciation of these assets continues to be adopted. As a result of this change in estimate, the consolidated income statement for the year ended 31 December 2020 reflected a reduced charge for depreciation of £4.8m, recognised within depreciation in cost of sales. It is not practicable to estimate the effect of this change on future periods because the future removal profile of the domestical traditional meter asset portfolio is volatile and outside of our control.

The following changes in estimates with regard to property, plant and equipment were made with effect from 1 January 2019:

- Subsequent to the impairment review carried out at 31 December 2018, the estimate of residual value on the domestic traditional meter asset portfolio has been reduced to 0% to reflect management's updated forecasts and assumptions regarding the recoverability of value on these assets. As a result, the income statement has been charged with an additional c.£7.3m, recognised within depreciation in cost of sales.

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

Inventories

Finished goods and consumables

Finished goods and consumables are stated at the lower of cost and net realisable value. Cost comprises direct materials and purchases of meter assets and ADM™ units at cost. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value represents the estimated selling price for inventories in the ordinary course of business less the estimated costs necessary to make the sale.

Work in progress: grid-scale batteries

Work in progress is stated at the lower of cost and net realisable value. Cost includes:

- work in progress recognised as a result of business combinations;
- direct materials, including the purchase of batteries at cost (after deducting rebates and discounts); and
- the cost of development, including direct labour and an appropriate proportion of overhead expenditure.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Cash and cash equivalents

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

Restricted cash

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

Any movement in restricted cash is classified as an operating cash flow in the consolidated statement of cash flows, in line with the operational nature of the management service being delivered.

Pension costs

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

Share-based payments

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

Share capital

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

Own share reserve
The Group offers a Share Incentive Plan for all employees and has established a trust to facilitate the delivery of SMS shares under this plan. The holdings of this trust include shares that have not vested unconditionally to employees of the Group. These shares are recorded at cost and are classified as own shares. The cost to the Company of acquiring these own shares held in trust is shown as a deduction from shareholders' equity.

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

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

Deferred tax is the tax expected to be payable or recoverable on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax is recognised in respect of all temporary differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

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

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

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

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

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

Standards and interpretations
New and amended standards adopted by the Group
The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2020:

Standard or interpretation		Effective date
IFRS 3 (amendment)	Definition of a Business	1 January 2020
IAS 1 and IAS 8 (amendment)	Definition of Material	1 January 2020
CF	Conceptual Framework for Financial Reporting	1 January 2020

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

New standards and interpretations not yet adopted
Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Notes to the financial statements
For the year ended 31 December 2020

1 Segmental reporting

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

- Asset Management, which comprises regulated management of gas meters, electric meters and ADM™ units within the UK;
- Asset Installation, which comprises installation of domestic and I&C gas meters and electricity meters throughout the UK; and
- Energy Management, which comprises the provision of energy consultancy services and, following the acquisition of Solo Energy Limited, the management of Distributed Energy Resources (DER) assets.

For the purpose of making decisions about resource allocation and performance assessment, it is the operating results of the three core divisions listed above that are monitored by management and the Group's chief operating decision making, being the SMS Board. It is these divisions, therefore, that are defined as the Group's reportable operating segments.

Segment performance is evaluated based on gross profit.

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

31 December 2020	Asset Management £'000	Asset Installation £'000	Energy Management £'000	Unallocated £'000	Total operations £'000
Segment revenue	**78,675**	**49,011**	**4,583**	**—**	**132,269**
Inter-segment revenue	**—**	**(29,287)**	**—**	**—**	**(29,287)**
Revenue from external customers	**78,675**	**19,724**	**4,583**	**—**	**102,982**
Cost of sales	**(29,825)**	**(16,591)**	**(3,564)**	**—**	**(49,980)**
Segment gross profit – pre-exceptional cost of sales	**48,850**	**3,133**	**1,019**	**—**	**53,002**
Exceptional items (cost of sales)	**—**	**(4,890)**	**—**	**—**	**(4,890)**
Segment gross profit/(loss)	**48,850**	**(1,757)**	**1,019**	**—**	**48,112**
Other operating costs/income	**—**	**—**	**—**	**(27,780)**	**(27,780)**
Depreciation	**(1,385)**	**—**	**(21)**	**(2,979)**	**(4,385)**
Amortisation of intangibles	**(2,925)**	**—**	**(32)**	**—**	**(2,957)**
Profit/(loss) from operations – pre-exceptional operating items	**44,540**	**(1,757)**	**966**	**(30,759)**	**12,990**
Exceptional items (operating)	**188,612**	**(928)**	**—**	**(1,056)**	**186,628**
Profit/(loss) from operations	**233,152**	**(2,685)**	**966**	**(31,815)**	**199,618**
Net finance costs: other	**(4,399)**	**—**	**(33)**	**(107)**	**(4,539)**
Net finance costs: exceptional	**(115)**	**—**	**—**	**—**	**(115)**
Profit/(loss) before tax	**228,638**	**(2,685)**	**933**	**(31,922)**	**194,964**
Tax expense	**—**	**—**	**—**	**—**	**(1,485)**
Profit for year					**193,479**

31 December 2019	Asset Management £'000	Asset Installation £'000	Energy Management £'000	Unallocated £'000	Total operations £'000
Segment revenue	82,907	59,968	9,024	—	151,899
Inter-segment revenue	—	(37,618)	—	—	(37,618)
Revenue from external customers	82,907	22,350	9,024	—	114,281
Cost of sales	(37,389)	(27,981)	(6,847)	—	(72,217)
Segment gross profit/(loss)	45,518	(5,631)	2,177	—	42,064
Other operating costs/income	—	—	—	(14,659)	(14,659)
Depreciation	(1,347)	—	—	(2,299)	(3,646)
Amortisation of intangibles	(1,473)	—	(10)	—	(1,483)
Exceptional items	(8,085)	(51)	—	(391)	(8,527)
Profit/(loss) from operations	34,613	(5,682)	2,167	(17,349)	13,749
Net finance costs: exceptional	(104)	—	—	—	(104)
Net finance costs: other	(8,065)	—	—	(118)	(8,183)
Profit/(loss) before tax	26,444	(5,682)	2,167	(17,467)	5,462
Tax expense	—	—	—	—	(1,465)
Profit for year					3,997

Inter-segment revenue relates to installation services provided by the Asset Installation segment to the Asset Management segment.

Depreciation of £24.7m (2019: £31.5m) associated with meter assets has been reported within cost of sales, in the Asset Management segment, as the meter assets directly drive revenue.

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

The Group has two major customers that each generated turnover of 10% or more of total Group turnover, as listed below by segment:

	2020 £'000	2019 £'000
Customer 1 – Asset Management	**12,876**	14,030
Customer 1 – Asset Installation	**359**	796
Customer 2 – Asset Management	**7,816**	—
Customer 2 – Asset Installation	**6,251**	—
	27,302	14,826

Segment assets and liabilities

31 December 2020	**Asset Management £'000**	**Asset Installation £'000**	**Energy Management £'000**	**Unallocated £'000**	**Total operations £'000**
Assets reported by segment					
Intangible assets	**19,308**	**3,497**	**2,118**	**—**	**24,923**
Property, plant and equipment	**318,979**	**235**	**2,222**	**6,902**	**328,338**
Inventories	**22,676**	**273**	**4,701**	**—**	**27,650**
Contract assets	**—**	**—**	**47**	**—**	**47**
Other assets (bank loans)	**1,949**	**—**	**—**	**—**	**1,949**
	362,912	**4,005**	**9,088**	**6,902**	**382,907**
Assets not by segment					**79,643**
Total assets					**462,550**
Liabilities by segment					
Contract liabilities	**1,254**	**2,216**	**219**	**—**	**3,689**
Lease liabilities	**727**	**—**	**2,276**	**2,248**	**5,251**
Bank loans	**—**	**—**	**—**	**—**	**—**
	1,981	**2,216**	**2,495**	**2,248**	**8,940**
Liabilities not by segment					**47,168**
Total liabilities					**56,108**

31 December 2019	Asset Management £'000	Asset Installation £'000	Energy Management £'000	Unallocated £'000	Total operations £'000
Assets reported by segment					
Intangible assets	18,417	3,493	1,833	—	23,743
Property, plant and equipment	403,948	518	—	8,192	412,658
Inventories	21,734	327	—	—	22,061
Contract assets	—	11	—	—	11

	444,099	4,349	1,833	8,192	458,473
Assets not by segment					98,902
Total assets					557,375
Liabilities by segment					
Contract liabilities	1,360	2,010	124	—	3,494
Lease liabilities	893	—	—	3,072	3,965
Other liabilities					
Bank loans	269,260	—	—	—	269,260
	271,513	2,010	124	3,072	276,719
Liabilities not by segment					57,079
Total liabilities					333,798

Assets not by segment include cash and cash equivalents, trade and other receivables and investments.

Liabilities not by segment include trade and other payables and deferred tax liabilities.

Additions to non-current assets within each segment are listed below:

	Asset Management £'000	Asset Installation £'000	Energy Management £'000	Unallocated £'000	Total operations £'000
Additions to non-current assets					
2020	**44,080**	**2**	**2,568**	**1,467**	**48,117**
2019	106,452	509	67	6,495	113,523

2 Revenue from contracts with customers

2 (a) Disaggregation of revenue from contracts with customers

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

Year ended 31 December 2020	**Asset Management £'000**	**Asset Installation £'000**	**Energy Management £'000**	**Total operations £'000**
Major service lines				
Metering	**70,780**	**—**	**—**	**70,780**
Data management	**7,895**	**—**	**—**	**7,895**
Utility connections	**—**	**8,817**	**—**	**8,817**
Transactional meter works	**—**	**10,275**	**—**	**10,275**
Energy management	**—**	**632**	**4,583**	**5,215**
	78,675	**19,724**	**4,583**	**102,982**
Timing of revenue recognition				
Services transferred at a point in time	**—**	**10,275**	**—**	**10,275**
Services transferred over time	**78,675**	**9,449**	**4,583**	**92,707**
	78,675	**19,724**	**4,583**	**102,982**

Year ended 31 December 2019	Asset Management £'000	Asset Installation £'000	Energy Management £'000	Total operations £'000
Major service lines				
Metering	75,472	—	—	75,472
Data management	7,435	—	—	7,435
Utility connections	—	8,406	—	8,406
Transactional meter works	—	13,295	—	13,295
Energy management	—	649	9,024	9,673
	82,907	22,350	9,024	114,281
Timing of revenue recognition				
Services transferred at a point in time	—	13,172	—	13,172
Services transferred over time	82,907	9,178	9,024	101,109
	82,907	22,350	9,024	114,281

2 (b) Assets and liabilities related to contracts with customers

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

	2020 £'000	2019 £'000
Current contract assets	**47**	11
Total contract assets	**47**	11
Current contract liabilities	**3,689**	3,494
Total contract liabilities	**3,689**	3,494

Trade receivables and unbilled receivables are disclosed in note 15.

(i) 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.

(ii) Revenue recognised in relation to contract liabilities

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

	2020 £'000	2019 £'000
Revenue recognised that was included in the contract liability balance at the beginning of the period	**2,991**	3,057

No revenue was recognised in 2020 in relation to performance obligations satisfied in previous periods.

(iii) 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.

2 (c) Accounting policies and significant judgements

(i) Metering

Meter rental

The Group acts as a gas and electricity meter asset provider, providing and installing meters to energy suppliers on behalf of the end consumer.

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

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

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

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

If a MAP contract is cancelled, termination fees may be levied on the energy supplier. There has been no change in the accounting of these termination fees and they continue to be classified within other operating income unless they have arisen on the loss of the meter assets, in which case they are reported within administrative expenses as a component of net gain or loss on disposal.

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

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 into perpetuity, the Group delivers a series of monthly services for which the benefits are simultaneously received and consumed by a customer. Therefore, these are accounted for as a single performance obligation.

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

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

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

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

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

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

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

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

Service charges are calculated based on the number of meters/ADM™ units appointed and invoiced to customers monthly. As revenue from service charges is attributed to services provided periodically, revenue is always based on the actual level of service provided and, therefore, there is no uncertainty at the end of each reporting period. Service charges, including contract RPI uplifts, are billed to clients annually in advance and therefore a contract liability is recognised and subsequently released to the income statement over the year on a straight line basis. The Group uses the practical expedient under IFRS 15 from adjusting revenue for any significant financial components of one year or less.

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

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

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

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

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

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

The Group utilises the practical expedient available under IFRS 15 for costs to obtain a contract. Commissions paid as part of obtaining a contract are expensed as incurred on the basis that the contract term is typically less than 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 are separately identifiable and can be performed by another party. A customer, being the energy supplier, is legally obligated to appoint a meter asset manager and can therefore benefit from this service in isolation, without the subsequent transactional works which are initiated on an ad-hoc basis upon demand by the customer.

In 2020, the Group also started to provide transactional meter works to the third party to whom the Group sold a minority of its meter asset portfolio in April 2020. In 2019, transactional meter works also included contracts with customers for installation-only services.

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

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

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

(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 note 2 (c)(iii) above.
(vi) Assets and liabilities arising from contracts with customers

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

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

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

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

Cancellation terms can vary but typically include provisions that allow the customer to terminate the contract at their discretion subject to a penalty or settlement of amounts for work completed prior to termination. Contracts allow both parties to cancel without penalty in the case of a material breach of contract.

3 Profit from operations

The Group has identified a number of items which are material due to the significance of their nature and/or amount. These are listed separately here to provide a better understanding of the financial performance of the Group.

	2020 £'000	2019 £'000
Profit from operations is stated after (charging)/crediting:		
Cost of sales:		
Direct subcontractor costs	**(7,183)**	(7,195)
Depreciation of meter assets	**(24,672)**	(31,491)
Direct staff and other costs	**(16,569)**	(31,212)
Inventory costs	**(1,556)**	(2,319)
Total cost of sales (before exceptional items)	**(49,980)**	(72,217)
Administrative expenses:		
Staff costs	**(18,306)**	(12,380)
Depreciation:		
– owned assets	**(3,403)**	(2,729)
– leased assets	**(982)**	(917)
Amortisation of intangibles	**(2,957)**	(1,483)
Auditor's remuneration (note 3a)	**(346)**	(300)
Loss on disposal	**(1,040)**	(2,701)
Operating lease rentals[1]	**(346)**	(1,032)
Research and development costs	**(76)**	—
Other operating charges	**(9,389)**	(3,972)
Total administrative expenses (before exceptional items)	**(36,845)**	(25,514)
Exceptional items (note 3b)	**181,738**	(8,527)
Other operating income (note 3c)	**1,723**	5,726
Total operating costs	**96,636**	(100,532)

1 2020 operating lease rentals include £314,000 on short-term leases (2019: £1,010,000) and £32,000 on leases of low value assets (2019: £22,000).

3 (a) Auditor's remuneration

Auditor's remuneration can be analysed as:

	2020 £'000	2019 £'000
Audit of the parent company and consolidated financial statements	**144**	95
Audit of the financial statements of the Company's subsidiaries	**172**	155
Other services – audit related assurance services	**30**	50
	346	300

3 (b) Exceptional items

An exceptional gain on the disposal of a subsidiary of £194,713,000 has been recognised separately on the consolidated income statement for the year ended 31 December 2020. See note 4 for details.

There are total other exceptional items on the consolidated income statement of £13,090,000. Exceptional operating costs comprise £6,857,000 of costs directly attributable to COVID-19 (see accounting policies – critical accounting judgements – for further details), £6,033,000 of losses on disposal of our traditional and SMETS1 meter portfolio (£9,521,000 net book value less £3,488,000 termination income) and £85,000 of other miscellaneous costs.

Exceptional finance costs of £115,000 comprise break costs incurred on full voluntary prepayment of the Group's loan facility (see note 18 for details).

In 2019, there were total exceptional items on the consolidated income statement of £8,631,000. Exceptional operating costs comprised £6,837,000 for losses on disposal of our meter portfolio (£11,819,000 net book value less £4,982,000 termination income), £1,999,000 of legal and professional fees incurred as part of the conditional sale of a minority of our assets, £751,000 SMETS1 meters stock write-back, £96,000 of redundancy costs relating to the reorganisation of subsidiaries, £92,000 of costs incurred in relation to the acquisition of Solo Energy Limited, £82,000 of costs that the Company has agreed to settle in relation to a former legacy Employee Benefit Trust, £68,000 of deferred remuneration arising on the acquisition of a subsidiary in 2016 settled in shares in April 2019 and £104,000 impairment charges.

Exceptional finance costs of £104,000 include £98,000 accelerated amortisation of loan arrangement fees in relation to the refinancing of the loan facility and £6,000 of bank break fees.

The tax effect of exceptional items charged in 2020 is a credit of £2,618,000 (2019: credit of £1,119,000).

3 (c) Other operating income

	2020 £'000	2019 £'000
Termination fee income	**985**	2,415
Other contractual charges levied on customers	**—**	3,301
Government grant income	**738**	10
	1,723	5,726

Of the government grant income of £738,000 recognised in the year ended 31 December 2020, £536,000 relates to RDECs.

4 Disposal of subsidiary

On 12 March 2020, the Group conditionally signed an agreement to dispose of a minority of the Group's meter assets through the sale of the entire share capital of Crail Meters Limited (Crail), a wholly owned subsidiary of the Group.

The meter asset provision (MAP) business carried on by two existing operating subsidiaries of the Group (the Meter Managers) was transferred to Crail on 12 March 2020. The business transferred included c.187,000 Industrial & Commercial (I&C) meter assets, amongst other working capital balances. Crail continued to trade from 12 March 2020 through to 22 April 2020.

On 22 April 2020 the entire share capital of Crail was sold to an unconnected third party. Total gross cash consideration of £290.6m was received, comprising a payment for the sale of the shares in Crail and the repayment of an intercompany debt owed by Crail to the Meter Managers. There was no contingent or non-cash consideration.

The total carrying amount of net assets disposed was £89.0m, including £86.1m of meter assets, a £9.1m net receivable of working capital balances and £6.2m of deferred tax liabilities, giving rise to a gross gain of £201.6m. After the deduction of £6.9m transaction costs, a net gain on disposal of £194.7m has been recognised separately in the consolidated income statement. Excluding deferred taxation and transaction costs, the gain is £195.4m.

Crail does not meet the definition of a discontinued operation under IFRS 5 on the basis that the minority portfolio of I&C assets disposed does not represent the loss of a separate, major line of business and, although I&C activities have been significantly reduced, they have not been entirely discontinued.

SMS will continue to manage the disposed I&C meter portfolio on behalf of the purchaser, for which it will receive annual RPI-linked management fees of £0.8m.

5 Particulars of employees

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

	2020 Number	2019 Number
Administrative staff	**497**	487
Operational staff	**546**	669
Sales staff	**4**	4
IT staff	**73**	62
Directors (excluding 4 (2019: 4) Non-executive Directors)	**3**	3
	1,123	1,225

The aggregate payroll costs, including Executive Directors, of the employees were:

	2020 £'000	2019 £'000
Wages and salaries	**39,880**	39,817
Social security costs	**4,103**	4,400
Staff pension costs	**1,229**	1,115
Share-based payment (note 24)	**626**	671
Director pension costs	**18**	11
	45,856	46,014

6 Finance costs and finance income

	2020 £'000	2019 £'000
Finance costs		
Bank loans and overdrafts	**4,556**	8,255
Lease liabilities	**172**	157
Foreign exchange (gain)/loss on intragroup borrowings	**(23)**	49
Total pre-exceptional finance costs	**4,705**	8,461
Exceptional finance costs	**115**	104
Total finance costs	**4,820**	8,565
Finance income		
Bank interest receivable	**166**	278
Total finance income	**166**	278

7 Taxation

	2020 £'000	2019 £'000

Analysis of charge in the year

	2020 £'000	2019 £'000
Current tax:		
Current income tax expense	**331**	(81)
Adjustment to tax charge in respect of previous periods	**92**	2
Total current income tax	**423**	(79)
Deferred tax:		
Origination and reversal of temporary differences	**(198)**	1,405
Adjustment to tax charge in respect of prior periods	**(304)**	
Adjustment attributable to change in tax rates	**1,564**	139
Tax on profit	**1,485**	1,465
The charge for the period can be reconciled to the profit per the consolidated statement of comprehensive income as follows:		
Profit before tax	**194,964**	5,462
Tax at the UK corporation tax rate of 19.00% (2019: 19.00%)	**37,043**	1,038
Expenses not deductible for tax purposes	**1,565**	420
Income not taxable	**(38,495)**	—
Adjustments to tax charge in respect of previous periods	**(212)**	142
Impact of overseas tax rates	**20**	—
Change in tax rate[1]	**1,564**	(135)
Tax expense in the income statement	**1,485**	1,465

1 See note 21 for further details.

Current tax credit through equity in the year was £Nil (2019: £Nil).

8 Earnings per share (EPS)

The calculation of EPS is based on the following data and number of shares:

	2020 £'000	2019 £'000
Profit for the year used for calculation of basic EPS	**193,479**	3,997

Number of shares	2020	2019
Weighted average number of ordinary shares for the purposes of basic EPS	**112,715,328**	112,446,154
Effect of potentially dilutive ordinary shares:		
– share options	**922,554**	823,258
Weighted average number of ordinary shares for the purposes of diluted EPS	**113,637,882**	113,269,412
EPS:		
– basic (pence)	**171.65**	3.56
– diluted (pence)	**170.26**	3.53

9 Dividends

	Year ended 31 December 2020 £'000	Year ended 31 December 2020 Per share (pence)	Year ended 31 December 2019 £'000	Year ended 31 December 2019 Per share (pence)
Paid final dividend	**—**	**—**	4,485	3.98
Paid second interim dividend	**5,168**	**4.58**	—	—
Paid first interim dividend	**7,058**	**6.25**	2,594	2.30
Total dividends	**12,226**	**10.83**	7,079	6.28

The paid second interim dividend is in respect of FY 2019. The paid first interim dividend is in respect of FY 2020.

Per the Group's revised dividend policy, a 25p per share dividend is proposed in respect of FY 2020. This will be paid to shareholders in four cash instalments.

The first instalment of £7.1m was paid on 29 October 2020 to shareholders on the register at 2 October 2020, with an ex-dividend date of 1 October 2020. The remaining instalments are intended to be paid as follows:

Instalment	**Ex-dividend date**	**Record date**	**Payment date**
Second interim	7 January 2021	8 January 2021	28 January 2021
Third interim	1 April 2021	6 April 2021	29 April 2021
Final	1 July 2021	2 July 2021	29 July 2021

These remaining instalments will amount to c.£21m and will be accounted for in 2021.

Under the new dividend policy, the second interim dividend is paid out of profits recognised in the year prior to the year in which the dividends are declared and reported. As at 31 December 2020, the distributable profits in the parent company were adequate to cover the proposed second interim dividend of c.£7m.

10 Intangible assets

	Goodwill £'000	Intangibles recognised upon acquisition £'000	IT development and software £'000	Total £'000
Cost				
As at 1 January 2019	7,609	2,166	17,678	27,453
Additions	—	—	6,936	6,936
Acquisitions	995	96	697	1,788
Reclassifications[1]	—	—	(205)	(205)
Exchange adjustments	(57)	(5)	(22)	(84)
Disposals	—	—	(639)	(639)
As at 31 December 2019	8,547	2,257	24,445	35,249
Additions	—	—	4,056	4,056
Acquisitions	—	—	—	—
Disposals	—	—	(12)	(12)
Exchange adjustments	60	4	29	93
As at 31 December 2020	**8,607**	**2,261**	**28,518**	**39,386**
Amortisation				
As at 1 January 2019	—	2,034	8,281	10,315
Reclassifcations[1]	—	—	(74)	(74)
Disposals	—	—	(218)	(218)
Charge for year	—	137	1,346	1,483
As at 31 December 2019	—	2,171	9,335	11,506
Disposals	—	—	—	—
Charge for year	—	32	2,925	2,957
As at 31 December 2020	**—**	**2,203**	**12,260**	**14,463**
Net book value				
As at 31 December 2020	**8,607**	**58**	**16,258**	**24,923**
As at 31 December 2019	8,547	86	15,110	23,743
As at 1 January 2019	7,609	132	9,397	17,138

1 Capitalised development expenditure on ADMTM units has been reallocated from IT development and software in intangible assets to meter assets within property, plant and equipment, to align with the Group's accounting policy.

No goodwill or intangible assets were recognised as a result of acquisitions during the year. The acquisition of Solo Energy Limited in September 2019 resulted in the recognition of goodwill of £995,000, which was assigned to the Energy Management operating segment. In addition, the trademarks of Solo Energy Limited and its FlexiGrid™ platform were valued at £96,000 and were recognised as additions within the acquired intangibles asset class. See note 20 for further details on business acquisitions.

11 Property, plant and equipment

	Freehold/ leasehold property £'000	Meter assets £'000	Plant and machinery £'000	Fixtures, fittings and equipment £'000	Motor vehicles £'000	Right-of-use assets £'000	Total £'000
Cost							
As at 1 January 2019	2,536	410,128	504	4,248	2,814	—	420,230
Additions	215	95,186	520	2,498	3,279	4,889	106,587
Acquisitions	—	—	—	6	—	—	6
Reclassifications[1]	—	205	—	—	—	—	205
Impairment	—	—	—	—	—	(90)	(90)
Disposals	—	(21,991)	—	(894)	(65)	(54)	(23,004)
As at 31 December 2019	2,751	483,528	1,024	5,858	6,028	4,745	503,934
Additions	56	40,349	20	1,329	42	2,265	44,061
Acquisitions	—	—	—	—	—	—	—
Impairment	—	—	—	—	—	—	—
Disposals	—	(131,731)	—	(43)	(765)	—	(132,539)
Exchange adjustments	—	—	—	4	—	—	4
As at 31 December 2020	**2,807**	**392,146**	**1,044**	**7,148**	**5,305**	**7,010**	**415,460**
Depreciation							
As at 1 January 2019	519	59,766	233	2,618	362	—	63,498
Charge for year	(14)	31,491	267	1,337	1,139	917	35,137
Reclassifications[1]	—	74	—	—	—	—	74
Impairment	—	—	—	—	—	(37)	(37)
Disposals	—	(6,520)	—	(841)	(35)	—	(7,396)
As at 31 December 2019	505	84,811	500	3,114	1,466	880	91,276
Charge for year	174	24,672	290	1,639	1,300	982	29,057
Impairment	—	—	—	—	—	—	—
Disposals	—	(32,800)	—	(37)	(379)	—	(33,216)
Exchange adjustments	—	—	—	5	—	—	5
As at 31 December 2020	**679**	**76,683**	**790**	**4,721**	**2,387**	**1,862**	**87,122**
Net book value							
As at 31 December 2020	**2,128**	**315,463**	**254**	**2,427**	**2,918**	**5,148**	**328,338**
As at 31 December 2019	2,246	398,717	524	2,744	4,562	3,865	412,658
As at 1 January 2019	2,017	350,362	271	1,630	2,452	—	356,732

1 Capitalised development expenditure on ADMTM units was reallocated in 2019 from IT development and software in intangible assets to meter assets within property, plant and equipment, to align with the Group's accounting policy.

Meter assets

Meter asset disposals in the year include the c.187,000 assets disposed of as part of the sale of a subsidiary on 22 April 2020. The assets disposed of had a net book value of £86,103,000.

Included within the closing meter assets net book value of £315,463,000 (2019: £398,717,000) is £22,627,000 (2019: £30,298,000) relating to the traditional meter portfolio. In accordance with our accounting policy these assets will be written down to zero by 1 July 2025. In the 2020 consolidated financial statements the traditional meter portfolio generated £13,140,000 (2019: £12,965,000) revenue with a corresponding £5,668,000 (2019: £11,184,000) depreciation charge. £13,333,000 (2019: £13,928,000) annualised recurring revenue as at 31 December 2020 arises from the owned traditional meter portfolio.

The assets are secured by a bond and floating charge (note 18).

For the purpose of impairment testing, the traditional meter asset portfolio recognised within "meter assets" is assessed as a stand alone cash-generating unit (CGU) and its carrying amount is compared with the recoverable amount. In line with IAS 36, no impairment review was considered necessary at 31 December 2020 as the previous impairment review at 31 December 2019 showed a significant excess of recoverable amount over carrying amount and management concluded that there were no reasonably possible changes in the key assumptions that would cause the carrying amounts of the traditional meter portfolio to exceed the value in use. There have also been no events during 2020 that would eliminate this excess or any new material indicators of impairment in the year. As a result of COVID-19, and the reduced smart meter installation activity, there has been a lower volume of traditional meter asset removals. In addition, as detailed in the accounting policies, the useful economic life of traditional meter assets has been extended to 1 July 2025 following the UK Government's announcement of its new framework for the UK smart meter rollout.

Therefore, no impairment has been recognised in the period ended 31 December 2020 (31 December 2019: £nil). No impairment on other meter assets was recognised in 2020 or 2019.

Right-of-use assets

In 2019, right-of-use assets were recognised following the implementation of IFRS 16. Of the £4,889,000 additions reported above, £3,820,000 related to right-of-use assets recognised upon implementation on 1 January 2019.

Additions to right-of-use assets during the 2020 financial year were £2,265,000 (2019: £1,069,000, excluding right-of-use assets recognised upon implementation on 1 January 2019).

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

Carrying value	**2020 £'000**	2019 £'000
Properties[1]	**2,918**	3,846
Motor vehicles	**7**	19
Land	**2,223**	—
	5,148	3,865

1 Properties include office and warehouse space.

The statement of profit or loss shows the following amounts relating to leases:

Depreciation charge on right-of-use assets	**2020 £'000**	2019 £'000
Properties	**948**	907
Motor vehicles	**13**	10
Land	**21**	—
	982	917

12 Financial asset investments

	Unlisted investments £'000	Total £'000
Cost		
As at 1 January 2019 and 1 January 2020	**75**	75
Impairment	**—**	—
As at 31 December 2019 and 31 December 2020	**75**	75

13 Impairment of goodwill

The goodwill acquired in business combinations is allocated, at acquisition, to the CGUs that are expected to benefit from that business combination. Goodwill is monitored by management at the level of the CGUs (defined as the three operating segments) identified in note 1.

A segment-level summary of the goodwill allocation is presented below:

	Asset Management £'000	Asset Installation £'000	Energy Management £'000	Total £'000
Cost				
As at 1 January 2020	4,112	3,497	938	8,547
Acquisitions (note 20)	—	—	—	—
Exchange adjustments	—	—	60	60
As at 31 December 2020	**4,112**	**3,497**	**998**	**8,607**

No goodwill was recognised in the year as a result of business combinations. The goodwill recognised in Energy Management at 31 December 2019 of £938,000 arose on the acquisition of Solo Energy Limited, a blockchain energy flexibility IT platform. See note 20 for further details. Goodwill was allocated entirely to Energy Management on the basis that this is the operating segment that will receive the benefits from the acquisition.

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. Goodwill is tested for impairment by comparing the carrying amount of each CGU, including goodwill, with the recoverable amount. The recoverable amounts are determined based on value in use calculations which require assumptions. The calculations use cash flow projections based on financial budgets approved by the Board covering a one-year period, together with management forecasts for a further four-year period. These budgets and forecasts have regard to historical performance and knowledge of the current market, together with the Group's views on the future achievable growth and the impact of committed cash flows. Specifically, budgets and forecasts used in the assessment of goodwill at 31 December 2020 include the estimated impact of COVID-19 and incorporate the effects of the extended deadline for the UK smart meter rollout to 1 July 2025. Cash flows beyond this are extrapolated using the estimated growth rates stated below.

The cash flows used in the value in use calculation for the Asset Management segment include all costs incurred in the provision of meter assets to energy suppliers, together with the initial installation. The cash flows used in the value in use calculation for the Asset Installation segment exclude installation costs incurred to fit an owned meter. For the purpose of the value in use calculation, these are instead allocated to the Asset Management segment, being the segment to which the corresponding revenues are allocated.

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

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

- **Perpetual growth rate** – the terminal cash flows are extrapolated in perpetuity using a growth rate of 2% for Asset Management (2019: 3.0%) and 1.5% for Asset Installation and Energy Management (2019: 0.5%). The rate of 2% applied to Asset Management is derived from historical Retail Price Index increases applied to the segment's index-linked meter rentals, with a small reduction in recognition of the impact of COVID-19 on macroeconomic growth. This is not considered to be higher than the average long-term industry growth rate. The rate of 1.5% applied to Asset Installation and Energy Management is prudently aligned with the UK rate of inflation as revenues in these segments are not always index linked.

- **Discount rate** – the discount rate is initially based on the weighted average cost of capital (WACC) which would be anticipated for a market participant investing in the Group. A specific discount rate is then calculated for each operating segment, taking into account the time value of money, the segment's risk profile and the impact of the current economic climate. The pre-tax discount rates applied are 6.8%, 9.0% and 11.0% for Asset Management, Asset Installation and Energy Management respectively (2019: 7.1%, 10.7% and 10.7%) and the post-tax discount rates applied are 5.5%, 7.25% and 8.9% for Asset Management, Asset Installation and Energy Management respectively (2019: 5.9%, 8.9% and 8.9%). The risk premium assigned to the Asset Installation and Energy Management segments reflects the shorter-term nature of the underlying revenues within these segments, as compared to the annually-recurring revenue generated by an installed asset.

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

14 Inventories

	2020 **£'000**	2019 £'000
Finished goods	**22,676**	21,734
Work-in-progress	**4,701**	—
Consumables	**273**	327
	27,650	22,061

Work-in-progress relates to the construction of grid-scale battery storage sites. Of the total work-in progress balance of £4,701,000 at 31 December 2020, £3,438,000 relates to the acquisition of the companies detailed in note 20 and £1,262,000 relates to the subsequent capitalisation of directly attributable construction costs.

15 Trade and other receivables

	2020 **£'000**	2019 £'000
Trade receivables	**20,272**	28,596
Prepayments and deferred costs	**4,263**	1,944
Accrued income	**10,404**	15,490
Other receivables	**1,245**	1,655
VAT recoverable	**980**	602
	37,164	48,287

Trade receivables and accrued income include billed and unbilled receivables relating to our meter rental contracts.

Amounts falling due after more than one year:

	2020 **£'000**	2019 £'000
Accrued income	**12**	232

Accrued income is made up of the following balances:

	2020 £'000	2019 £'000
Unbilled receivables	**10,357**	15,455
Contract assets	**47**	11
Other accrued income	**—**	24
	10,404	15,490

Unbilled receivables include receivables relating to our meter rental contracts.

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

The Group's credit risk is primarily attributable to trade receivables and accrued income. The amounts presented in the consolidated statement of financial position are net of any loss allowance. The total loss allowance for trade receivables and accrued income at 31 December 2020 was £4,904,000 (2019: £4,413,000). See note 19 for further details. The ageing profile of trade receivables past due date is shown below:

	2020 £'000	2019 £'000
Current	**13,608**	19,669
1-30 days	**3,208**	6,624
31-60 days	**1,914**	2,228
61-90 days	**1,090**	1,309
91-120 days	**328**	719
Over 120 days	**4,868**	2,331
	25,016	32,880
Loss allowance	**(4,744)**	(4,284)
	20,272	28,596

Trade receivables are non-interest bearing and are generally on 30–90-day terms. Trade receivables due from related parties at 31 December 2020 amounted to £Nil (2019: £Nil).

Receivables are all in Sterling denominations.

Accrued income, which is made up of unbilled receivables and contract assets, is presented net of any loss allowance and impairment, with amounts being invoiced periodically and customers being the same as those within trade receivables.

16 Cash and cash equivalents

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

During each period, there were no amounts of cash placed on short-term deposit.

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

	2020 £'000	2019 £'000
Cash	**40,236**	**50,092**
	40,236	**50,092**

Restricted cash is excluded from cash and cash equivalents in line with the Group's accounting policy and is disclosed separately on the consolidated statement of financial position.

17 Trade and other payables

	2020 £'000	2019 £'000
Current		
Trade payables	**10,215**	16,466
Other payables	**3,815**	2,420
Other taxes	**3,894**	4,788
Deferred income	**2,498**	2,487
Advance payments	**1,422**	1,335
Accruals	**20,114**	19,300
	41,958	46,796

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

	2020 £'000	2019 £'000
Contract liabilities	**3,689**	3,494
Other deferred income	**231**	328
	3,920	3,822

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

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

All trade liabilities are denominated in Sterling.

18 Financial liabilities

	2020 £'000	2019 £'000
Current		
Lease liabilities	**936**	1,013
Other liabilities	**388**	—
Bank loans	**—**	1,724
	1,324	2,737
Non-current		
Lease liabilities	**4,315**	2,950
Other liabilities	**—**	—
Bank loans	**—**	267,536
	4,315	270,486

Bank loans at 31 December 2019 related to the Group's revolving credit facility of £420m, with a five year term ending December 2023 (the facility). The Group had a total outstanding principal of £270m at 31 December 2019 and, as commencement of any repayment of the principal by way of a limited excess cash sweeping mechanism is not required until 2022 under the terms of the contract, this balance was classified as non-current. Accrued interest of £1.7m was recognised as part of the carrying value of bank loans at 31 December 2019 together with a deduction of £2.5m for unamortised transaction costs. In 2019, the facility attracted interest at a rate of 1.85% over the three-month LIBOR and 0.65% was payable on undrawn funds. The interest is required to be settled quarterly and was thus classified as current at 31 December 2019.

Following the Group's sale of a wholly owned subsidiary on 22 April 2020, the gross proceeds received of £290.6m were used to make a voluntary prepayment and the total outstanding principal value at 22 April 2020 of £270m, together with outstanding interest and commitment fees of £0.6m, was settled. Concurrently, the total commitments available under the facility were reduced from £420m to £300m. There were no other material changes to the terms and conditions. This amendment does not substantially change the existing revolving credit facility, nor does it discharge any obligations. As such, this is deemed to be a modification. There has been no impact to the consolidated income statement in the year ended 31 December 2020 as a result of the modification.

A drawdown of £15.0m was made in May 2020 but this was subsequently settled at the end of the three-month term. No subsequent drawdowns have been made by the Group and, therefore, as at 31 December 2020 there was no outstanding principal or interest. The amount recognised against bank loans is thus £nil.

Unamortised transaction costs from the initial establishment of the revolving credit facility in December 2018 continue to be amortised over the remaining duration of the facility to 2023, together with additional transaction costs of £0.1m directly attributable to the modification of the loan on 22 April 2020. For the year ended 31 December 2020, £0.7m of transaction costs have been recognised within the consolidated income statement.

Unamortised transaction costs of £1.9m that would ordinarily be deducted against the carrying value of the bank loans, have been recorded as 'other assets' at 31 December 2020. In line with the Group's accounting policy, these will be reclassified to bank loans upon the next drawdown.

£0.1m of break costs incurred as a result of the voluntary prepayment have been recognised as an exceptional finance cost in the year ended 31 December 2020.

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

18 (a) Changes in liabilities arising from financing activities

Financial liabilities	Lease liabilities £'000	Bank loans £'000
At 1 January 2019	3,868	172,016
Cash flows (i)	(1,075)	90,149
New leases	1,040	—
Other non-cash changes (i)	130	7,095
At 31 December 2019	3,963	269,260
Cash flows (i)	(1,155)	(274,143)
New leases	2,260	—
Other non-cash changes (i)	183	2,934
At 31 December 2020	**5,251**	**(1,949)**
Presentational reclassification to 'other assets'		**1,949**
At 31 December 2020	**5,251**	**—**

(i) Cash flows and other non-cash changes
Cash flows on lease liabilities include £1,155,000 of lease payments. Cash flows on bank loans include £15,000,000 of new borrowings less £285,000,000 of borrowings repaid, interest payments of £4,000,000 and a payment of £143,000 for arrangement fees.

Other non-cash changes in lease liabilities include £172,000 of interest charges plus £11,000 arising from changes in lease terms and foreign exchange impact in the year. Other non-cash changes in bank loans include £2,276,000 of interest charges and £658,000 amortisation of arrangement fees.

At 31 December 2020, there were no outstanding amounts under the Group's revolving credit facility. Therefore, unamortised arrangement fees of £1,949,000 have been classified separately as 'other assets' on the consolidated statement of financial position in line with the Group's accounting policy. Unamortised arrangement fees of £641,000 have been classified as current 'other assets,' with the balance of £1,308,000 classified as non-current, in line with the remaining term of the facility.

In 2019, cash flows on lease liabilities included £1,075,000 of lease payments. Cash flows on bank loans included £270,000,000 of new borrowings less £172,114,000 of borrowings repaid, interest payments of £4,632,000 and a payment of £3,105,000 for arrangement fees.

Other non-cash changes in lease liabilities included £157,000 of interest charges less £27,000 arising from changes in lease terms in the year. Other non-cash changes in bank loans included £6,356,000 of interest charges, of which £1,724,000 were unpaid at 31 December 2019, and £739,000 amortisation of arrangement fees.

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

19 (a) Interest rate risk
The Group's main interest rate risk arises from its floating rate bank loan, which was undrawn at 31 December 2020 (2019: £269,260,000). See note 18 for further details.

There were no overdrafts at 31 December 2020 (2019: none) and the interest charge arising on lease liabilities, recognised from 1 January 2019 upon implementation of IFRS 16, does not represent a cash interest rate risk for the Group.

The Group's financial assets at 31 December 2020 comprise cash and trade receivables. The cash balance of £40,236,000 (2019: £50,092,000) is a floating rate financial asset but interest income is not typically material.

i) Interest rate sensitivity

The following table demonstrates the sensitivity to a change in interest rates on the Group's floating rate bank loan. The Group's profit before tax is affected through the impact on floating rate borrowings as follows:

	Increase/(decrease) in basis points	Effect on profit before tax £'000
2020	**+70bps**	**—**
2019	+70bps	(1,885)

Management believes that a movement in interest rates of 70 bps gives a reasonable measure of the Group's sensitivity to interest rate risk. The table above demonstrates the sensitivity to a possible change in interest rates, with all other variables held constant, of the Group's profit before tax.

19 (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.

19 (c) Foreign currency risk

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

19 (d) Liquidity risk

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

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

31 December 2020	**Less than one year £'000**	**Between two and five years £'000**	**Over five years £'000**	**Total contractual cash flows £'000**
Contractual maturities of financial liabilities				
Trade payables	**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**

31 December 2019	Less than one year £'000	Between two and five years £'000	Over five years £'000	Total contractual cash flows £'000
Contractual maturities of financial liabilities				
Trade payables	16,466	—	—	16,466
Bank loan	7,049	290,954	—	298,003
Other liabilities				
Lease liabilities	1,153	2,748	456	4,357
	24,668	293,702	456	318,826

The contractual undiscounted cash flows on the bank loan reflect the contractual arrangements in place at the year-end date. At 31 December 2019, of the £290,954,000 disclosed in the 2019 bank loan time band "between two and five years", the Group had assumed that the entire principal balance would be settled upon maturity of the loan facility at the end of 2023.

As disclosed in note 18, the Group subsequently made a full voluntary prepayment on its loan facility in April 2020. It had no outstanding principle at 31 December 2020 and therefore the contractual undiscounted cash flows at 31 December 2020 are nil in the table above.

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

Credit risk is managed on a Group basis. For banks and financial institutions, only independently rated parties with a minimum rating of "AA–" are accepted. With regard to customers, the Group assesses the credit quality of the customer, considering its financial position, past experience and other factors. The Group does not expect, in the normal course of events, that debts due from customers are at significant risk. The Group's maximum exposure to credit risk equates to the carrying value of cash and cash equivalents, trade and other receivables, contract assets and investments. The Group's maximum exposure to credit risk from its customers is £30,688,000 (2019: £44,318,000) being the sum of the carrying value of trade receivables and accrued income, including contract assets, as disclosed within trade and other receivables in note 15. The Group regularly monitors and updates its cash flow forecasts to ensure it has sufficient and appropriate funds to meet its ongoing operational requirements.

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

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

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

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

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

The Group has established a provision matrix based on the payment profiles of sales, over the most recent 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 has been provided for on a specific basis and has resulted in an additional £495,000 impairment loss. Given the continued and changing uncertainty regarding the impact of COVID-19 on customer default risk, management will continue to monitor the situation and reassess its expected credit losses at each reporting period end accordingly. Management has taken the judgement to recognise this incremental impairment loss as exceptional on the basis outlined in the accounting policies.

On that basis, the loss allowance at 31 December 2020 was determined as £4,904,000 (2019: £4,413,000) for trade receivables and accrued income. A reconciliation of these balances is provided as follows:

	Accrued income £'000	Trade receivables £'000	Total £'000
At 1 January 2020	129	4,284	4,413
Increase in loss allowance recognised in profit or loss during the year - underlying	31	2,703	2,734
Increase in loss allowance recognised in profit or loss during the year - exceptional	—	495	495
Amounts reversed/written off during the year	—	(2,738)	(2,738)
At 31 December 2020	**160**	**4,744**	**4,904**

The underlying increase in loss allowance recognised at 31 December 2020 is largely attributable to certain individual trade receivables that have been impaired as a result of specific circumstances with customers. It also reflects the application of updated loss rates. As detailed above, an additional £495,000 impairment loss has been recognised in the year in relation to COVID-19.

Total net impairment losses on financial and contract assets were £3,229,000 in 2020 (2019: £3,824,000) including the £495,000 exceptional charge. Of this amount, £3,229,000 (2019: £3,824,000) relates to amounts arising from trade receivables and accrued income.

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

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

The Group monitors capital on the basis of a leverage ratio. This ratio is calculated as net debt divided by pre-exceptional EBITDA. Net debt is calculated as total borrowings less cash. Pre-exceptional EBITDA is calculated as operating profit before any significant exceptional items, interest, tax, depreciation and amortisation.

The objective of SMS's strategy is to deliver long-term value to its shareholders whilst maintaining a balance sheet structure that safeguards the Group's financial position. Earlier in the year, SMS announced its intention to pay a 25p per share dividend in respect of FY 2020 and the first of three interim dividend instalments was paid in October 2020. It also announced that the long-term index-linked cash flows from its existing asset base are able to support an intended annual increase of 10% in dividends for each of the financial years FY 2021, FY 2022, FY 2023 and FY 2024. This will result in a more predictable return to shareholders and reflects the forecast growth of the business over and above RPI in that period. The Group's strong liquidity position supports the funding of its contracted smart meter order pipeline, which will further add to its long-term index-linked cash flows.

20 Business combinations
Year ended 31 December 2020
During the year ended 31 December 2020, the Group acquired 100% of the issued share capital of the following companies:

Name of acquired company	Company number	Registered office prior to acquisition	Purchase consideration £	Acquisition date £	Nature of the Company
East Anglia Grid Storage One Limited	11110483	Salisbury House Station Road Cambridge CB1 2LA	1,575,882	16 October 2020	Special purpose vehicle
Burwell Power Limited	12028663				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 Pound Sterling. The acquisitions enable SMS to obtain control over the rights required to develop and commission two grid-scale battery storage sites, totalling 90MW, as part of the Group's investment strategy in CaRe assets. Grid-scale battery storage is a key asset class required by the UK energy system to provide flexibility services to balance the grid and support the continued introduction of more intermittent renewable generation. The acquired sites will be constructed over the next 12 months.

Details of the purchase consideration are as follows:

Name of acquired company	Cash paid £	Contingent consideration £
East Anglia Grid Storage One Limited and its subsidiary, Burwell Power Limited (together, 'Burwell')	1,375,882	200,000
Add Renewables No.3 Limited ('Barnsley')	1,156,500	187,500
Total purchase consideration	**2,532,382**	**387,500**

In the event that total connection costs per MW fall below various set thresholds, total additional consideration of up to £387,500 may be payable in cash upon energisation (when energy is first sold to the grid). Target energisation is currently end of 2021. The fair value of the contingent consideration recognised of £387,500 was estimated by calculating the present value of the future expected cash flows based on current budgets and forecasts. The estimate ignores the impact of discounting on the basis that the anticipated payment date is within 12 months of the current reporting date.

The assets and liabilities recognised as a result of the acquisitions were as follows:

	Burwell fair value £'000	Barnsley fair value £'000	Total fair value £'000
Cash and cash equivalents	94	—	94
Inventories: work-in-progress	1,757	1,681	3,438[1]
Trade and other receivables	39	—	39
Trade and other payables	—	(22)	(22)
Deferred tax liability	(314)	(315)	(629)
Net identifiable assets acquired	**1,576**	**1,344**	**2,920**
Add: goodwill	—	—	—
Net assets acquired	**1,576**	**1,344**	**2,920**

1 Total inventories of £3,438,000 include a fair value uplift of £2,683,000.

No contingent assets or liabilities were acquired.

A total fair value uplift of £2.7m (net of tax) was applied to the acquisition balance sheets in relation to development and construction rights, which have been included within work-in-progress and recorded as part of inventories on the consolidated balance sheet. The acquisitions therefore resulted in goodwill of £nil.

The entities acquired contributed £nil turnover or profit to the Group's results in the year ended 31 December 2020. If the acquisitions had occurred on 1 January 2020, consolidated pro-forma revenue and profit for the year ended 31 December 2020 would also have been £nil. No further adjustments were required as there were no material differences in the accounting policies between the Group and the entities acquired.

Acquisition related costs of £0.1m were incurred and have been recorded as part of administrative costs in the consolidated statement of comprehensive income. These have not been classified as exceptional on the basis that, through these acquisitions, the Group is establishing a trade of constructing and selling grid-scale batteries.

As part of the acquisition, lease liabilities of £2.2m were recognised relating to leases of land held by the acquired companies. Associated right-of-use assets of the same amount were recognised on the Group's consolidated balance sheet within property, plant and equipment.

Year ended 31 December 2019

On 5 September 2019 the Group acquired 100% of the issued share capital of Solo Energy Limited (company number 566746), a blockchain energy flexibility IT platform. The acquisition will enable SMS to utilise Solo's IT platform, which was still under development at 31 December 2019, to establish new long-term revenue streams from a decentralised energy grid.

The company's registered office address is West Building, Carrigaline Industrial Estate, Carrigaline, Co. Cork, and it reports in Euros.

Purchase consideration consisted of cash only. Total cash paid was 1,152,000 EUR (equivalent to £1,032,000 using an exchange rate of 1.1163 at 5 September 2019).

The assets and liabilities recognised as a result of the acquisition were as follows:

	Fair value £'000[1]
Intangible assets: capitalised development	697
Intangible assets: trademarks	96
Plant and equipment	6
Cash and cash equivalents	5
Trade and other receivables	4
Trade and other payables	(230)
Deferred income: government grants	(24)
Borrowings	(334)
Deferred tax liability	(16)
Net identifiable assets acquired	204
Less: pre-existing relationship	(167)
Add: goodwill	995
Net assets acquired	1,032

1 All net assets acquired have been translated using an exchange rate of 1.1163 at 5 September 2019.

No contingent assets or liabilities were acquired.

In addition to the borrowings acquired above of £334,000 Solo Energy Limited had a short-term loan of £167,000 due to an SMS subsidiary company at the date of acquisition. In accordance with IFRS 3, this pre-existing relationship was accounted for as "effectively" settled on acquisition by increasing the consideration transferred for the acquisition. The acquisition of Solo Energy Limited and the effective settlement of the receivable were recorded as separate transactions. No gain or loss was recognised as the receivable due from Solo Energy Limited was effectively settled at the recorded amount.

The goodwill is attributable to management expertise and the new, long-term revenue opportunities expected from the deployment of Solo Energy's IT platform. Goodwill will not be deductible for tax purposes.

The IT platform acquired was still under development at 31 December 2019. Therefore, for the period from 5 September to 31 December 2019, the acquired business contributed immaterial revenues and a net loss before taxation of £120,000 to the Group. If the acquisition had occurred on 1 January 2019, consolidated pro-forma revenue for the year ended 31 December 2019 would also have been immaterial and consolidated pro-forma loss for the year ended 31 December 2019 would have been approximately £384,000. No further adjustments were required as there were no material differences in the accounting policies between the Group and the entities acquired.

Acquisition related costs of £92,000 were incurred and were included as part of exceptional administrative costs in the consolidated statement of comprehensive income.

21 Deferred taxation

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

	2020 £'000	2019 £'000
Opening deferred tax liability	**13,779**	12,070
Increase in provision through consolidated statement of comprehensive income	**1,061**	1,544
Increase/(decrease) in provision through equity	**(714)**	149
Deferred tax in respect of acquisitions and disposals	**(5,615)**	16
Closing deferred tax liability	**8,511**	13,779

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

	2020 £'000	2019 £'000
Excess of taxation allowances over depreciation on property, plant and equipment	**7,134**	11,691
Tax losses available	**(125)**	(1)
Deferred tax asset on share options	**(1,676)**	(992)
Deferred tax on intangibles acquired	**684**	58
Other	**2,494**	3,023
	8,511	13,779

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

	2020 £'000	2019 £'000
Accelerated capital allowances	**1,688**	(478)
Tax losses	**(124)**	95
Deferred tax asset on share options	**29**	(85)
Movement in fair value of intangibles	**626**	(106)
Other	**(1,158)**	2,118
	1,061	1,544

At 31 December 2019, the main rate of corporate taxation was expected to reduce from 19% to 17% effective 1 April 2020, as a result of the Finance Act 2016, which was substantively enacted on 6 September 2016. Deferred tax at 31 December 2019 was thus predominantly provided at 17%, being the tax rate at which temporary differences are expected to reverse. However, the March 2020 Budget announced that the rate of 19% would continue to apply with effect from 1 April and this change was substantively enacted on 17 March 2020. The opening deferred tax liability of £13,779,000 has thus been remeasured at 19% giving rise to deferred tax charge of £1,564,000 in the current year.

Further to the Budget announcement on 3 March 2021, the Chancellor has stated Government's intention to raise the future corporate tax rate to 25%, effective post 1 April 2023. If this change to the UK tax rate change were to be substantively enacted, it would result in an increase to the group's closing deferred tax liability of up to £2,688,000.

The Group had unrecognised tax losses of £954,000 (2019: £763,000) in a subsidiary undertaking at 31 December 2020. The Group also had unrecognised capital losses of £729,000 (2019: £729,000) in subsidiary undertakings at 31 December 2020.

22 Related party transactions

22 (a) Subsidiaries

The Group's subsidiaries at 31 December 2020 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares, and the proportion of ownership interests held equals the voting rights held by the Group. The country of registration is also their principal place of business.

	Registered office	Holding	Proportion of shares held	Nature of business
SMS Connections Limited	1	Ordinary shares	100%	Gas utility connections
SMS Meter Assets Limited	1	Ordinary shares	100%	Gas and electric asset management
SMS MAPCO 1 Limited	2	Ordinary shares	100%	Gas and electric asset management
SMS MAPCO 2 Limited	2	Ordinary shares	100%	Gas and electric asset management
SMS Data Management Limited	1	Ordinary shares	100%	Data management
Smart Metering Systems PTY Limited (Australia)	4	Ordinary shares	100%	Data management
UKMA (AF) Limited*	2	Ordinary shares	100%	Funding
SMS Corporate Services Limited	1	Ordinary shares	100%	Administrative services
SMS Asset Management Limited*	2	Ordinary shares	100%	Gas and electric third-party asset management
SMS Energy Services Limited	2	Ordinary shares	100%	Electricity utility connections and management
CH4 Gas Utility and Maintenance Services Limited*	2	Ordinary shares	100%	Meter installation
SMS Utilities Academy Limited*	2	Ordinary shares	100%	Engineer training and development
Trojan Utilities Limited*	2	Ordinary shares	100%	Meter installation
Qton Solutions Limited*	2	Ordinary shares	100%	Business and domestic software development
Smart Battery Systems Limited	2	Ordinary shares	100%	Holding company
Solo Energy Limited (UK)*	1	Ordinary shares	100%	Renewable asset management
Solo Energy Limited (Ireland)*	3	Ordinary shares	100%	Renewable asset management
Care Assets Limited	2	Ordinary shares	100%	Holding company
Add Renewables No.3 Limited*	2	Ordinary shares	100%	Renewable asset management
Burwell Power Limited*	2	Ordinary shares	100%	Holding company
East Anglia Grid Storage One Limited*	2	Ordinary shares	100%	Renewable asset management

* The shareholding in this company is indirect via a subsidiary company.
1 Registered office address: 2nd Floor, 48 St. Vincent Street, Glasgow G2 5TS.
2 Registered office address: Prennau House, Copse Walk, Cardiff Gate Business Park, Cardiff CF23 8XH.
3 Registered office address: West Building, Carrigaline Industrial Estate, Carrigaline, Co. Cork.
4 Registered office address: KPMG, 'Tower 3' Level 38, 300 Bangaroo Avenue, Sydney, NSW 2000.

22 (b) Key management personnel compensation

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

	2020 £'000	2019 £'000
Short-term employee benefits	**3,024**	1,557
Post-employment benefits	**28**	22
Share-based payments	**219**	186
	3,271	1,765

22 (c) Directors

(i) Directors' emoluments

Aggregate remuneration for both Executive and Non-executive Directors in respect of qualifying services was:

	2020 £'000	2019 £'000
Aggregate emoluments	**2,010**	877
Company contributions to money purchase pension scheme	**18**	11
Company contributions to private pension plan	**—**	—
	2,028	888

In 2020, no amount was payable to Directors as settlements following resignation (2019: no amount was payable to Directors).

(ii) Emoluments of highest paid Director

	2020 £'000	2019 £'000
Emoluments	**796**	377

In addition, rent was paid into the highest paid Director's personal pension scheme. See note 22 (d) for further details.

(iii) Number of Directors who accrued benefits under Company pension schemes

	2020 Number	2019 Number
Money purchase schemes	**2**	2

22 (d) Other transactions with related parties

A number of key management personnel hold positions in other entities that result in them having control or significant influence over the financial or operating policies.

A number of these entities transacted with the Group in the reporting period. The terms and conditions of the transactions with key management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel and related entities on an arm's length basis.

During the period, the Group entered into the following transactions with related parties:

- Rent amounting to £41,500 (2019: £41,500) paid to the Directors' pension scheme, Eco Retirement Benefit Scheme, for the use of certain premises. Alan Foy is a trustee of the scheme. At the year-end date, an amount of £Nil (2019: £Nil) was outstanding in this regard.
- The Group paid dividends to Alan Foy of £441,930 (2019: £281,382), The Metis Trust[1] of £97,470 (2019: £56,520), Metis Investments Limited[2] of £105,332 (2019: £Nil), Tim Mortlock of £570 (2019: £121), David Thompson of £325 (2019: £84), Miriam Greenwood of £2,529 (2019: £1,046), Willie MacDiarmid[3] of £271 (2019: £372), Graeme Bissett of £901 (2019: £333) and Jamie Richards of £244 (2019: £nil).
- During 2019, SMS Utilities Academy Limited purchased a group of assets and liabilities for £27,500 from Utilities Academy Limited – a third-party smart meter training facility in which another subsidiary undertaking, Trojan Utilities Limited, had a minority shareholding. The net assets purchased were previously used by Utilities Academy Limited in its business of providing training to dual fuel smart meter engineers on behalf of third-party customers. Utilities Academy Limited went into administration on 28 March 2019, at which point the cost of Trojan Utilities Limited's minority investment in the company was written off.

1 Alan Foy is a trustee but not a beneficiary.
2 Alan Foy is a Director and shareholder.
3 Paid to a connected person.

23 Share capital

	2020 £'000	2019 £'000
Allotted and called up:		
112,946,331 ordinary shares of £0.01 each (2019: 112,811,122 ordinary shares of £0.01 each)	**1,129**	1,128

During the year 134,793 (2019: 125,519) ordinary share options were exercised in relation to the Group's employee share plans which are described in note 24. The ordinary shares issued have a nominal value of £1,000 (2019: £1,000) and aggregate consideration of £362,000 (2019: £419,000) was received.

In addition, a scrip dividend was offered to shareholders in respect of the first interim dividend, paid on 29 October 2020, which allowed shareholders to elect to receive ordinary shares of 1p each in the Company in lieu of a cash dividend. Based on a scrip dividend reference price of 634.6p a total of 416 new ordinary shares were issued with a nominal value of £4. The excess value of the shares over their nominal value of £3,000 has been recorded as share premium.

In 2019, 137,553 shares were issued during the year in relation to deferred remuneration arising on the acquisition of a subsidiary in 2016, settled in shares in April 2019. The ordinary shares issued had a nominal value of £2,000 and a fair value of £829,000. No consideration was received for these shares. The total fair value of £829,000 was recognised directly within retained earnings and the difference between the fair value and nominal value of £827,000 was recognised within share premium.

The Group's Share Incentive Plan is administered by the Smart Metering Systems SIP Trust (the trust), which acquires shares in SMS (own shares) to satisfy awards under this plan and facilitate the delivery of shares to participants. At 31 December 2020, 140,695 (2019: 146,412) own shares were held in trust with a carry value of £749,000 (2019: £768,000) and a market value of £1,000,000 (2019: £827,000). The Company purchased 28,354 shares (2019: 67,220) from the market during 2020 with a weighted average fair value of £5.68 per share (2019: £5.20).

24 Share-based payments

24 (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 his 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.

(i) Summary of options

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

Plan	At 1 January 2020	Granted	Exercised	Forfeited	Expired	**At 31 December 2020**	Exercise price (pence)	Date exercisable	Expiry date	Fair value at grant (pence)
CSOP	**25,853**	—	—	—	—	**25,853**	76.0	15 Jul 2014	15 Jul 2021	17.1
Unapproved	**321,666**	—	—	—	—	**321,666**	60.0	20 Jun 2016	20 Jun 2021	13.0
Unapproved	**380,000**	—	(55,000)	—	—	**325,000**	153.5	28 May 2017	28 May 2022	40.0
Unapproved	**40,000**	—	—	—	—	**40,000**	350.0	12 Nov 2019	12 Nov 2024	84.8
Unapproved	**657,878**	—	(79,793)	—	—	**578,085**	350.0	12 Nov 2019	12 Nov 2024	84.8
Unapproved	**34,099**	—	—	(8,033)	—	**26,066**	391.8	20 Mar 2021	19 Mar 2026	61.5
Unapproved	**38,586**	—	—	—	—	**38,586**	410.0	4 Jul 2021	3 Jul 2026	114.3
Unapproved	**90,706**	—	—	(32,186)	—	**58,520**	470.0	18 Aug 2021	17 Aug 2026	87.2
Unapproved	**100,000**	—	—	—	—	**100,000**	529.0	1 Sep 2021	31 Aug 2026	141.5
Unapproved	**50,000**	—	—	—	—	**50,000**	529.0	26 Sep 2021	25 Sep 2026	142.4
Unapproved	**9,091**	—	—	(9,091)	—	—	550.0	28 Nov 2021	28 Nov 2026	141.0
Unapproved[1]	**479,001**	—	—	(10,000)	—	**469,001**	700.0	1 Jan 2023	13 Jul 2028	125.2
Unapproved[2]	**12,000**	—	—	—	—	**12,000**	602.8	13 Sep 2023	12 Sep 2028	154.3
Unapproved[1]	**479,000**	—	—	(10,000)	—	**469,000**	700.0	1 Jan 2023	13 Jul 2028	34.6
Unapproved[2]	**12,000**	—	—	—	—	**12,000**	602.8	13 Sep 2023	12 Sep 2028	98.0
Unapproved	**370,000**	—	—	—	—	**370,000**	454.6	5 Sep 2024	4 Sep 2029	111.5
Unapproved[1]	—	469,000	—	—	—	**469,000**	700.0	1 Jan 2023	13 Jul 2028	37.2
Unapproved[2]	—	12,000	—	—	—	**12,000**	602.8	13 Sep 2023	12 Sep 2028	105.6
Unapproved[3]	—	76,000	—	—	—	**76,000**	577.4	26 Jun 2025	25 Jun 2030	59.3
Total	**3,099,880**	557,000	(134,793)	(69,310)	—	**3,452,777**				

1 These options relate to the first three, of five, tranches.
2 These options relate to the first three, of five, tranches.
3 Options of 76,000 relate to the first of five tranches.

The weighted average share price at the date of exercise of options exercised during the year ended 31 December 2020 was £6.06 (2019: £5.39).

(ii) Fair value of options granted

The assessed fair value at the valuation date of options granted during the year ended 31 December 2020 ranged from 37.2p to 105.6p, as disclosed in the table above (2019: 34.6p to 111.5p). The fair value of options granted is estimated using appropriate option pricing models, taking into account the exercise price, the term of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield, the risk-free rate 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 2020	31 December 2019
Dividend yield (%)	**4.3**	1.00 to 1.37
Expected volatility (%)	**35.70 to 39.04**	30.32 to 30.55
Risk-free interest rate (%)	**(0.05) to (0.06)**	0.43 to 0.60
Expected option life (years)	**3.03 to 5.00**	4.04 to 5.00
Exercise price (£)	**5.77 to 7.00**	4.55 to 7.00
Share price at grant date (£)	**5.79 to 5.81**	4.64 to 5.31
Fair value at grant date (£)	**0.37 to 1.06**	0.35 to 1.12

Where the options granted have a market performance condition attached, the Group has used a Monte Carlo model in order to allow for the impact of this condition. Where there is no market performance condition attached, the Group has used the traditional Black-Scholes model. The dividend yield was determined using the published yield at the date of grant. The expected volatility reflects the assumption that historical volatility, as measured over several different periods, is indicative of future trends, which may not necessarily be the actual outcome. The risk-free interest rate is taken from a government bond yield rate with a redemption period consistent with the corresponding vesting period of the options. The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur.

The expense recognised in 2020 for all options is £357,000 (2019: £353,000).

24 (b) Share Incentive Plan (SIP)

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

The table below shows the number of shares held in the SIP at the beginning and end of the year.

Type of award	At 1 January 2020	Awarded shares	Sold/transferred	Forfeited	**At 31 December 2020**	Weighted average acquisition price
Partnership	203,247	59,992	(41,120)	—	**222,119**	5.40
Matching	200,915	59,992	(18,971)	(22,048)	**219,888**	5.40
Dividend	8,290	7,179	(1,062)	—	**14,407**	5.80
Total	412,452	127,163	(61,153)	(22,048)	**456,414**	

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

The fair value of the Matching Shares at the award date is equal to the share price at the award date. The weighted average fair value per share of the Matching Shares awarded during 2020 was approximately £6.08 per share (2019: £5.26). The total fair value of Matching Shares awarded is recognised over the three-year period starting on the respective award dates.

The expense recognised in 2020 for all Matching Shares is £269,000 (2019: £250,000). No expense is recognised for the Partnership Shares and Dividend Shares because the participants pay full market value for these shares.

25 Other reserve

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

26 Commitments under operating leases

The Group's commercial leases for certain vehicles, office and warehouse space are accounted for under IFRS 16 with effect from 1 January 2019 and are thus excluded from the below operating lease commitments disclosure.

Commitments under operating leases include the Group's commercial leases for its fleet vans and items of office equipment. These leases are either short term (the contract term is less than 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 by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at each year end are as follows:

	2020 £'000	2019 £'000
Future minimum commitments under operating lease agreements are as follows:		
Payable within one year	**59**	61
Payable within two and five years	**41**	19
Payable after five years	**—**	—
	100	80

27 Capital commitments

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

	2020 £'000	2019 £'000
Property, plant and equipment	**—**	579
Intangible assets	**160**	1,233
Inventory – work-in-progress	**9,370**	—

Capital expenditure of £9,370,000 contracted for in relation to inventory relates to the Group's grid-scale battery storage projects that are currently under construction.

Included within the capital expenditure on intangible assets in 2019 was £1,041,000 in relation to the implementation of a new ERP system across the Group.

28 Contingencies

The Group has a contingent success fee arrangement in place with a supplier totalling £0.75m that becomes payable should certain contractual conditions be met. At the date of signing these conditions had not been met.

29 Ultimate controlling party

There is no ultimate controlling party by virtue of the structure of shareholdings in the Group.

30 Post balance sheet events

30 (a) Acquisition of I&C HH electricity meter portfolio

As announced on 3 March 2021, the Group concluded an agreement to acquire a portfolio of c.15,000 I&C large power HH electricity meters for cash consideration of £8.25 million.

The assets have an average life of 4.6 years and will add £1.1 million meter rental to the Group's ILARR. As part of the transaction, which is scheduled to complete in early April 2021, SMS will also take ownership of the data service contracts associated with over 20,000 meters, which will initially generate a further net £2 million of data annualised recurring revenue.

30 (b) Acquisitions of grid-scale battery storage projects

On 9 March 2021 the Group entered into arrangements to acquire the rights to 100MW of grid-scale battery storage projects.