

15 March 2022

Smart Metering Systems plc

Full year results

Strong 2021 performance, well-positioned for growth

Smart Metering Systems plc (AIM: SMS, "SMS", "the Group"), which installs and manages smart meters, energy data, grid-scale battery storage and other carbon reduction ("CaRe") assets, today publishes its full year results for the year ended 31 December 2021.

2021 financial performance

£'000	2021	2020 ¹
Alternative performance measures		
Index-linked annualised recurring revenue (ILARR) ²	85,860	76,982
Pre-exceptional EBITDA ³	52,766	49,894
Underlying profit before taxation ⁴	18,267	15,246
Underlying basic EPS (p) ⁵	9.60	9.56
Statutory performance measures		
Group revenue	108,480	102,982
EBITDA ⁶	46,288	231,632
Profit before taxation ⁶	8,293	194,964
Basic EPS (p)	3.20	171.65
Dividend per share (p)	27.5	25.0
Net cash	117,687	40,236

¹ 2020 measures 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.

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.

⁶ 2020 measures for statutory EBITDA and statutory profit before taxation include a non-recurring gain of £194,713,000 on the I&C meter portfolio disposal.

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

Highlights

Financial

- ILARR at 31 December 2021 up 12% to £85.9m (2020: £77.0m)
- Pre-exceptional EBITDA up 6% to £52.8m (2020: £49.9m), up 17% like-for-like⁷
- Underlying profit before taxation marginally ahead of upgraded expectations, up 20% to £18.3m (2020: £15.2m), up 58% like-for-like⁷
- Acquired I&C meter portfolio and data service contracts initially adding c.£3.1m of ILARR
- Completed £175m equity raise in October and refinanced debt facility increased to £420m
- Net cash at 31 December 2021 of £117.7m (2020: £40.2m)

Dividend

- +10% year-over-year, in line with policy until 2024; covered by long-term index-linked cash flows from existing metering and data asset base

Smart meters

- Smart meter installation run rate increased to over 30,000 per month in the second half of the year; currently installing 9.4% of all new smart meters in the UK; targeting progressive improvement in meter install run rate
- Exclusivity agreement with Shell Energy Retail Limited extended until December 2025
- Contract wins totalling 900,000 meters in 2021; net of installations, the contracted smart meter order pipeline improved to c.2.55m (31 December 2020: c.2.0m)
- Negligible impact on pipeline from the failure of some energy suppliers; customer base strengthened

Grid-scale batteries

- Grid-scale battery pipeline increased to 620MW (31 December 2020: 267MW⁸):
 - 50MW site at Burwell now operational (January 2022)
 - 270MW fully secured, including a 30MW site acquired in February 2022
 - 300MW under exclusivity
- Second site of 40MW expected to be operational by mid-2022 and further 100MW during H1'23

Developing CaRe assets

- Installation of electric vehicle charge points commenced as part of Virgin Media Park and Charge project
- Behind-the-meter smart solar and battery solution launched with initial pilot projects
- Continued progress in the development of wider CaRe products and services

Environmental, Social and Governance (ESG)

- Strong progress towards 'net zero by 2030' target, led by energy upgrades to estate and fleet
- Highest scoring range achieved for 'Corporate Governance' by Morgan Stanley Capital International (MSCI)

7 Like-for-like adjusted for the I&C metering and data portfolio acquisition in 2021 and the prior year I&C meter portfolio disposal.

8 267MW grid-scale battery pipeline was increased to 470MW in March 2021 and then to 620MW in November 2021.

Tim Mortlock, Chief Executive Officer, commented:

"Throughout 2021, SMS has demonstrated the strength of its business model, delivering profit ahead of upgraded expectations, growth in index-linked annualised recurring revenue and concluding the year with a strong cash position. Given COVID-19 related operational challenges and recent turbulence in the UK energy market, these are impressive results.

"Our contracted smart meter order pipeline remains solid and now more favourably weighted to larger, well-financed independent energy suppliers, and supported by the extension to our exclusivity agreement with Shell Energy Retail. We expect our installation rate to progressively increase throughout the coming year.

"We made excellent progress in the development of our grid-scale battery storage assets. The pipeline increased significantly to 620MW, and we finished the year with energising our first 50MW battery site at Burwell – ahead of programme and on budget. With construction of our wider secured pipeline progressing well, and our second 40MW site expected to be operational by mid-2022, we will soon be able to demonstrate the attractiveness of the underlying revenue streams and their importance as critical energy infrastructure.

"Looking ahead, the year has started well, and we are confident with our previously guided expectations for 2022. Our strong balance sheet and a resilient, growing smart meter and grid-scale battery pipeline make SMS well-positioned for further growth.

"Lastly, after nearly two decades with the business, Alan Foy stepped down as CEO on 1 March 2022. I, along with the Board, wish to thank him for the tremendous work he has done to drive and deliver sustained growth and success to SMS. We all wish Alan the very best for the 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.

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Notes to Editors

Smart Metering Systems plc (www.sms-plc.com) is a fully integrated energy infrastructure company, which installs and manages smart meters, energy data, grid-scale battery storage and other carbon reduction ("CaRe") assets. The Group manages and optimises these assets through its in-house technology and data analytical platform "METIS".

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

SMS is leading the low carbon, smart energy revolution in the UK and is committed to reducing its own carbon emissions to net zero by 2030. SMS has been recognised with the London Stock Exchange's Green Economy Mark every year since it was introduced in 2019.

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

SMS's shares are listed on AIM.

Overview

The Group's resilient business model has delivered significant strategic progress and a strong financial performance in 2021 with underlying profit before tax marginally ahead of already upgraded consensus expectations at £18.3m. Group index-linked annualised recurring revenue grew 12% to £85.9m.

Our contracted smart meter pipeline increased by 900,000 meters to c.2.55 million, net of meters installed in 2021. While the failure of some energy suppliers has resulted in some movement in our customers' metering portfolios, the net impact on the Group's pipeline has been negligible. We have also benefitted from a strengthening in our customer base as some portfolios have consolidated into larger SMS customers through the Supplier of Last Resort (SoLR) process.

We made considerable progress in developing the pipeline of our grid-scale battery storage assets. The total pipeline increased to 620MW, of which the first 50MW battery site at Burwell became operational in January 2022. Another 270MW is fully secured, of which 40MW is scheduled to become operational mid-2022 and a further 100MW is scheduled to become operational during H1 2023. The remaining 300MW is under exclusivity.

This strong operational performance is testament to the continued dedication and commitment of our people, who remain at the heart of driving our mission to deliver carbon reduction energy solutions. The existing meter and grid-scale battery pipelines, once fully installed, are expected to add a combined c.£77m of EBITDA.

In September, we were pleased to complete a successful £175m equity raise and a refinancing of our debt facility to £420m, which was well supported by our investors and lenders. This funding, together with internally

generated cash, will enable us to invest in our existing contracted pipelines, whilst also positioning the business to progress wider-identified growth opportunities and drive long term shareholder value.

Our established CaRe products, which include meters, energy data and grid-scale batteries, provide significant additional market opportunity. Our CaRe asset portfolio also reinforces SMS's position within and beyond the UK smart meter rollout to drive the broader 'net zero' agenda and UK energy transition.

Dividend

In line with the Group's stated policy of increasing the dividend by +10% year-on-year until 2024, the Board is proposing a 27.5p per share dividend (FY 2020: 25.0p). The dividend demonstrates the sustainable growth delivered by SMS's strategy and is covered by long-term index-linked cash flows from the existing metering and data asset base.

Financial review

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

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

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

UK smart meter rollout

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

SMS succeeded in restoring its smart meter installation rate to c.30,000 per month following the challenges of COVID-19 and currently installs 9.4% of all smart meters across the UK. With a well-balanced engineering workforce, comprising both direct and sub-contract labour, we are well placed to progressively improve our run rate through the remainder of the UK smart meter rollout.

Grid-scale battery storage

The total grid-scale battery pipeline increased to 620MW as at 31 December 2021 (2020: 267MW). Since the year end, we have acquired a further 30MW grid-scale battery site, taking the total fully secured to 270MW in addition to the 50MW we now have operational. The remaining 300MW is under exclusivity. Further to the launch of our first 50MW site at Burwell in January 2022 we expect to have our second 40MW site operational by mid-2022 with a further 100MW expected to become operational during H1 2023. As these assets become operational in the year, we expect to evidence the quality of the underlying revenue streams from this critical energy infrastructure.

The economics of this asset class are attractive with an initial EBITDA yield of c.11-14% against a build cost of c.£380,000 per MW, from an asset whose base electrical infrastructure has an expected life in excess of 40 years (with battery cell replacement around every 10 years). The economic profile of these assets thus provides long-term returns after a relatively short construction phase of typically one year or less.

As early evidence of the returns expected from these assets, we have secured strong contracted revenues from the recent capacity market T-1 and T-4 auctions.

ESG progress and sustainability

ESG remains at the core of SMS's culture and operations. Our ESG responsibilities are an integral element of our business model and critical to our commitment to managing risk in all areas of the Company. Our business is intrinsically linked with tackling one of the greatest challenges of our time - carbon reduction - and we are proud to be utilising our passion and innovation to work with the global community as part of the solution.

Key developments in 2021 include:

Environmental:

- Recognised with the London Stock Exchange's Green Economy Mark for another consecutive year.
- Scope 1 and Scope 2 emissions fell by 29% in 2021 when compared with 2019. Although during the year these emissions rose 19% compared to 2020, distorted by the impact of COVID-19.
- Carbon emissions mitigated through the use of our products and services increased 17% in 2021.
- Energy upgrades progressed within both our estate and fleet:
 - More than 90% of company cars transitioned to plug-in hybrid.
 - Several electric vehicle vans received as trial vehicles to test their viability and suitability.
 - Upgrades commenced on our first office, with extensive surveying activity across a range of energy efficiency and renewable solutions.

Social:

- SMS is now a signatory of the Business in the Community Race at Work Charter, ensuring our workplaces are tackling barriers ethnic minority people face in recruitment and progression.
- We have become a Level 3 Disability Confident Leader, the highest level possible.
- Renewed focus on equality, diversity and inclusion (EDI) led by the Board through the launch of a partnership with the Hive Inclusion Works programme.
- Group employee survey completed for the second time with a 75% response rate, up 25 percentage points on the inaugural launch of the survey in 2020.
- Several initiatives launched to support local communities and biodiversity efforts whilst constructing grid-scale battery projects.

Governance:

- Dedicated board subcommittee for Health, Safety, and Sustainability operating effectively, headed by the Group's Chairman Miriam Greenwood.
- Completion of annual Carbon Disclosure Project (CDP) submission in July, aligning with the key requirements under TCFD (Taskforce for Climate-related Financial Disclosure) of climate-related governance, strategy, risk management, metrics and targets.
- Successfully concluded the ISO50001 external audit process and completed our external ISO re-certification audits with zero non-conformities or observations.
- Morgan Stanley Capital International (MSCI) weighted average performance improved from 6.3 to 6.6 (on scale of 10) and Sustainalytics risks rating improved from 27.8 to 26.6 (on scale of 0-50).

Current trading and outlook

The Group's installation run rate has continued to average c.30,000 meters per month in the early part of 2022. The Group expects progressive improvement in this run rate through the year.

At the end of February 2022, the Group's ILARR stood at £86.8m (31 December 2021: £85.9m).

The trading performance of our first 50MW grid-scale battery project is in line with our expectations and the project has accessed all available forms of revenue streams.

We have a strong balance sheet and the net proceeds of the 2021 equity placing, alongside our new debt facility and strong internal cash generation, give us the financial and operational flexibility to help fund our growing smart meter and grid-scale battery pipelines.

We remain well positioned in the UK's energy market, with significant additional growth opportunities for our established and developing CaRe products and services.

The Board remains confident of the consensus expectations for the current financial year ("FY 2022").

Management succession

After nearly two decades with the business, Alan Foy decided to step down as Chief Executive Officer on 1 March 2022. In that time, Alan dedicated himself to building the business into a full end-to-end energy solutions provider. He leaves the business positioned with a strong platform for continued, sustainable growth in the coming years.

The Board appointed Tim Mortlock to replace Alan as Chief Executive Officer. Tim has worked closely alongside Alan for several years and has been central to the development and delivery of SMS's strategy, most recently as Chief Operating Officer.

Operational review by division

Asset management:

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

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

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

Our integrated model continues to enable us to originate smart meter assets with market-leading returns, with the index-linked nature of our rentals providing strong protection against an inflationary environment. We have also taken measures to fix the purchase cost of meters for a large proportion of our pipeline.

The metering market is not immune to global supply chain issues. This was evident during the year with a combination of COVID-19 and Brexit impacting the production and delivery of stock from our key suppliers, and global chip shortages. However, we have taken further steps to diversify our supply chain and have revised our stock management policies to ensure we hold significant buffer stock within our UK distribution warehouses, thereby ensuring stock availability is not a constraint in delivering our meter pipeline.

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

Asset installation:

Installation activities remained restricted by national lockdowns in the first quarter of the year, especially in Scotland. Vigilant compliance with updated health and safety working practices was enforced to protect both our teams and customers. The impact of COVID-19 has led to the UK smart meter rollout being extended to the end of 2025, with annual binding installation targets on energy suppliers from the beginning of 2022.

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

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

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

Energy management:

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

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

It has been a transformative year for our ambitions in grid-scale battery storage with our first site in Burwell, Cambridgeshire (50MW) now fully operational following commissioning in January 2022. We deliver these grid-scale projects from initial construction through to ongoing operation, trading, maintenance and asset management. The cash flows from grid-scale batteries, once energised, are fundamentally driven by the daily requirement for balancing services on the grid which, in tandem with growth in intermittent renewable generation, is substantially increasing the need for such services. The counterparties to these services are the system operators – National Grid and the distribution network operator (DNO) – providing strong revenue protection, allied with strong battery warranty protections.

The increase in wholesale energy costs, which will inevitably flow through to both I&C and domestic energy charges, drives greater urgency for innovative solutions which address consumption, cost and the net-zero challenge. We continue to develop solutions, aligned to our established technology platforms and engineering capabilities, to address these challenges:

- **EV infrastructure:** we are developing solutions in the domestic and destination (both workplace and on-street) parts of the market and remain lead coordinators on the Virgin Media Park and Charge ("VPACH") project, which is establishing on-street charging solutions. Installations of EV chargers as part of the VPACH project have commenced and it is expected that approximately 600 charging sockets will have been installed by the end of the project. We have the engineering skills and knowledge to establish and originate destination charging infrastructure and its electrical connection to the grid, utilising our established and scalable field management platform. Our training academy is also now able to train engineers to install EV chargers at the domestic level.
- **Solopower (behind-the-meter smart solar and storage):** our Solopower solution, which aims to radically reduce carbon emissions within the UK's social housing stock, was launched in 2021. To deliver this solution, we are partnering with local councils and housing associations to upgrade the energy performance of social housing accommodation significantly through the use of solar generation and battery storage, supported by our FlexiGrid™ technology platform. Pilot projects are being progressed in over 1,000 homes across the UK, as well as early-stage projects in the Republic of Ireland.
- **Heat meters and networks:** we have successfully delivered a pilot solution to a nation-wide hotel chain for smart heating controls, and we are working with other existing and potential customers to explore alternative heat solutions. In April 2021 we announced our partnership with Aberdeen City Council to roll out fabric retrofits and air-sourced heat pumps, alongside the Group's Solopower solution, to a group of homes, thereby trialling a 'whole-house' approach to the domestic decarbonisation challenge. This project is expected to progress through 2022.
- **Energy efficiency:** with more than 20 years of energy efficiency consulting and project delivery experience, we are developing capital projects which will deliver reduced energy consumption for our I&C customer base. These projects are often linked to, and identified by, the data services we can provide from smart and advanced meters – for example, using smart energy control solutions for energy management and LED lighting projects. By aligning capital with this expertise, we can deliver

cost savings and permanent carbon reduction for our customers whilst generating long-term recurring revenues for the Group.

Whilst these verticals are at various stages of development, we have established trials and pilots in all of them and are developing the commercial models and pipelines accordingly. All of these products are closely aligned to our existing vertically-integrated technology and engineering platform, and indeed are complementary to each other – we are positioning our business in areas in which we already have substantial experience and capability. These markets also all share two key characteristics – they reduce carbon, and they each provide a substantial growth market opportunity.

Financial review

Revenue

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

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

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

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

Gross margins

Overall, the depreciation-adjusted gross margin at the Group level increased by 6% to 77% (2020: 71%). SMS includes depreciation on revenue-generating assets within cost of sales and removing this from the gross margin provides a better comparison of the Group's underlying trading performance year on year.

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

The energy management gross margin has increased to 24% (2020: 22%), with the 2020 margin impacted by a non-recurring project delivered by Solo Energy in the year at a slightly lower margin. With a predominantly variable cost of sales base, reductions in revenue have been largely offset by equivalent reductions in cost of sales.

EBITDA

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

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

- c.£1m of this increase relates to expenditure incurred to restore our supporting functions to a normalised state following COVID-19 lockdowns, in areas such as marketing, training, recruitment, and professional services.
- As noted above we have worked hard to drive operational efficiency and cost control within our asset installation business, and a key enabler of this has been continued investment (c.£1m) in our IT and support systems with the aim of unifying legacy platforms in areas such as field service management, warehousing, and logistics.
- The considerable turbulence in the UK energy market in the second half of the year, as a result of increases in wholesale gas prices, has placed significant pressure on energy suppliers and caused a large number of companies to exit the market. Whilst the Supplier of Last Resort (SoLR) process provides us with a degree of protection over the long term, we are exposed in the short term where there are unpaid charges incurred prior to the supplier exiting the market. During 2021 we saw an increase in bad debt charges of c.£1m year on year.

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

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

Operational and pre-tax profits

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

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

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

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

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

Exceptional items

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

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

- £0.8m (2020: £6.4m) of costs that would have ordinarily been capitalised as directly attributable to the installation of meter assets – consisting primarily of staff costs – have been recognised as exceptional in line with the same principles as those applied in the prior year. This amount is substantially reduced due to the lifting of restrictions in 2021, and largely represents costs related to the Scottish workforce being unable to work in the early part of the year.
- In the prior year, management had recognised an exceptional bad debt charge of £0.5m in relation to a sub-portfolio of smaller, independent customers, who were identified as having a potentially elevated credit risk as a direct consequence of COVID-19 and were provided for on a specific basis. As at 31 December 2021 this provision has been reduced to £nil, reflecting positive recovery trends over the past twelve months, and giving rise to a £0.4m credit in the current year financial statements (net of write offs). Whilst we will continue to monitor the situation, we are of the view that there is no longer significant uncertainty regarding the impact of COVID-19 on our customer default risk. Consistent with the recognition of the original impairment loss in the prior year, we have recognised this write back as exceptional.
- A successful COVID-19 insurance claim against business recovery costs of £0.1m was also received in the year, recognised as an exceptional credit in line with the recognition of the original costs in the prior year.

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

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

Effective tax rate

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

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

The Group's deferred tax balance of £12.2m (2020: £8.5m) is primarily made up of £11.0m (2020: £7.1m) in respect of accelerated capital allowances.

Earnings per share

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

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

Dividend

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

In line with the Group's policy announced last year, a 27.5p per share dividend is proposed in respect of FY 2021, representing 10% growth on the FY 2020 dividend as planned. Consistent with FY 2020, this is expected

to be settled in four equal quarterly instalments. Two instalments have already been paid, in October 2021 and January 2022 respectively, with the following timetable for the remaining instalments:

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

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

Cash flow

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

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

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

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

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

Financial resources

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

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

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

Transaction costs of £2.4m directly attributable to the establishment of the new facility will be amortised over the remaining term to 2025.

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

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

The Group was fully compliant with all its bank covenants through the year and at 31 December 2021.

Our financial resources continue to provide the financial flexibility required to maximise pipeline growth in a capital-efficient way.

Definitions of alternative performance measures

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

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

Reconciliation of statutory to underlying results

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

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

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

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

Consolidated income statement

For the year ended 31 December 2021

		2021	2021		2020	2020	
		Before	Exceptional	2021	Before	Exceptional	2020
		exceptional	Items ¹	Total	exceptional	items	Total
	Notes	£'000	£'000	£'000	£'000	£'000	£'000
Revenue	2	108,480	–	108,480	102,982	–	102,982
Cost of sales	3	(48,316)	(829)	(49,145)	(49,980)	(4,890)	(54,870)
Gross profit		60,164	(829)	59,335	53,002	(4,890)	48,112
Administrative expenses	3	(41,866)	(5,649)	(47,515)	(36,845)	(8,085)	(44,930)
Other operating income	3	1,696	–	1,696	1,723	–	1,723
Gain on disposal of subsidiary	4	–	–	–	–	194,713	194,713
Profit from operations	3	19,994	(6,478)	13,516	17,880	181,738	199,618
Finance costs	6	(3,488)	(1,742)	(5,230)	(4,705)	(115)	(4,820)
Finance income	6	7	–	7	166	–	166
Profit before taxation		16,513	(8,220)	8,293	13,341	181,623	194,964
Taxation	7	(6,479)	1,978	(4,501)	(4,103)	2,618	(1,485)
Profit for the year attributable to owners of the parent		10,034	(6,242)	3,792	9,238	184,241	193,479

1 Refer to note 3 for details of exceptional items.

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

	Notes	2021	2020
Basic earnings per share (pence)	8	3.20	171.65
Diluted earnings per share (pence)	8	3.19	170.26

Consolidated statement of comprehensive income

For the year ended 31 December 2021

	2021	2021		2020	2020	
	Before	Exceptional	2021	Before	Exceptional	2020
	exceptional	items	Total	exceptional	items	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Profit for the year	10,034	(6,242)	3,792	9,238	184,241	193,479
Other comprehensive income¹						
Exchange differences on translation of foreign operations	(46)	–	(46)	67	–	67
Other comprehensive income for the year, net of tax	(46)	–	(46)	67	–	67
Total comprehensive income for the year attributable to owners of the parent	9,988	(6,242)	3,746	9,305	184,241	193,546

1 May be reclassified to profit or loss.

Consolidated statement of financial position

As at 31 December 2021

	Notes	2021 £'000	2020 £'000
Assets			
Non-current assets			
Intangible assets	10, 13	25,463	24,923
Property, plant and equipment	11	415,901	328,338
Investments	12	75	75
Other assets	18	1,651	1,308
Trade and other receivables	15	–	12
Total non-current assets		443,090	354,656
Current assets			
Inventories	14	22,980	27,650
Other assets	18	550	641
Trade and other receivables	15	47,631	37,164
Income tax recoverable		–	576
Cash and cash equivalents	16	117,687	40,236
Restricted cash	16	1,299	1,627
Total current assets		190,147	107,894
Total assets		633,237	462,550
Liabilities			
Current liabilities			
Trade and other payables	17	56,489	41,958
Lease liabilities	18	999	936
Other liabilities	18	638	388
Bank loans and overdrafts	18	–	–
Total current liabilities		58,126	43,282
Non-current liabilities			
Bank loans	18	–	–
Lease liabilities	18	7,574	4,315
Deferred tax liabilities	22	12,199	8,511
Provisions	18	798	–
Other long-term liabilities	18	750	–
Total non-current liabilities		21,321	12,826
Total liabilities		79,447	56,108
Net assets		553,790	406,442
Equity			
Share capital	24	1,333	1,129
Share premium		332,048	160,471
Other reserve	26	9,562	9,562
Own share reserve	24	(825)	(749)
Foreign currency translation reserve		(45)	1
Retained earnings		211,717	236,028
Total equity attributable to owners of the parent		553,790	406,442

Consolidated statement of changes in equity

For the year ended 31 December 2021

Attributable to the owners of the parent company:	Share capital £'000	Share premium £'000	Other reserve £'000	Own share reserve £'000	Foreign currency translation reserve £'000	Retained earnings £'000	Total £'000
As at 1 January 2020	1,128	160,106	9,562	(768)	(66)	53,615	223,577
Total profit for the year	–	–	–	–	–	193,479	193,479
Total other comprehensive income for the year	–	–	–	–	67	–	67
Transactions with owners in their capacity as owners							
Dividends (note 9)	–	–	–	–	–	(12,226)	(12,226)
Shares issued (note 24)	1	365	–	–	–	–	366
Movement in own shares (note 24)	–	–	–	19	–	(180)	(161)
Share-based payments (note 25)	–	–	–	–	–	626	626
Income tax effect of share options	–	–	–	–	–	714	714
As at 31 December 2020	1,129	160,471	9,562	(749)	1	236,028	406,442
Total profit for the year	–	–	–	–	–	3,792	3,792
Total other comprehensive income for the year	–	–	–	–	(46)	–	(46)
Transactions with owners in their capacity as owners							
Dividends (note 9)	–	–	–	–	–	(29,060)	(29,060)
Shares issued (note 24)	204	171,577	–	–	–	–	171,781
Movement in own shares (note 24)	–	–	–	(76)	–	(203)	(279)
Share-based payments (note 25)	–	–	–	–	–	841	841
Income tax effect of share options	–	–	–	–	–	319	319
As at 31 December 2021	1,333	332,048	9,562	(825)	(45)	211,717	553,790

See notes 24 and 26 for details of the Own share reserve and Other reserve.

Consolidated statement of cash flows

For the year ended 31 December 2021

	2021 £'000	2020 £'000
Operating activities		
Profit before taxation	8,293	194,964
Finance costs	3,488	4,705
Finance income	(7)	(166)
Foreign exchange loss	29	4
Exceptional items: gain on disposal of subsidiary (note 4)	–	(194,713)
Exceptional items: other ¹	7,288	6,148
Depreciation	28,712	29,057
Amortisation of intangibles	4,060	2,957
Share-based payment expense	841	626
RDEC income	(489)	(536)
Loss on disposal of property, plant and equipment	2,457	1,028
Loss on disposal of intangible assets	–	12
Movement in inventories	3,359	(648)
Movement in trade and other receivables ²	(7,671)	6,461
Movement in restricted cash	328	(1,627)
Movement in trade and other payables ²	11,078	(4,361)
Cash generated from operations	61,766	43,911
Income tax received	403	–
Net cash generated from operations	62,169	43,911
Investing activities		
Proceeds on disposal of subsidiary, gross	–	290,615
Payments to dispose of subsidiary ³	–	(11,589)
Proceeds on disposal of subsidiary, net of payments to dispose	–	279,026
Payments for acquisition of subsidiaries, net of cash acquired	(4,749)	(2,438)
Payment for acquisition of new business	(8,433)	–
Payments to acquire property, plant and equipment	(108,214)	(41,796)
Proceeds on disposal of property, plant and equipment	2,508	4,779
Payments to acquire intangible assets	(2,831)	(4,056)
Finance income received	7	166
Net cash (used in)/generated from investing activities	(121,712)	235,681
Financing activities		
New borrowings	53,250	15,000
Borrowings repaid	(53,250)	(285,000)
Principal elements of lease payments	(1,247)	(1,155)
Finance costs paid	(4,200)	(6,272)
Net proceeds from share issue	171,781	362
Purchase of own shares	(279)	(161)
Dividends paid	(29,060)	(12,226)
Net cash generated (used in)/from financing activities	136,995	(289,452)
Net increase/(decrease) in cash and cash equivalents	77,452	(9,860)
Exchange (gain)/loss on cash and cash equivalents	(1)	4
Cash and cash equivalents at the beginning of the financial year	40,236	50,092
Cash and cash equivalents at the end of the financial year (note 16)	117,687	40,236

1 Other exceptional items include £5,546,000 for losses on our meter portfolio and the £1,742,000 exceptional finance cost. In 2020, non-cash exceptional items included £6,033,000 for losses on our meter portfolio and the £115,000 exceptional finance cost.

2 In 2020, the movement in trade and other receivables included an adjustment of £4,922,000 and the movement in trade and other payables included an adjustment of £237,000 for working capital disposed of as part of the subsidiary sale.

3 In 2020, Payments to dispose of subsidiary of £11,589,000 included cash disposed of £4,681,000 and transaction costs paid in the year of £6,908,000.

Accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The consolidated financial statements of the Group for the year ended 31 December 2021 were approved and authorised for issue in accordance with a resolution of the Directors on 15 March 2022. Smart Metering Systems plc (SMS) is a public limited company limited by shares and incorporated in Scotland, with its registered office at 2nd Floor, 48 St. Vincent Street, Glasgow G2 5TS. The Company's ordinary shares are traded on AIM.

Basis of preparation

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

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

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

In preparing the consolidated financial statements management has considered the impact of climate change, particularly in the context of the disclosures included in the Strategic report and the Group's net-zero carbon target. These considerations did not have a material impact on the financial reporting judgements and estimates, consistent with the assessment that climate change is not expected to have a significant impact on the Group's going concern assessment to December 2023. Qualitative explorations of potential areas of concern, including an evaluation of climate exposure on our physical assets such as offices, warehouses and vehicles, has been carried out and we have identified areas of potential climate-related risk, such as extreme weather events which could affect our physical locations and road-based employees. Overall, the risk of climate-related change on the Group is considered low.

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2021 or 2020 but is derived from those accounts. Statutory accounts for the year ended 31 December 2020 have been delivered to the Registrar of companies and those for 2021 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 December 2023. Over the course of the COVID-19 pandemic, forecasts have continued to be reviewed in detail to ensure any estimated potential impact of COVID-19 restrictions and regulations has been appropriately incorporated, along with the Group's proposed responses. Following the lifting of restrictions and resumption of core services, no significant COVID-19 adjustments have been required in management's latest forecasts.

Non-essential field work, including planned installations of smart meters, was suspended from 24 March 2020. However, this was a temporary response measure and, following the UK Government's announcement detailing phased lifting of restrictions, a progressive resumption of all non-essential field work commenced from 1 June 2020. Through the second half of 2020, the Group continued to see a recovery in installation run rates, despite continued local restrictions, and by Q4 2020 was operating at c.80% of the pre-COVID-19 run rate. Where permitted under the UK Government's guidelines, installation activity continued in the early part of 2021 through the second national lockdown. Since April 2021, following the easing of restrictions, the Group has operated above its pre-COVID-19 run rate. As anticipated, the main impact of COVID-19 has been one of timing and management does not expect any significant longer-term effects on the business as a result of the pandemic.

Management has modelled several different meter installation and grid-scale battery storage scenarios, including a downside scenario which assumed a slower rollout of new meter installations over the year and delayed the energisation of grid-scale battery storage sites. The scenario proved that the business would still have sufficient cash flow to continue to operate, banking covenants would remain satisfied with adequate headroom, and adequate cash would be available to cover liabilities and operating costs. This modelling provides confidence to management that, even in adverse circumstances, the business will still have sufficient resources to continue to operate.

In September 2021, the Group completed the refinancing of its revolving credit facility in order to support ongoing investment in its established carbon reduction ('CaRe') assets. The total available funding under the new loan facility is £420m and the maturity date is December 2025. In addition, in early October 2021, the Group completed a successful equity placing, raising proceeds of c.£175m. These proceeds were used to make a voluntary prepayment under the Group's refinanced loan facility of the full outstanding principal of c.£53m. At the date of approving the financial statements, the Group had access to the full £420m of its revolving credit facility with no amount drawn down. The Group has not required any new or extended facilities as a result of COVID-19, nor has it needed to renegotiate or waive any of its bank covenants.

The Group was compliant with all its debt covenants at 31 December 2021. The financial covenants attached to the refinanced facility are that EBITDA should be no less than 4.00x interest and net debt should be no more than 4.75x EBITDA. At 31 December 2021 these stood at 16.11x and -2.07x respectively, on account of a net cash-positive position, demonstrating significant headroom. The Group does not expect to breach these covenants in the period from the date of release of these financial statements to 31 December 2023.

The Group was in a net cash position of £117.7m at 31 December 2021 following the equity placing and the subsequent voluntary prepayment of its loan facility (31 December 2020: £40.2m net cash) and, at that date, undrawn facilities were £420m (31 December 2020: £300m). The Group balance sheet shows consolidated net assets of £553.8m (31 December 2020: £406.4m), of which £366.7m (31 December 2020: £315.5m) relates to revenue-generating meter and data assets. The liquidity of the Group thus remains strong and continues to provide the financial flexibility required to support the Group's long-term growth prospects.

The Group has not had to rely on any government support schemes as a result of COVID-19. With significant coverage provided by existing long-term, inflation-linked and recurring cash flows, the Group remains committed to its enhanced dividend policy. It proposes a 27.5p per share annualised dividend in respect of FY 2021. The first of four cash instalments, a total of £7.8m, was paid in October 2021.

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

Basis of consolidation

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

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

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 considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical accounting judgements

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

- presentation of costs attributable to COVID-19 as exceptional:
 - as a result of reduced engineering activity in periods of lockdown due to COVID-19, management has estimated that £0.8m of costs that would ordinarily be capitalised as directly attributable to the installation of meter assets – consisting primarily of staff costs – have remained in underlying profit. Consistent with the Group's accounting policy on exceptional items, these material costs are attributable to a rare macroeconomic event, being the COVID-19 pandemic, and therefore management has taken the judgement to recognise these costs as exceptional; and
 - as at 31 December 2021, management has assessed the expected credit losses for trade receivables. COVID-19 has generated global financial uncertainty; however, the potential impact of this on the Group's credit risk is mitigated by the highly regulated nature of the utilities industry and the extensive support made available to energy – and other infrastructure – suppliers by the

UK Government. As a result, management has not increased the expected loss rates for the trade receivables portfolio as a whole. Instead, a subset of trade receivables has been identified as having a potentially elevated credit risk, due to a greater risk of administration as a direct consequence of COVID-19. This subset of trade receivables has been provided for on a specific basis and in the prior year resulted in an additional £0.5m impairment loss. This provision has been reduced to £nil as at 31 December 2021, reflecting positive recovery trends over the past twelve months, giving rise to a £0.4m credit in the current year financial statements (net of write-offs). Whilst management will continue to monitor the situation in case of any changed circumstances arising from the pandemic, it is of the view that there is no longer significant uncertainty regarding the impact of COVID-19 on customer default risk. Consistent with the recognition of the original impairment loss in the prior year, management has taken the judgement to recognise this write-back as exceptional;

- capitalisation of internal installation costs:
 - a significant level of in-house installation of customers' meter assets is carried out by the Group, certain costs of which are capitalised (2021: £38.2m, 2020: £19.8m) and depreciated as part of property, plant and equipment depreciation. Judgement is required by management to ascertain the appropriate categories and proportion of overheads and other expenses that are directly attributable to installation of meter assets. Typically, capitalised costs will include staff costs, and a systematic allocation of any production overheads deemed to be directly attributable to the process of installing a meter owned by the Group. Other general and administrative overheads, such as sales, marketing and training costs, are expensed directly to profit and loss; and
- presentation of losses on disposal of certain meter assets as exceptional items:
 - as a result of the inherent volatility associated with the UK smart meter rollout, and removal of traditional meter assets as part of this, management has taken the decision to show losses arising on disposal of these meters – being the net book value less the associated termination income received representing proceeds on disposal – as exceptional administrative expenses. By disclosing these amounts separately, the traditional meter asset portfolio can be better tracked to assist the users of the financial statements to better understand the premature retirement of these revenue-generating assets that is outside the Group's control. The residual value of the traditional meter asset portfolio of £nil reflects the consumption of economic benefit from installed assets, being the income earned from the provision of the meter. On disposal, the receipt of termination income, recognised as a component of the net gain or loss on the disposal of these meter assets, will vary depending on the energy supplier and is therefore not within our control. As the receipt of proceeds from disposal is inherently volatile, a loss on disposal can still arise in certain circumstances. A loss on disposal of traditional meter assets was recognised as an exceptional cost in the year ended 31 December 2021; and
 - technical communication issues for some first-generation smart meter assets (SMETS1 meters) on supplier churn have continued through 2021, with the Data Communications Company (DCC) Enrolment and Adoption programme now due to extend through to the end of 2022. As a result, the Group has continued to see a small proportion of SMETS1 meters removed from the wall. As these removals are attributable to the temporary industry transition period, management has made the judgement to recognise losses arising on the disposal of these meters as exceptional until resolution by the Enrolment and Adoption programme is complete.
- identification of indicators of impairment of the meter asset portfolio in accordance with IAS 36 and assumptions applied in determining the carrying value of the portfolio of meter assets:
 - due to the uncertainties associated with the timing of the UK domestic smart meter rollout, the expected useful life and carrying value of traditional meters requires significant judgement, as does the level of recoverability of termination income. These assumptions are used in deriving the depreciation rates applied and the impairment calculation performed on carrying value. For the traditional meters, as the UK smart meter rollout progresses, our portfolio of traditional meter assets is diminishing. It is therefore crucial that the recoverability of the carrying value of our meter assets, recognised in Property, plant and equipment, be assessed. The two main drivers for assessing this recoverability are:

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

In 2021, this assessment has identified that the carrying value of the traditional meter assets portfolio is recoverable and, therefore, no impairment charge has been recognised (2020: £nil).

- potential indicators of impairment have also been assessed in relation to our smart and I&C meters, including consideration of the temporary industry transitional issues experienced with some SMETS1 assets as detailed above. Management has concluded that there is no significant risk of impairment with regards to the Group’s smart and I&C meters at 31 December 2021, consistent with the prior year.

Key sources of estimation uncertainty

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

Revenue recognition

Refer to details in note 2.

Exceptional items and separately disclosed items

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

Termination fee income is reported as part of Other operating income in the consolidated statement of comprehensive income given its materiality and nature. Any termination fee income arising on the loss of meter assets is reported within Administrative expenses as a component of net gain or loss on disposal. Termination fee income does not arise from the principal activities of the Group. Any such gain or loss on disposal relating to traditional meter assets and SMETS1 meter assets is disclosed as an exceptional item.

Government grants

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

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

Financial assets

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

Classification

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

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

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

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

Recognition and derecognition

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

Measurement

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

Trade and other receivables

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

Cash and cash equivalents

Refer to accounting policy on Cash and cash equivalents.

Impairment

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

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

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

Financial liabilities

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

Classification

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

Recognition

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

Measurement

Trade and other payables and bank overdrafts

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

Bank loans

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

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

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

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

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

Offsetting of financial instruments

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

Leases

Group as lessor

The arrangements the Group has in place to act as Meter Asset Provider do not constitute a lease of the meter asset to the energy supplier. SMS controls the meter as the Group retains legal title and obtains substantially all the economic benefit. The assets are recognised as property, plant and equipment when in use under contract with an energy supplier and related income for the service of providing a fitted meter is recognised in accordance with IFRS 15. Further information about the Group's accounting policy for revenue recognition is given in note 2, and for property, plant and equipment in note 11.

Group as lessee

The Group leases various offices, warehouses and motor vehicles and, following the business combinations disclosed in note 20, land. For offices, warehouses and motor vehicles rental contracts are typically made for fixed periods of three to ten years. For land, rental contracts are typically made for fixed periods of 20 to 40 years. Contracts may have extension or early termination options. Lease terms are negotiated on an individual

basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

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

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

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

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

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. The weighted average lessee's incremental borrowing rate applied to the lease liabilities at 31 December 2021 was 4.7% (31 December 2020: 4.8%).

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

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

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

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

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

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

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

Low-value assets comprise IT equipment and small items of office furniture, where the value of the asset on inception is less than c.US\$5,000.

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

Business combinations

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

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

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

Acquisition-related costs are expensed as incurred.

The excess of the:

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

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

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

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

Asset acquisitions

Asset acquisitions include the acquisition of a group of assets that does not constitute a business. The relevant IFRS is applied when accounting for the acquisition of an individual asset.

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

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

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

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

Research and development

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

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

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

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

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

Capitalised development expenditure on ADM™ units is disclosed within Property, plant and equipment as part of Meter assets and amortised over the same useful economic life as that applied to the tangible ADM™ unit. Capitalised IT development expenditure is disclosed within Intangible assets as part of IT development and software. All costs capitalised within this category relate to information technology and, with the exception of one system, are amortised over the same useful economic life of five years. A new system was integrated and brought into use during 2020 and associated development costs are amortised over the remaining contract term of two years.

Intangible assets

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

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

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

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

Intangible assets are amortised over their useful lives as follows:

- IT development and software 20% and 50% on cost, straight line
- Intangibles recognised upon acquisition:
 - Customer contracts 20% on cost, straight line
 - Trademarks 33% on cost, straight line

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

As part of a business acquisition in 2021 (see note 20 for details), the Group acquired a portfolio of customer contracts which are amortised over the average remaining contract term of five years. All other customer contracts recognised upon acquisition were fully amortised in the year.

In preparing the consolidated financial statements management considered the impact of the IFRS Interpretations Committee's March 2021 decision, that clarifies the treatment and recognition of cloud

computing implementation costs. These considerations did not have a material impact on the consolidated financial statements in the year ended 31 December 2021.

Goodwill

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

Goodwill is allocated to cash-generating units (CGUs) for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes. In the prior year the CGUs were defined in line with the Group's operating segments. However, given the ongoing business development within the energy management segment and the diversification of energy assets as a result, management has deemed it appropriate to separate out the Solo Energy business as a standalone CGU. See note 13 for further details.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

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

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

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

Impairment of tangible and intangible assets other than goodwill

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

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

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

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

Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing part of the property, plant and equipment. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises

such parts as individual assets with specific useful lives and depreciation. Pursuant to the acquisition of the meter installation businesses on 18 March 2016 certain internal costs to the Group are also capitalised where they are demonstrated as being directly attributable to bringing the meter assets into their usable condition. All other repair and maintenance costs are recognised in the consolidated statement of comprehensive income as incurred.

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

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

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

Property, plant and equipment is initially recorded at cost.

The following changes in estimates with regard to property, plant and equipment were made with effect from 1 April 2021:

- *Construction of grid-scale battery storage sites*
At 31 December 2020, SMS had acquired two special purpose vehicles, enabling the Group to obtain control over the rights required to develop and commission two grid-scale battery storage sites, totalling 90MW, as part of the Group's investment strategy in CaRe assets. At 31 December 2020, the Company accounted for work in progress acquired, together with the fair value uplift applied to the acquisition balance sheets in relation to development and construction rights, and additional costs of development incurred up to 31 December 2020, as part of Inventories on the consolidated balance sheet.

A change in management's business intention regarding these grid-scale battery storage sites, implemented as part of the Group's wider strategy and effective from 1 April 2021, is accounted for on a prospective basis in the 2021 financial statements and has resulted in a £4.1m reclassification of amounts previously recognised as Inventory to Assets under construction within Property, plant and equipment (see note 11). There has been no material change in the amounts capitalised as a result of this reclassification.

With effect from 1 April 2021, acquired development and construction rights together with directly attributable costs incurred in relation to the construction of the grid-scale battery storage sites are accounted for under IAS 16: Property, plant and equipment. These are recorded at cost and classified as part of Assets under construction within Property, plant and equipment. Whilst under construction no depreciation is recorded.

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

- With respect to the domestic traditional meter asset portfolio, the useful life of all opening assets was extended from 31 December 2022 to 1 July 2025 to reflect the UK Government's confirmation on 18 June 2020 that it would introduce a new regulatory framework, first proposed in September 2019, for the next phase of the UK smart meter rollout. The new four-year framework was implemented from 1 July 2021, effectively extending the smart meter rollout to 1 July 2025. It is accepted that the rate of meter exchange

to smart meters will vary year by year as the rollout proceeds, but there is currently no reliable basis on which to predict the annual profile. Accordingly, a straight-line approach to depreciation of these assets continued to be adopted. As a result of this change in estimate, the consolidated income statement for the year ended 31 December 2020 reflected a reduced charge for depreciation of £4.8m, recognised within depreciation in Cost of sales. It was not practicable to estimate the effect of this change on future periods because the future removal profile of the domestic traditional meter asset portfolio is volatile and outside our control.

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

Inventories

Finished goods and consumables

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

At 31 December 2020: Work in progress - grid-scale batteries

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

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

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

With effect from 1 April 2021 work in progress in relation to grid-scale batteries is recognised as part of Property, plant and equipment. See Accounting policies – property, plant and equipment for details.

Cash and cash equivalents

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

Restricted cash

Restricted cash in the consolidated statement of financial position comprises:

- amounts collected from customers on behalf of a third party, as part of a services arrangement, that have not yet been allocated. These monies are held in a trust account whilst awaiting allocation and, per the terms of the account, cannot be used by the Group to meet other short-term cash commitments. They have thus been disclosed separately from cash and cash equivalents and;
- amounts held as collateral in order to trade electricity on the wholesale market as part of the Group's grid-scale battery storage business. Whilst no grid-scale battery storage sites were operational at 31 December 2021, collateral was in place at this date in preparation for the commencement of wholesale trading services in early FY 2022. These monies are held in designated trading accounts and cannot be used by the Group to meet other short-term cash commitments. They have thus been disclosed separately from cash and cash equivalents.

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

Pension costs

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

Share-based payments

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

Share capital

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

Own share reserve

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

Dividends

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

Taxation

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

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

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

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

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

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

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

Standards and interpretations

New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for its annual reporting period commencing 1 January 2021:

Standard or interpretation		Effective date
IFRS 16 (amendment)	'Leases', COVID-19 - Related rent concessions	1 June 2020
IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (amendment)	Interest rate benchmark reform – Phase 2	1 January 2021

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

The Group's revolving credit facility previously attracted interest at a fixed margin over the three-month London Inter-Bank Offered Rate (LIBOR). Under the new facility established in September 2021, LIBOR was replaced by the Sterling Overnight Index Average (SONIA) and the transition was managed carefully with the Group's lending agent. There has not been any material change in the overall cost of borrowing as a result of this. Overall, interest rate benchmark reform is not anticipated to have a significant impact on the Group's risk management strategy.

New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2021 reporting periods and have not been early-adopted by the Group.

The amendments to IAS 12 Income Taxes, regarding deferred tax related to assets and liabilities arising from a single transaction, will apply to the Group as a lessee under IFRS 16. Its potential effects are under consideration.

All other standards are not expected to have a material impact on the entity in the current or future reporting periods, or on foreseeable future transactions.

Notes to the financial statements

For the year ended 31 December 2021

1 Segmental reporting

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

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

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

Segment performance is mainly evaluated based on gross profit.

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

31 December 2021	Asset management £'000	Asset installation £'000	Energy management £'000	Unallocated £'000	Total operations £'000
Segment revenue	82,828	74,208	3,620	–	160,656
Inter-segment revenue	–	(52,176)	–	–	(52,176)
Revenue from external customers	82,828	22,032	3,620	–	108,480
Cost of sales	(31,479)	(14,081)	(2,756)	–	(48,316)
Segment gross profit – pre-exceptional cost of sales	51,349	7,951	864	–	60,164
Exceptional items (cost of sales)	–	(829)	–	–	(829)
Segment gross profit	51,349	7,122	864	–	59,335
Other operating costs/income	–	–	1,256	(33,373)	(32,117)
Depreciation	–	(196)	–	(3,797)	(3,993)
Amortisation of intangibles	(1,725)	–	(31)	(2,304)	(4,060)
Profit/(loss) from operations – pre-exceptional operating items	49,624	6,926	2,089	(39,474)	19,165
Exceptional items (operating)	(6,213)	–	–	564	(5,649)
Profit/(loss) from operations	43,411	6,926	2,089	(38,910)	13,516
Net finance costs: other	(3,132)	–	(161)	(188)	(3,481)
Net finance costs: exceptional	(1,742)	–	–	–	(1,742)
Profit/(loss) before tax	38,537	6,926	1,928	(39,098)	8,293
Tax expense	–	–	–	–	(4,501)
Profit for year					3,792

31 December 2020	Asset management (restated) £'000	Asset installation £'000	Energy management £'000	Unallocated (restated) £'000	Total operations £'000
Segment revenue	78,675	49,011	4,583	–	132,269
Inter-segment revenue	–	(29,287)	–	–	(29,287)
Revenue from external customers	78,675	19,724	4,583	–	102,982
Cost of sales	(29,825)	(16,591)	(3,564)	–	(49,980)
Segment gross profit – pre-exceptional cost of sales	48,850	3,133	1,019	–	53,002
Exceptional items (cost of sales)	–	(4,890)	–	–	(4,890)
Segment gross profit/(loss)	48,850	(1,757)	1,019	–	48,112
Other operating costs/income	–	–	–	(27,780)	(27,780)
Depreciation	(1,385)	–	(21)	(2,979)	(4,385)
Amortisation of intangibles – restated ¹	(1,642)	–	(32)	(1,283)	(2,957)
Profit/(loss) from operations – pre-exceptional operating items – restated ¹	45,823	(1,757)	966	(32,042)	12,990
Exceptional items (operating)	188,612	(928)	–	(1,056)	186,628
Profit/(loss) from operations – restated ¹	234,435	(2,685)	966	(33,098)	199,618
Net finance costs: other	(4,399)	–	(33)	(107)	(4,539)
Net finance costs: exceptional	(115)	–	–	–	(115)
Profit/(loss) before tax – restated ¹	229,921	(2,685)	933	(33,205)	194,964
Tax expense					(1,485)
Profit for year					193,479

¹ Amortisation of the Group's Enterprise Resourcing Planning system, which went live in full in 2020, has been reclassified from Asset management to Unallocated to reflect its Groupwide use. This is in line with the current year disclosure.

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

Depreciation of £24.7m (2020: £24.7m) associated with meter assets has been reported within Cost of sales, in the asset management segment, as the meter assets directly drive revenue.

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

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

	2021 £'000	2020 £'000
Customer 1 – Asset Management	12,647	12,876
Customer 1 – Asset Installation	2,644	359
Customer 2 – Asset Management	8,900	7,816
Customer 2 – Asset Installation	8,025	6,251
	32,216	27,302

Segment assets and liabilities

31 December 2021	Asset management £'000	Asset installation £'000	Energy management £'000	Unallocated £'000	Total operations £'000
Assets reported by segment					
Intangible assets	11,540	3,497	2,497	7,929	25,463
Property, plant and equipment	366,702	128	38,868	10,203	415,901
Inventories	22,763	215	2	–	22,980
Contract assets	–	46	–	–	46
Other assets (bank loans)	2,201	–	–	–	2,201
	403,206	3,886	41,367	18,132	466,591
Assets not by segment					
					166,646
Total assets					
					633,237
Liabilities by segment					
Contract liabilities	1,527	2,084	121	–	3,732
Lease liabilities	–	–	4,060	4,513	8,573
Other liabilities	–	–	638	–	638
Other long-term liabilities	–	–	1,473	75	1,548
Bank loans	–	–	–	–	–
	1,527	2,084	6,292	4,588	14,491
Liabilities not by segment					
					64,956
Total liabilities					
					79,447

31 December 2020	Asset management (restated) £'000	Asset installation £'000	Energy management £'000	Unallocated (restated) £'000	Total operations £'000
Assets reported by segment					
Intangible assets – restated ¹	9,072	3,497	2,118	10,236	24,923
Property, plant and equipment	318,979	235	2,222	6,902	328,338
Inventories	22,676	273	4,701	–	27,650
Contract assets	–	–	47	–	47
Other assets (bank loans)	1,949	–	–	–	1,949
	352,676	4,005	9,088	17,138	382,907
Assets not by segment					
					79,643
Total assets					
					462,550
Liabilities by segment					
Contract liabilities	1,254	2,216	219	–	3,689
Lease liabilities	727	–	2,276	2,248	5,251
Bank loans	–	–	–	–	–
	1,981	2,216	2,495	2,248	8,940
Liabilities not by segment					
					47,168
Total liabilities					
					56,108

¹ Intangible assets recognised in relation to the Group's Enterprise Resourcing Planning System, which went live in full in 2020, have been reclassified from Asset Management to Unallocated to reflect its Groupwide use. This is in line with the current year disclosure.

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

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

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

	Asset management (restated) £'000	Asset installation £'000	Energy management £'000	Unallocated (restated) £'000	Total operations £'000
Additions to non-current assets					
2021	84,779	90	27,720	3,686	116,275
2020 – restated ¹	42,736	2	2,568	2,811	48,117

¹ Intangible asset additions recognised in relation to the Group's Enterprise Resourcing Planning System, which went live in full in 2020, have been reclassified from Asset Management to Unallocated to reflect its Groupwide use. This is in line with the current year disclosure.

2 Revenue from contracts with customers

(a) Disaggregation of revenue from contracts with customers

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

Year ended 31 December 2021	Asset management £'000	Asset installation £'000	Energy management £'000	Total operations £'000
Major service lines				
Metering	74,358	–	–	74,358
Data management	8,470	–	–	8,470
Utility connections	–	5,852	–	5,852
Transactional meter works	–	15,649	–	15,649
Energy management	–	531	3,620	4,151
	82,828	22,032	3,620	108,480
Timing of revenue recognition				
Services transferred at a point in time	–	15,649	–	15,649
Services transferred over time	82,828	6,383	3,620	92,831
	82,828	22,032	3,620	108,480
Year ended 31 December 2020	Asset Management £'000	Asset Installation £'000	Energy Management £'000	Total operations £'000
Major service lines				
Metering	70,780	–	–	70,780
Data management	7,895	–	–	7,895
Utility connections	–	8,817	–	8,817
Transactional meter works	–	10,275	–	10,275
Energy management	–	632	4,583	5,215
	78,675	19,724	4,583	102,982
Timing of revenue recognition				
Services transferred at a point in time	–	10,275	–	10,275
Services transferred over time	78,675	9,449	4,583	92,707
	78,675	19,724	4,583	102,982

(b) Assets and liabilities related to contracts with customers

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

	2021 £'000	2020 £'000
Current contract assets	46	47
Total contract assets	46	47
Current contract liabilities	3,732	3,689
Total contract liabilities	3,732	3,689

Trade receivables and unbilled receivables are disclosed in note 15.

Significant changes in contract assets and liabilities

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

Revenue recognised in relation to contract liabilities

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

	2021 £'000	2020 £'000
Revenue recognised that was included in the contract liability balance at the beginning of the period	2,636	2,991

No revenue was recognised in 2021 in relation to performance obligations satisfied in previous periods.

Transaction price for which performance obligations not satisfied

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

(c) Accounting policies and significant judgements

(i) Metering

Meter rental

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

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

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

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

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

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

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

Asset management services

The Group provides meter asset management and operations services to energy suppliers. These services are considered a distinct performance obligation from the meter rental on the basis that these are separately

identifiable services to which a stand-alone selling price is allocated, and they are not necessary to bring the meter asset into use.

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

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

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

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

Third-party management services

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

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

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

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

(ii) Data services

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

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

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

(iii) Utility connections services (gas and electricity)

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

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

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

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

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

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

(iv) Transactional meter works

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

In 2020, the Group also started to provide transactional meter works to the third party to whom the Group sold a minority of its meter asset portfolio in April 2020.

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

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

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

(v) Energy management services

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

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

Contracts for specialist consultancy services may include multiple projects. Where these projects are separately identifiable within the contract and are not interrelated, they are accounted for as separate performance obligations. The transaction price is allocated based on the stand-alone charges for each project.

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

(vi) Assets and liabilities arising from contracts with customers

Costs to fulfil a contract

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

Contract assets and liabilities

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

The timing of revenue recognition, billing and cash collections results in:

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

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

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

3 Profit from operations

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

	2021 £'000	2020 Restated ² £'000
Profit from operations is stated after (charging)/crediting:		
Cost of sales:		
Direct staff and subcontractor costs	(22,602)	(23,752)
Depreciation of meter assets	(24,719)	(24,672)
Inventory costs	(995)	(1,556)
Total cost of sales (before exceptional items)	(48,316)	(49,980)
Administrative expenses:		
Staff costs	(17,842)	(17,685)
Depreciation:		
– owned assets	(3,087)	(3,403)
– leased assets	(906)	(982)
Amortisation of intangibles	(4,060)	(2,957)
Auditor's remuneration (note 3a)	(392)	(346)
Loss on disposal	(2,457)	(1,040)
Operating lease rentals ¹	(293)	(346)
Research and development costs	(39)	(76)
Other operating charges	(12,790)	(10,010)
Total administrative expenses (before exceptional items)	(41,866)	(36,845)
Exceptional items (note 3b)	(6,478)	181,738
Other operating income (note 3c)	1,696	1,723
Total operating costs	(94,964)	96,636

¹ 2021 operating lease rentals include £264,000 on short-term leases (2020: £314,000) and £29,000 on leases of low-value assets (2020: £32,000).

² 2020 capitalised staff costs have been reclassified from Other operating charges to Staff costs to align with current year presentation.

(a) Auditor's remuneration

Auditor's remuneration can be analysed as:

	2021 £'000	2020 £'000
Audit of the parent company and consolidated financial statements	133	144
Audit of the financial statements of the Company's subsidiaries	229	172
Other services – audit-related assurance services	30	30
	392	346

(b) Exceptional items

	2021 £'000	2020 £'000
Exceptional operating items		
Gain on disposal of subsidiary	—	194,713
Costs attributable to COVID-19	(265)	(6,857)
Losses on the traditional and SMETS1 meter portfolio	(5,906)	(6,033)
Acquisition-related costs	(307)	—
Other	—	(85)
	(6,478)	181,738
Exceptional finance items		
Facility fees	(1,742)	(115)
	(1,742)	(115)
Total exceptional items	(8,220)	181,623

There are total exceptional items in the consolidated income statement of £8,220,000. Exceptional operating costs primarily comprise £265,000 of costs directly attributable to COVID-19 (see Accounting policies – critical accounting judgements – for further details), £5,906,000 of losses on our traditional and SMETS1 meter portfolio and £307,000 of acquisition-related costs incurred on the large-power I&C meter and data acquisition detailed in note 20.

In 2020, an exceptional gain on the disposal of a subsidiary of £194,713,000 was recognised separately in the consolidated income statement. See note 4 for details. There were total other exceptional items in the consolidated income statement of £13,090,000. Exceptional operating costs comprised £6,857,000 of costs directly attributable to COVID-19, £6,033,000 of losses on disposal of our traditional and SMETS1 meter portfolio (£9,521,000 net book value less £3,488,000 termination income) and £85,000 of other miscellaneous costs.

Exceptional finance costs of £1,742,000 comprise the acceleration of unamortised arrangement fees relating to the existing facility of £1,506,000 together with £236,000 of legal and professional fees attributable to the extinguishment. In 2020, exceptional finance costs of £115,000 comprised break costs incurred on full voluntary prepayment of the Group's loan facility (see note 18 for details).

The tax effect of exceptional items charged in 2021 is a credit of £1,978,000 (2020: credit of £2,618,000).

(c) Other operating income

	2021 £'000	2020 £'000
Termination fee income	103	985
Government grant income	1,255	738
Other income	338	—
	1,696	1,723

Of the government grant income of £1,255,000 (2020: £738,000) recognised in the year ended 31 December 2021, £489,000 relates to RDECs (2020: £536,000) which are detailed in the Accounting policies. £766,000 relates to grant income received on government-funded energy efficiency projects within the energy management business.

4 Disposal of subsidiary

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

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

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

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

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

SMS manages the disposed I&C meter portfolio on behalf of the purchaser, for which it receives annual RPI-linked management fees of £0.8m.

5 Particulars of employees

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

	2021 Number	2020 Number
Administrative staff	488	497
Operational staff	548	546
Sales staff	5	4
IT staff	81	73
Directors (excluding 4 (2020: 4) Non-executive Directors)	3	3
	1,125	1,123

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

	2021 £'000	2020 £'000
Wages and salaries	42,973	39,880
Social security costs	4,694	4,103
Staff pension costs	1,365	1,229
Share-based payment (note 25)	841	626
Director pension costs	21	18
	49,894	45,856

6 Finance costs and finance income

	2021 £'000	2020 £'000
Finance costs		
Bank loans and overdrafts	3,132	4,556
Lease liabilities	75	172
Foreign exchange loss/(gain) on intra-group borrowings	281	(23)
Total pre-exceptional finance costs	3,488	4,705
Exceptional finance costs	1,742	115
Total finance costs	5,230	4,820
Finance income		
Bank interest receivable	7	166
Total finance income	7	166

7 Taxation

	2021 £'000	2020 £'000
Analysis of charge in the year		
Current tax:		
Current income tax expense	93	331
Adjustment to tax charge in respect of previous periods	—	92
Total current income tax	93	423
Deferred tax:		
Origination and reversal of temporary differences	2,087	(198)
Adjustment to tax charge in respect of prior periods	(127)	(304)
Adjustment attributable to change in tax rates	2,448	1,564
Tax on profit	4,501	1,485

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

	2021 £'000	2020 £'000
Profit before tax	8,293	194,964
Tax at the UK corporation tax rate of 19.00% (2020: 19.00%)	1,576	37,043
Expenses not deductible for tax purposes	171	1,565
Income not taxable	—	(38,495)
Adjustments to tax charge in respect of previous periods	(127)	(212)
Impact of deferred tax not recognised	(99)	
Impact of overseas tax rates	24	20
Change in tax rate ¹	2,956	1,564
Tax expense in the income statement	4,501	1,485

1 See note 22 for further details.

Current tax credit through equity in the year was £nil (2020: £nil).

8 Earnings per share

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

	2021 £'000	2020 £'000
Profit for the year used for calculation of basic EPS	3,792	193,479
Number of shares	2021	2020
Weighted average number of ordinary shares for the purposes of basic EPS	118,330,817	112,715,328
Effect of potentially dilutive ordinary shares:		
– share options	641,710	922,554
Weighted average number of ordinary shares for the purposes of diluted EPS	118,972,527	113,637,882
EPS:		
– basic (pence)	3.20	171.65
– diluted (pence)	3.19	170.26

9 Dividends

	Year ended 31 December 2021 £'000	Year ended 31 December 2021 Per share (pence)	Year ended 31 December 2020 £'000	Year ended 31 December 2020 Per share (pence)
Paid final dividend	7,107	6.25	—	—
Paid third interim dividend	7,065	6.25	—	—
Paid second interim dividend	7,059	6.25	5,168	4.58
Paid first interim dividend	7,829	6.875	7,058	6.25
Total dividends	29,060	25.625	12,226	10.83

In 2021, the paid second interim dividend, paid third interim dividend and paid final dividend are in respect of FY 2020 and the paid first interim dividend is in respect of FY 2021. In 2020, the paid second interim dividend is in respect of FY 2019 and the paid first interim dividend is in respect of FY 2020.

Per the Group's revised dividend policy, a 27.5p per share dividend is proposed in respect of FY 2021. This will be paid to shareholders in four cash instalments.

The first instalment of £7.8m was paid on 28 October 2021 to shareholders on the register at 1 October 2021, with an ex-dividend date of 30 September 2021. The remaining instalments are intended to be paid as follows:

Instalment	Ex-dividend date	Record date	Payment date
2	06 January 2022	07 January 2022	27 January 2022
3	31 March 2022	01 April 2022	28 April 2022
4	30 June 2022	1 July 2022	28 July 2022

These remaining instalments will amount to c.£24m and will be accounted for in 2022.

Under the new dividend policy, the second interim dividend is paid out of profits recognised in the year prior to the year in which the dividends are declared and reported. As at 31 December 2021, the distributable profits in the parent company were adequate to cover the proposed second interim dividend of c.£8m.

10 Intangible assets

	Goodwill £'000	Intangibles recognised upon acquisition £'000	IT development and software £'000	Total £'000
Cost				
As at 1 January 2020	8,547	2,257	24,445	35,249
Additions	–	–	4,056	4,056
Exchange adjustments	–	–	(12)	(12)
Disposals	60	4	29	93
As at 31 December 2020	8,607	2,261	28,518	39,386
Additions	–	–	2,831	2,831
Acquisitions	859	1,010	–	1,869
Exchange adjustments	(66)	(3)	(31)	(100)
As at 31 December 2021	9,400	3,268	31,318	43,986
Amortisation				
As at 1 January 2020	–	2,171	9,335	11,506
Charge for year	–	32	2,925	2,957
As at 31 December 2020	–	2,203	12,260	14,463
Charge for year	–	179	3,881	4,060
As at 31 December 2021	–	2,382	16,141	18,523
Net book value				
As at 31 December 2021	9,400	886	15,177	25,463
As at 31 December 2020	8,607	58	16,258	24,923
As at 1 January 2020	8,547	86	15,110	23,743

The acquisition of an Industrial & Commercial large-power Half Hourly electricity meter and data portfolio in April 2021 resulted in the recognition of goodwill of £859,000, which has been assigned to the asset management operating segment. In addition, the customer contracts acquired as part of this transaction were valued at £1,010,000 and have been recognised as additions within the Intangibles recognised upon acquisition asset class. See note 20 for further details on this business acquisition.

No goodwill or intangible assets were recognised as a result of acquisitions in 2020.

11 Property, plant and equipment

	Freehold/ leasehold property £'000	Meter assets £'000	Plant and machinery £'000	Fixtures, fittings and equipment £'000	Motor vehicles £'000	Right-of-use assets £'000	Assets under construction £'000	Total £'000
Cost								
As at 1 January 2020	2,751	483,528	1,024	5,858	6,028	4,745	–	503,934
Additions	56	40,349	20	1,329	42	2,265	–	44,061
Acquisitions	–	–	–	–	–	–	–	–
Impairment	–	–	–	–	–	–	–	–
Disposals	–	(131,731)	–	(43)	(765)	–	–	(132,539)
Exchange adjustments	–	–	–	4	–	–	–	4
As at 31 December 2020	2,807	392,146	1,044	7,148	5,305	7,010	–	415,460
Reclassification ¹	–	–	–	–	–	–	4,071	4,071
Additions	–	82,401	126	1,117	28	5,267	24,505	113,444
Acquisitions	–	6,682	–	–	–	–	5,414	12,096
Impairment	–	–	–	–	–	–	–	–
Disposals	(2)	(19,889)	–	(52)	(202)	–	–	(20,145)
Exchange adjustments	–	–	–	(6)	–	(4)	–	(10)
As at 31 December 2021	2,805	461,340	1,170	8,207	5,131	12,273	33,990	524,916
Depreciation								
As at 1 January 2020	505	84,811	500	3,114	1,466	880	–	91,276
Charge for year	174	24,672	290	1,639	1,300	982	–	29,057
Impairment	–	–	–	–	–	–	–	–
Disposals	–	(32,800)	–	(37)	(379)	–	–	(33,216)
Exchange adjustments	–	–	–	5	–	–	–	5
As at 31 December 2020	679	76,683	790	4,721	2,387	1,862	–	87,122
Charge for year	171	24,719	204	1,555	1,157	1,032	–	28,838
Impairment	–	–	–	–	–	–	–	–
Disposals	1	(6,767)	–	(43)	(134)	–	–	(6,943)
Exchange adjustments	–	–	–	(1)	–	(1)	–	(2)
As at 31 December 2021	851	94,635	994	6,232	3,410	2,893	–	109,015
Net book value								
As at 31 December 2021	1,954	366,705	176	1,975	1,721	9,380	33,990	415,901
As at 31 December 2020	2,128	315,463	254	2,427	2,918	5,148	–	328,338
As at 1 January 2020	2,246	398,717	524	2,744	4,562	3,865	–	412,658

¹ The reclassification of £4,071,000 within Assets under construction relates to costs previously recorded within Inventories at 31 December 2020. See Accounting policies – property, plant and equipment – for further details.

Meter assets

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

In 2021, meter asset acquisitions include the c.15,000 assets acquired as part of the Industrial & Commercial large-power Half Hourly electricity business acquisition. See note 20 for details.

Included within the closing Meter assets net book value of £366,705,000 (2020: £315,463,000) is £16,246,000 (2020: £22,627,000) relating to the traditional meter portfolio. In accordance with our accounting policy these assets will be written down to zero by 1 July 2025. In the 2021 consolidated financial statements the traditional meter portfolio generated £12,781,000 (2020: £13,140,000) revenue with a corresponding £5,071,000 (2020: £5,668,000) depreciation charge. As at 31 December 2021, £11,787,000 (2020: £13,333,000) of annualised recurring revenue arises from the owned traditional meter portfolio.

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

For the purpose of impairment testing the traditional meter asset portfolio recognised within “Meter assets” is assessed as a stand-alone cash-generating unit (CGU) and its carrying amount is compared with the recoverable amount. See background information provided in the “Key sources of estimation uncertainty”

section in the accounting policies. The recoverable amount is determined based on a value-in-use calculation, which uses the following key assumptions:

- estimated future cash flows from rental income, which are assumed to decline on a straight-line basis;
- estimated future cash flows from termination income, which are derived using historical data and analysis around the risk of churn between contracted and non-contracted customers and the risk of recoverability once issued; and
- a pre-tax discount rate of 1.9%, which reflects the risk attached to the time value of these specific cash flows and is deemed to be best represented by the Group's incremental cost of borrowing on the basis that cash flows are secured by the installed meter and the risk inherent in the decline of the cash flows is already accounted for through the assumptions detailed above.

As a result of this impairment test, it was identified that the value in use of the traditional meter assets CGU exceeded its carrying value and therefore no impairment has been recognised in the year to 31 December 2021.

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

In line with IAS 36, no impairment review was considered necessary at 31 December 2020 as the previous impairment review at 31 December 2019 showed a significant excess of recoverable amount over carrying amount and management concluded that there were no reasonably possible changes in the key assumptions that would cause the carrying amounts of the traditional meter portfolio to exceed the value in use. There had also been no events that would eliminate this excess or any new material indicators of impairment. As a result of COVID-19, and the reduced smart meter installation activity, there was a lower volume of traditional meter asset removals through 2020. Therefore, no impairment was recognised in the period ended 31 December 2020.

No impairment on other meter assets was recognised in 2021 or 2020.

Right-of-use assets

Additions to right-of-use assets during the 2021 financial year were £5,267,000 (2020: £2,265,000).

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

	2021 £'000	2020 £'000
Carrying value		
Properties ¹	4,502	2,918
Motor vehicles	–	7
Land	4,878	2,223
	9,380	5,148

¹ Properties include office and warehouse space.

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

	2021 £'000	2020 £'000
Depreciation charge on right-of-use assets		
Properties	919	948
Motor vehicles	6	13
Land	107	21
	1,032	982

12 Financial asset investments

	Unlisted investments £'000	Total £'000
Cost		
As at 1 January 2020 and 1 January 2021	75	75
Impairment	–	–
As at 31 December 2020 and 31 December 2021	75	75

13 Impairment of goodwill

The goodwill acquired in a business combination is allocated, at acquisition, to the CGUs that are expected to benefit from that business combination. Goodwill is monitored by management at the level of the CGUs which, in the prior year, were defined as the three operating segments identified in note 1. Given the ongoing business development within the energy management segment and the diversification of energy assets as a result, management has deemed it appropriate to separate out the Solo Energy business in the current year as a standalone CGU. All the goodwill previously allocated to the energy management CGU relates to the acquisition of Solo Energy Limited and, therefore, as the Solo Energy business develops it is at this level that goodwill will be monitored for internal management purposes. The corresponding goodwill balance has thus been reclassified in the current year, as seen in the table below.

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

	Asset management £'000	Asset installation £'000	Energy management £'000	Solo Energy £'000	Total £'000
Cost					
As at 1 January 2020	4,112	3,497	998	–	8,607
Reclassification	–	–	(998)	998	–
Acquisitions (note 20)	859	–	–	–	859
Exchange adjustments	–	–	–	(66)	(66)
As at 31 December 2021	4,971	3,497	–	932	9,400

Additional goodwill of £859,000 has been recognised in the current year as a result of business combinations, arising on the acquisition of an Industrial & Commercial large-power Half Hourly electricity business. See note 20 for further details. This goodwill has been allocated entirely to asset management on the basis that this is the operating segment that will receive the benefits from the acquisition.

The Group tests goodwill for impairment annually or more frequently if there are indications that goodwill might be impaired. Goodwill is tested for impairment by comparing the carrying amount of each CGU, including goodwill, with the recoverable amount. The recoverable amounts are determined based on value-in-use calculations which require assumptions. The calculations use cash flow projections based on financial budgets approved by the Board covering a one-year period, together with management forecasts for a further four-year period. These budgets and forecasts have regard to historical performance and knowledge of the current market, together with the Group's views on the future achievable growth and the impact of committed cash flows. Specifically, budgets and forecasts used in the assessment of goodwill at 31 December 2021 incorporate the effects of the extended deadline for the UK smart meter rollout to 31 December 2025. Cash flows beyond this are extrapolated using the estimated growth rates stated below.

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

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

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

- **Perpetual growth rate** – the terminal cash flows are extrapolated in perpetuity using a growth rate of 2.25% for asset management (2020: 2.0%) and 1.0% for asset installation and Solo Energy (2020: 1.5% for asset installation and energy management). The rate of 2.25% applied to asset management is derived from historical Retail Price Index increases applied to the segment's index-linked meter rentals, with a small reduction in recognition of the impact of COVID-19 on macroeconomic growth. This is not considered to be higher than the average long-term industry growth rate. The rate of 1.0% applied to asset installation and Solo Energy is aligned to the Group's corporate forecast model and is prudently lower than the rate applied to asset management as revenues in these segments are not always index-linked.

- Discount rate** – the discount rate is initially based on the weighted average cost of capital (WACC) which would be anticipated for a market participant investing in the Group. A specific discount rate is then calculated for each operating segment, taking into account the time value of money, the segment’s risk profile and the impact of the current economic climate. The pre-tax discount rates applied are 6.8%, 8.6% and 18.2% for asset management, asset installation and Solo Energy respectively (2020: 6.8% for asset management, 9.0% for asset installation and 11.7% for energy management) and the post-tax discount rates applied are 5.5%, 7.00% and 15.0% for asset management, asset installation and Solo Energy respectively (2020: 5.5% for asset management, 7.25% for asset installation and 8.9% for Solo Energy). The risk premium assigned to the asset Installation CGU reflects the shorter-term nature of the underlying revenues within this segment, as compared to the annually-recurring revenue generated by an installed asset. The risk premium assigned to the Solo Energy CGU reflects the pre-revenue status of this part of the business, in which the underlying system is still undergoing development.

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

14 Inventories

	2021 £'000	2020 £'000
Finished goods	22,476	22,676
Work in progress	–	4,701
Consumables	504	273
	22,980	27,650

In the prior year, work in progress related to the construction of grid-scale battery storage sites. Of the total work-in-progress balance of £4,701,000 at 31 December 2020, £3,438,000 related to the acquisition of companies and £1,262,000 related to the subsequent capitalisation of directly attributable construction costs. This work in progress has been reclassified to Assets under construction within Property, plant and equipment in the current year, in line with the Group’s change in accounting policy. See Accounting policies – property, plant and equipment – for further details.

15 Trade and other receivables

	2021 £'000	2020 restated ¹ £'000
Current		
Trade receivables	22,451	20,272
Prepayments and deferred costs	2,520	2,225
Accrued income	19,265	12,442
Other receivables	1,463	1,245
VAT recoverable	1,932	980
	47,631	37,164

¹ £2,038,000 has been reclassified from Prepayments and deferred costs to Accrued income.

Amounts falling due after more than one year:

	2021 £'000	2020 £'000
Accrued income	–	12

Accrued income is made up of the following balances:

	2021 £'000	2020 restated ¹ £'000
Unbilled receivables	18,915	12,395
Contract assets	46	47
Other accrued income	304	–
	19,265	12,442

¹ £2,038,000 has been reclassified from Prepayments and deferred costs to Accrued income and recognised as part of Unbilled receivables.

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

The Group's credit risk is primarily attributable to trade receivables and accrued income. The amounts presented in the consolidated statement of financial position are net of any loss allowance. The total loss allowance for trade receivables and accrued income at 31 December 2021 was £4,370,000 (2020: £4,904,000). See note 19 for further details. The ageing profile of trade receivables past due date is shown below:

	2021 £'000	2020 £'000
Current	13,019	13,608
1-30 days	3,728	3,208
31-60 days	1,615	1,914
61-90 days	1,499	1,090
91-120 days	1,705	328
Over 120 days	5,812	4,868
	27,378	25,016
Loss allowance	(3,969)	(4,744)
Amounts offset (see note 19)	(958)	–
	22,451	20,272

Trade receivables are non-interest-bearing and are generally on 30-90-day terms. Trade receivables due from related parties at 31 December 2021 amounted to £nil (2020: £nil).

All trade receivables are denominated in Sterling.

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

16 Cash and cash equivalents

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

During 2021, £50,000,000 of cash was placed on short-term deposit (2020: £nil)

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

	2021 £'000	2020 £'000
Cash at bank	67,687	40,236
Short-term deposits	50,000	–
	117,687	40,236

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

17 Trade and other payables

	2021 £'000	2020 £'000
Current		
Trade payables	16,638	10,215
Other payables	4,097	3,815
Other taxes	1,519	3,894
Deferred income	2,898	2,498
Advance payments	1,185	1,422
Accruals	30,152	20,114
	56,489	41,958

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

	2021 £'000	2020 £'000
Contract liabilities	3,732	3,689
Other deferred income	351	231
	4,083	3,920

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

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

All trade liabilities are denominated in Sterling.

18 Financial liabilities and provisions

(a) Financial liabilities

	2021 £'000	2020 £'000
Current		
Lease liabilities	999	936
Other liabilities	638	388
Bank loans	–	–
	1,637	1,324
Non-current		
Lease liabilities	7,574	4,315
Other liabilities	1,548	–
Bank loans	–	–
	9,122	4,315

At the start of 2020, the Group had a revolving credit facility of £420m, with a five-year term ending December 2023 (the 'existing facility'). Following the Group's sale of a wholly owned subsidiary on 22 April 2020, the gross proceeds received of £290.6m were used to make a voluntary prepayment and the total outstanding principal value at 22 April 2020 of £270m, together with outstanding interest and commitment fees of £0.6m, was settled. Concurrently, the total commitments available under the existing facility were reduced from £420m to £300m. There were no other material changes to the terms and conditions. This amendment did not substantially change the existing revolving credit facility, nor did it discharge any obligations. As such, this was deemed to be a modification. There was no material impact to the consolidated income statement in the year ended 31 December 2020 as a result of the modification; £0.1m of break costs incurred as a result of the voluntary prepayment were recognised as an exceptional finance cost.

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

Unamortised transaction costs from the initial establishment of the revolving credit facility in December 2018 continued to be amortised over the remaining duration of the facility to 2023, together with additional transaction costs of £0.1m directly attributable to the modification of the loan on 22 April 2020. For the year ended 31 December 2020, £0.7m of transaction costs were recognised within the consolidated income statement and the unamortised transaction costs of £1.9m that would ordinarily be deducted from the carrying value of the bank loans were recorded as 'Other assets' at 31 December 2020. In line with the Group's accounting policy, these unamortised transaction costs were reclassified to Bank loans upon the first drawdown in H1 2021.

On 13 September 2021, the Group successfully completed the refinancing of its existing facility to better support the ongoing growth and development of the Group. As part of the refinancing, all outstanding amounts under the existing facility were settled. Concurrently, the Group undertook a commercial negotiation, facilitated

by debt advisory specialists, to enter into a new facility on market terms. The new facility has total available commitments of £420m and matures in December 2025. The new facility is provided by a syndicate of lenders, including the lenders of the existing facility and new lenders. Unamortised arrangement fees on the existing facility of £1.5m have been accelerated and recognised as an exceptional finance cost in the consolidated income statement together with £0.2m of legal and professional fees arising on the refinancing. No amount is drawn down on the new facility at 31 December 2021 and transaction costs of £2.4m are amortised over the duration of the new facility to 2025.

For the year ended 31 December 2021, £2.1m of transaction costs have been recognised within the consolidated income statement (2020: £0.7m) of which £0.2m relates to the new facility. £1.9m relates to the existing facility of which £1.5m accelerated amortisation of transaction costs has been recognised within Exceptional costs. Interest of £0.6m has been recognised (2020: £2.3m).

Whilst a drawdown of £53m was made under the new facility in H2, this was settled in full in November 2021. Therefore, as at 31 December 2021 there is no outstanding principal or interest. The amount recognised against Bank loans is thus £nil. Unamortised transaction costs of £2.2m, that would ordinarily be deducted against the carrying value of the bank loans, have therefore been reclassified to Other assets at 31 December 2021.

Up until 13 September 2021, the existing facility attracted interest at a rate of 1.85% over three-month LIBOR and 0.65% was payable on undrawn funds. From 13 September 2021, the new facility attracted interest at a rate of 1.85% over three-month SONIA and 0.65% was payable on undrawn funds. Interest continues to be settled quarterly.

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

(b) Changes in liabilities arising from financing activities

Financial liabilities	Lease liabilities £'000	Bank loans £'000
At 1 January 2020	3,963	269,260
Cash flows (i)	(1,155)	(274,143)
New leases	2,260	–
Other non-cash changes (i)	183	2,934
At 31 December 2020	5,251	(1,949)
Cash flows (i)	(1,247)	(2,631)
New leases	4,230	–
Other non-cash changes (i)	339	2,379
At 31 December 2021	8,573	(2,201)
Presentational reclassification to Other assets	–	2,201
At 31 December 2021	8,573	–

(i) Cash flows and other non-cash changes

Cash flows on lease liabilities include £1,247,000 of lease payments. Cash flows on bank loans include £53,250,000 of new borrowings less £53,250,000 of borrowings repaid, interest payments of £554,000 and a payment of £2,077,000 for arrangement fees.

Other non-cash changes in lease liabilities include £281,000 of interest charges plus £58,000 arising from changes in lease terms and foreign exchange impact in the year. Other non-cash changes in bank loans include £308,000 of arrangement fees accrued but not yet paid offset with £554,000 of interest charges and £2,133,000 amortisation of arrangement fees (of which £1,506,000 relates to the accelerated amortisation of arrangement fees as a result of the re-financing of the Group's revolving credit facility).

At 31 December 2021, there were no outstanding amounts under the Group's revolving credit facility. Therefore, unamortised arrangement fees of £2,201,000 have been classified separately as Other assets in the consolidated statement of financial position in line with the Group's accounting policy. Unamortised arrangement fees of £550,000 have been classified as current Other assets, with the balance of £1,651,000 classified as non-current, in line with the remaining term of the facility.

In 2020, cash flows on lease liabilities included £1,155,000 of lease payments. Cash flows on bank loans included £15,000,000 of new borrowings less £285,000,000 of borrowings repaid, interest payments of £4,000,000 and a payment of £143,000 for arrangement fees.

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

(c) Other liabilities

Other liabilities comprise:

	2021 £'000	2020 £'000
Current		
Deferred consideration on acquisitions	638	388
	638	388
Non-current		
Deferred consideration on acquisitions	750	–
	750	–

Refer to note 21 for further details on the deferred consideration on acquisitions.

(d) Provisions

Provisions comprise:

Non-current		
Provision for restoration costs recognised under IFRS 16	798	–
	798	–

The Group is required to restore the land leased as part of its grid-scale battery storage business, and certain leased warehouses, to the condition required by the terms and conditions of the lease at the end of the respective lease terms (which range between three to ten years for warehouses and 20 to 40 years for land). A provision has been recognised for the present value of the estimated expenditure required to carry out this restoration. These costs have been capitalised as part of the cost of right-of-use assets and are depreciated over the shorter of the term of the lease and the useful life of the assets.

19 Financial risk management

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

(a) Interest rate risk

The Group's main interest rate risk arises from its floating rate bank loan, which was undrawn at 31 December 2021 (2020: £nil). See note 18 for further details.

There were no overdrafts at 31 December 2021 (2020: none) and the interest charge arising on lease liabilities does not represent a cash interest rate risk for the Group.

The Group's financial assets at 31 December 2021 comprise cash and trade receivables. The cash balance of £117,687,000 (2020: £40,236,000) is a floating rate financial asset, but interest income is not typically material.

Interest rate sensitivity

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

	Increase/(decrease) in basis points	Effect on profit before tax £'000
2021	+70bps	–
2020	+70bps	–

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

(b) Fair values of financial liabilities and financial assets

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

(c) Foreign currency risk

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

(d) Liquidity risk

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

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 2021	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	16,638	–	–	16,638
Bank loan	–	–	–	–
Other liabilities	638	–	–	638
Other long-term liabilities	–	750	–	750
Lease liabilities	1,280	3,232	5,965	10,477
	18,556	3,982	5,965	28,503

31 December 2020	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

The contractual undiscounted cash flows on the bank loan reflect the contractual arrangements in place at the year-end date. As disclosed in note 18, the Group had no outstanding principal at 31 December 2021 or 31 December 2020 and therefore the contractual undiscounted cash flows at 31 December 2021 and 31 December 2020 are £nil in the tables above.

(e) Credit risk

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

Credit risk is managed on a Group basis. For banks and financial institutions, only independently rated parties with a minimum rating of AA– are accepted. With regard to customers, the Group assesses the credit quality of the customer, considering its financial position, past experience and other factors. The Group does not expect, in the normal course of events, that debts due from customers are at significant risk. The Group's maximum exposure to credit risk equates to the carrying value of cash and cash equivalents, trade and other receivables, contract assets and investments. The Group's maximum exposure to credit risk from its customers is £41,716,000 (2020 restated: £32,725,000), being the sum of the carrying value of trade receivables and accrued income, including contract assets, as disclosed within Trade and other receivables in note 15. The Group regularly monitors and updates its cash flow forecasts to ensure it has sufficient and appropriate funds to meet its ongoing operational requirements.

Impairment of financial assets

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

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

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

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

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

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

COVID-19 has generated global financial uncertainty; however, the potential impact of this on the Group's credit risk is mitigated by the highly regulated nature of the utilities industry and the extensive support made available to energy – and other infrastructure – suppliers by the UK Government. As a result, management has not increased the expected loss rates for the trade receivables portfolio as a whole. Instead, a subset of trade receivables has been identified as having a potentially elevated credit risk, due to a greater risk of administration as a direct consequence of COVID-19. This subset of trade receivables has been provided for on a specific basis and in the prior year resulted in an additional £0.5m impairment loss. This provision has been reduced to £nil at 31 December 2021, reflecting positive recovery trends over the past twelve months, giving rise to a £0.4m credit in the current year financial statements (net of write-offs). Whilst management will continue to monitor the situation in case of any changed circumstances arising from the pandemic, it is of the view that there is no longer significant uncertainty regarding the impact of COVID-19 on customer default risk. Consistent with the recognition of the original impairment loss in the prior year, management has taken the judgement to recognise this write back as exceptional.

During the second half of 2021, the global energy market has suffered from unprecedented increases in wholesale gas prices, creating significant volatility within the UK energy market and leading to a number of independent energy suppliers entering administration and exiting the market. This crisis has notably impacted the smaller independent energy suppliers and, as a result, management has not increased the expected loss rates for the trade receivables portfolio as a whole. Instead, a subset of trade receivables has been identified as having a potentially elevated credit risk, due to a greater risk of administration as a direct consequence of the crisis. This subset of trade receivables has been provided for on a specific basis and has resulted in an

additional £0.4m impairment loss in the year. Given the continued and changing uncertainty regarding the impact of this crisis on customer default risk, management will continue to monitor the situation and reassess its ECL at each reporting period end accordingly.

On that basis, the loss allowance at 31 December 2021 was determined as £4,370,000 (2020: £4,904,000) for trade receivables and accrued income. A reconciliation of these balances is provided as follows:

	Accrued income £'000	Trade receivables £'000	Total £'000
At 1 January 2021	160	4,744	4,904
Increase in loss allowance recognised in profit or loss during the year – underlying	241	3,161	3,402
Decrease in loss allowance recognised in profit or loss during the year - exceptional	-	(438)	(438)
Amounts reversed/written off during the year	-	(3,498)	(3,498)
At 31 December 2021	401	3,969	4,370

The overall loss allowance has decreased at 31 December 2021. Whilst the crisis in the energy market has given rise to an additional impairment loss in the year, as detailed above, the impairment loss recognised in relation to COVID-19 in 2020 has been reversed and several individual trade receivables, previously impaired as a result of specific circumstance with customers, have been settled in the year.

Total net impairment losses on financial and contract assets were £2,964,000 in 2021 (2020: £3,229,000) including the £438,000 exceptional credit. Of this amount, £2,964,000 (2020: £3,229,000) relates to amounts arising from trade receivables and accrued income.

Fair value

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

(f) Capital management

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

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

The objective of SMS's strategy is to deliver long-term value to its shareholders whilst maintaining a balance sheet structure that safeguards the Group's financial position. Under the Group's enhanced dividend policy, SMS declared a 25p per share dividend in respect of FY 2020 and proposes a 27.5p per share dividend in respect of FY 2021. The first of three interim dividend instalments was paid in October 2021. The Group's long-term index-linked cash flows from its existing asset base are able to support an intended annual increase of 10% in dividends for each of the financial years FY 2022, FY 2023 and FY 2024. This results in a more predictable return to shareholders and reflects the forecast growth of the business over and above RPI in that period. The Group's strong liquidity position supports the funding of its contracted smart meter order pipeline, which will further add to its long-term index-linked cash flows.

(g) Disclosure of offsetting arrangements

31 December 2021	Gross balances ¹ £'000	Amounts offset ² £'000	Balance sheet ³ £'000
Financial assets			
Trade receivables	23,409	(958)	22,451
Accrued income	20,313	(1,048)	19,265
Financial liabilities			
Trade payables	16,770	(132)	16,638
Accruals	32,026	(1,874)	30,152

¹ The gross amounts of the recognised financial assets and liabilities

² The amounts offset in accordance with the criteria in IAS 32

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

20 Business combinations

Year ended 31 December 2021

On 6 April 2021 the Group acquired a portfolio of c.15,000 Industrial & Commercial large-power Half Hourly electricity meters from a third party. This acquisition will add c.£1.1m of annualised recurring meter revenue to the Group's ILARR. The Group also took ownership of the Meter Operator (MOP) and data service contracts associated with a portfolio of electricity meters, which will initially generate a further net c.£2m of annualised recurring data revenue. This is reported through the Group's asset management segment.

As part of the transaction, a workforce was transferred with the skills, knowledge and experience to generate revenues from the assets and contracts acquired, and potentially grow the acquired business for the Group. Such a workforce meets the definition of a substantive process under IFRS 3. On the basis that the Group has obtained inputs, a substantive process and outputs, management has concluded that the acquisition meets the definition of a business combination and should be accounted as such under IFRS 3.

Purchase consideration consisted of cash only. Total cash paid was £8,433,000.

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

	Fair value £'000
Intangible assets: customer contracts	1,010
Property, plant and equipment: meter assets	6,682
Inventories	700
Trade and other receivables	1,778
Trade and other payables	(2,368)
Deferred tax liability	(228)
Net identifiable assets acquired	7,574
Add: goodwill	859
Net assets acquired	8,433

No contingent assets or liabilities were acquired. The customer contracts acquired were valued using a multi-period excess earnings method, which assesses the present value of the after-tax cash flows attributable only to these contracts.

The goodwill is attributable to the opportunity to grow this part of the business for the Group. Goodwill will not be deductible for tax purposes.

For the year ended 31 December 2021, the acquired business contributed a net profit before taxation of £1.7m to the Group. If the acquisition had occurred on 1 January 2021, consolidated pro-forma profit for the year ended 31 December 2021 would have been approximately £2.2m.

Acquisition-related costs of £0.3m have been incurred to date, including transaction costs and mobilisation costs to integrate the newly-acquired business into the Group, and have been included as part of exceptional Administrative costs in the consolidated statement of comprehensive income.

Year ended 31 December 2020

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

Name of acquired company	Company number	Registered office prior to acquisition	Purchase consideration £	Acquisition date £	Nature of the company
East Anglia Grid Storage One Limited	11110483	Salisbury House Station Road Cambridge CB1 2LA	1,575,882	16 October 2020	Special purpose vehicle
Burwell Power Limited	12028663				Holding company ¹
Add Renewables No.3 Limited	10042216	16a Suite 18 Oakham Enterprise Park Ashwell Road Oakham, Rutland LE15 7TU	1,344,000	30 September 2020	Special purpose vehicle

¹ Burwell Power Limited is the direct parent of East Anglia Grid Storage One Limited (the 'subsidiary').

All three companies report in British Pounds Sterling. The acquisitions enable SMS to obtain control over the rights required to develop and commission two grid-scale battery storage sites, totalling 90MW, as part of the Group's strategy of investment in CaRe assets. Grid-scale battery storage is a key asset class required by the UK energy system to provide flexibility services to balance the grid and support the continued introduction of more intermittent renewable generation. The acquired sites will be constructed over the next twelve months.

Details of the purchase consideration are as follows:

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

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

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

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

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

No contingent assets or liabilities were acquired.

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

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

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

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

21 Asset acquisitions

During the year ended 31 December 2021, the Group acquired 100% of the issued share capital of the following companies:

Name of acquired company	Company number	Registered office prior to acquisition	Purchase consideration £'000	Acquisition date	Nature of the company
Newtonwood Energy Storage Limited	11257609	Unit 9, the Green Easter Park, Benyon Road, Reading, Berkshire RG7 2PQ	1,471	9 March 2021	Special purpose vehicle
Brook Farm Energy Storage Limited	10780034	Unit 9, the Green Easter Park, Benyon Road, Reading, Berkshire RG7 2PQ	1,572	11 June 2021	Special purpose vehicle
Berkeley Battery Storage 2 Limited	10942601	Suite 4D Drake House, Dursley, Gloucestershire GL11 4HH	1,306	15 June 2021	Special purpose vehicle
Brentwood Energy Storage Limited	11516707	Unit 8-9 Benyon Road, Silchester, Reading, Berkshire RG7 2PQ	1,401	1 October 2021	Special purpose vehicle

All four companies report in British Pounds Sterling. The acquisitions enable SMS to obtain control over the rights required to develop and commission four grid-scale battery storage sites, totalling 200MW, as part of the Group's strategy of investment in CaRe assets. Grid-scale battery storage is reported through the Group's energy management segment and is a key asset class required by the UK energy system to provide flexibility services to balance the grid and support the continued introduction of more intermittent renewable generation. The acquired sites will be constructed over the next 12 to 24 months.

Details of the purchase consideration are as follows:

Name of acquired company	Cash paid £'000	Deferred consideration £'000	Total consideration £'000
Newtonwood Energy Storage Limited	1,221	250	1,471
Brook Farm Energy Storage Limited	1,572	—	1,572
Berkeley Battery Storage 2 Limited	1,056	250	1,306
Brentwood Energy Storage Limited	901	500	1,401
Total purchase consideration	4,750	1,000	5,750

In respect of three of the four companies, total additional consideration of £750,000 is payable in cash upon energisation (when the grid-scale battery storage asset is connected to the grid). In addition, in respect of one of the four companies, total additional consideration of £250,000 is payable in cash upon the full execution of an extension of the term of the land lease. The payments have been measured at fair value at the acquisition date, ignoring the impact of discounting on the basis that the anticipated payment date is within 24 months of the current reporting date and management consider the impact of discounting over this period to be immaterial.

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

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

	Newtonwood £'000	Brook Farm £'000	Berkeley £'000	Brentwood £'000	Total £'000
Assets under construction	1,272	1,596	1,290	1,256	5,414
Trade and other receivables	199	76	16	145	436
Trade and other payables	—	(100)	—	—	(100)
Total purchase consideration	1,471	1,572	1,306	1,401	5,750

No contingent assets or liabilities were acquired.

The majority of the value gained from acquiring the four sites is attributable to development and construction rights and therefore a significant portion of the total cost of the transaction has been allocated to Assets under construction due to its higher fair value relative to the other net assets acquired.

Transaction costs of £0.2m were incurred and have been capitalised as a component of the cost of the assets acquired, classified as part of Assets under construction within Property, plant and equipment.

22 Deferred taxation

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

	2021 £'000	2020 £'000
Opening deferred tax liability	8,511	13,779
Increase in provision through consolidated statement of comprehensive income	4,408	1,061
Increase/(decrease) in provision through equity	(319)	(714)
Deferred tax in respect of acquisitions and disposals	(401)	(5,615)
Closing deferred tax liability	12,199	8,511

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

	2021 £'000	2020 £'000
Excess of taxation allowances over depreciation on property, plant and equipment	11,036	7,134
Tax losses available	(51)	(125)
Deferred tax asset on share options	(1,438)	(1,676)
Deferred tax on intangibles acquired	1,168	684
Other	1,484	2,494
	12,199	8,511

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

	2021 £'000	2020 £'000
Accelerated capital allowances	3,902	1,688
Tax losses	74	(124)
Deferred tax asset on share options	558	29
Movement in fair value of intangibles	256	626
Other	(382)	(1,158)
	4,408	1,061

At 31 December 2021, the main rate of corporate tax applying to the profits of the Group was 19%. In the Spring Budget 2020, the UK Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). The Government's budget announcements on 3 March 2021 included the confirmation that the rate of corporation tax would increase to 25% from 1 April 2023. This new law was substantively enacted on 24 May 2021. Deferred taxes at the balance sheet date have been re-measured using these enacted tax rates and reflected in these financial statements. The impact of tax rate changes, on both the Group's opening deferred tax liability and current-year total tax timing differences, amounts to £2,956,000.

The Group had unrecognised trading losses of £1,456,000 (2020: £954,000) in subsidiary undertakings at 31 December 2021. The Group also had unrecognised capital losses of £729,000 (2020: £729,000) in subsidiary undertakings at 31 December 2021.

23 Related party transactions

(a) Subsidiaries

The Group's subsidiaries at 31 December 2021 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares, and the proportion of ownership interests held equals the voting rights held by the Group. The country of registration is also their principal place of business.

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

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

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

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

3 Registered office address: West Building, Carrigaline Industrial Estate, Carrigaline, Co. Cork, Republic of Ireland.

4 Registered office address: KPMG, 'Tower 3' Level 38, 300 Bangaroo Avenue, Sydney, NSW 2000, Australia.

(b) Key management personnel compensation

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

	2021 £'000	2020 £'000
Short-term employee benefits	2,747	3,024
Post-employment benefits	35	28
Termination benefits	146	–
Share-based payments	262	219
	3,190	3,271

(c) Directors

Directors' emoluments

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

	2021 £'000	2020 £'000
Aggregate emoluments	1,744	2,010
Company contributions to money purchase pension scheme	21	18
Company contributions to private pension plan	–	–
	1,765	2,028

In 2021, £146,000 was payable to a Director as settlement following resignation (2020: no amount was payable to Directors).

Emoluments of highest paid Director

	2021 £'000	2020 £'000
Emoluments	694	796

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

Number of Directors who accrued benefits under Company pension schemes

	2021 Number	2020 Number
Money purchase schemes	3	2

(d) Other transactions with related parties

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

- Rent amounting to £10,375 (2020: £41,500) was paid to the Directors' pension scheme, Eco Retirement Benefit Scheme, for the use of certain premises. Alan Foy is a trustee of the scheme. At the year-end date, an amount of £nil (2020: £nil) was outstanding in this regard.
- The Group paid dividends to Alan Foy of £906,915 (2020: £441,930), The Metis Trust¹ of £230,625 (2020: £97,470), Metis Investments Limited² of £387,968 (2020: £105,332), Tim Mortlock of £1,501 (2020: £570), Gavin Urwin of £153 (2020: £nil), David Thompson (whilst a Director) of £188 (2020: £325), Miriam Greenwood of £6,129 (2020: £2,529), Willie MacDiarmid³ of £nil (2020: £271), Graeme Bissett of £4,116 (2020: £901) and Jamie Richards of £1,002 (2020: £244).

1 Alan Foy is a trustee but not a beneficiary.

2 Alan Foy is a Director and shareholder.

3 Paid to a connected person.

24 Share capital

	2021 £'000	2020 £'000
Allotted and called up:		
133,321,555 ordinary shares of £0.01 each (2020: 112,946,331 ordinary shares of £0.01 each)	1,333	1,129

On 4 October 2021, the Group successfully completed an equity raise for gross proceeds of c.£175m. The total number of shares issued as a result of the raise was 19,453,777 with a nominal value of £195,000. Net proceeds of £170,154,000 were received, after the deduction of £4,930,000 of directly attributable issue costs. The excess value of the shares over their nominal value of £169,959,000 has been recognised within Share premium.

During the year 921,447 (2020: 134,793) ordinary share options were exercised in relation to the Group's employee share plans which are described in note 25. The ordinary shares issued have a nominal value of £9,000 (2020: £1,000) and aggregate consideration of £1,627,000 (2020: £362,000) was received.

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

The Group's Share Incentive Plan is administered by the Smart Metering Systems SIP Trust, which acquires shares in SMS (own shares) to satisfy awards under this plan and facilitate the delivery of shares to participants. At 31 December 2021, 139,055 (2020: 140,695) own shares were held in trust with a carrying value of £825,000 (2020: £749,000) and a market value of £1,169,000 (2020: £1,000,000). The Company purchased 34,191 shares (2020: 28,354) from the market during 2021 with a weighted average fair value of £8.15 per share (2020: £5.68).

25 Share-based payments

(a) Employee option plans

On 20 June 2011 the Company adopted both the Approved Company Share Option Plan (CSOP) and the Unapproved Share Option Plan (the 'Unapproved Plan').

The CSOP is open to any employee of any member of the Group up to a maximum value of £30,000 per employee. The Unapproved Plan is open to any employee, including Executive Directors, of the Company or any other Group company who is required to devote substantially the whole of their time to their duties under their contract of employment.

Under the plans, participants are granted options which, except in certain specified circumstances, only vest if certain performance conditions are met and the employee is still in service within five years of the date of grant. The performance conditions for awards are based on market capitalisation and individual performance targets. Once vested, the options remain exercisable for a period of up to ten years from the date of grant. The exercise price of the options is determined by the Directors but shall not be less than the closing price at which the Company's shares are traded on the date of grant.

Summary of options

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

Plan	At 1 January 2021	Granted	Exercised	Forfeited	Expired	At 31 December 2021	Exercise price (pence)	Date exercisable	Expiry date	Fair value at grant (pence)
CSOP	25,853	–	(25,853)	–	–	–	76.0	15 Jul 2014	15 Jul 2021	17.1
Unapproved	321,666	–	(321,666)	–	–	–	60.0	20 Jun 2016	20 Jun 2021	13.0
Unapproved	325,000	–	(325,000)	–	–	–	153.5	28 May 2017	28 May 2022	40.0
Unapproved	40,000	–	–	–	–	40,000	350.0	12 Nov 2019	12 Nov 2024	84.8
Unapproved	578,085	–	(175,498)	(4,755)	–	397,832	350.0	12 Nov 2019	12 Nov 2024	84.8
Unapproved	26,066	–	(26,066)	–	–	–	391.8	20 Mar 2021	19 Mar 2026	61.5
Unapproved	38,586	–	(38,586)	–	–	–	410.0	4 Jul 2021	3 Jul 2026	114.3
Unapproved	58,520	–	(8,778)	(5,852)	–	43,890	470.0	18 Aug 2021	17 Aug 2026	87.2
Unapproved	100,000	–	–	(100,000)	–	–	529.0	1 Sep 2021	31 Aug 2026	141.5
Unapproved	50,000	–	–	–	–	50,000	529.0	26 Sep 2021	25 Sep 2026	142.4
Unapproved	–	–	–	–	–	–	550.0	28 Nov 2021	28 Nov 2026	141.0
Unapproved ¹	469,001	–	–	(60,000)	–	409,001	700.0	1 Jan 2023	13 Jul 2028	125.2
Unapproved ²	12,000	–	–	–	–	12,000	602.8	13 Sep 2023	12 Sep 2028	154.3
Unapproved ¹	469,000	–	–	(60,000)	–	409,000	700.0	1 Jan 2023	13 Jul 2028	34.6
Unapproved ²	12,000	–	–	–	–	12,000	602.8	13 Sep 2023	12 Sep 2028	98.0
Unapproved	370,000	–	–	–	–	370,000	454.6	5 Sep 2024	4 Sep 2029	111.5
Unapproved ¹	469,000	–	–	(60,000)	–	409,000	700.0	1 Jan 2023	13 Jul 2028	37.2
Unapproved ²	12,000	–	–	–	–	12,000	602.8	13 Sep 2023	12 Sep 2028	105.6
Unapproved ³	76,000	–	–	–	–	76,000	577.4	26 Jun 2025	25 Jun 2030	59.3

Unapproved ¹	– 468,999	– (60,000)	–	408,999	700.0	01 Jan 2023	13 Jul 2028	134.3
Unapproved ²	– 12,000	–	–	12,000	602.8	13 Sep 2023	12 Sep 2028	266.1
Unapproved ³	– 76,000	–	–	76,000	577.4	26 Jun 2025	25 Jun 2030	191.4
Unapproved ⁴	– 290,000	–	–	290,000	705.4	10 Feb 2026	09 Feb 2031	210.8
Total	3,452,777	846,999	(921,447)	(350,607)	–	3,027,722		

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

2 These options relate to the first four, of five, tranches.

3 These options relate to the first two of five tranches.

4 These options 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 2021 was £8.36 (2020: £6.06).

Fair value of options granted

The assessed fair value at the valuation date of options granted during the year ended 31 December 2021 ranged from 134.3p to 266.1p, as disclosed in the table above (2020: 37.2p to 105.6p). The fair value of options granted is estimated using appropriate option pricing models, taking into account the exercise price, the term of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield, the risk-free interest rate for the term of the option, and the market-based performance conditions. The expected price volatility is based on historical volatility, adjusted for any expected changes to future volatility due to publicly available information.

The total fair value of these options is recognised over the period from their grant date until they become exercisable.

The following table lists the range of assumptions applied to options granted under the Unapproved Plan during the current and prior years:

	31 December 2021	31 December 2020
Dividend yield (%)	3.3	4.3
Expected volatility (%)	35.96 to 41.33	35.70 to 39.04
Risk-free interest rate (%)	0.09 to 0.39	(0.05) to (0.06)
Expected option life (years)	2.28 to 4.87	3.03 to 5.00
Exercise price (£)	5.77 to 7.05	5.77 to 7.00
Share price at grant date (£)	8.30	5.79 to 5.81
Fair value at grant date (£)	1.34 to 2.66	0.37 to 1.06

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

The expense recognised in 2021 for all options is £563,000 (2020: £357,000).

(b) Share Incentive Plan (SIP)

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

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

Type of award	At 1 January 2021	Awarded shares	Sold/transferred	Forfeited	At 31 December 2021	Weighted average acquisition price
Partnership	222,119	52,824	(44,628)	–	230,315	5.40
Matching	219,888	52,824	(25,799)	(17,970)	228,943	5.40
Dividend	14,407	13,771	(2,974)	–	25,204	5.80
Total	456,414	119,419	(73,401)	(17,970)	484,462	

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

The fair value of the Matching Shares at the award date is equal to the share price at the award date. The weighted average fair value per share of the Matching Shares awarded during 2021 was approximately £8.18 per share (2020: £6.08). The total fair value of Matching Shares awarded is recognised over the three-year period starting on the respective award dates.

The expense recognised in 2021 for all Matching Shares is £278,000 (2020: £269,000). No expense is recognised for the Partnership Shares and Dividend Shares because the participants pay full market value for these shares.

26 Other reserve

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

27 Commitments under operating leases

The Group's commercial leases for certain vehicles, offices, warehouses and land are accounted for under IFRS 16 and are thus excluded from the below operating lease commitments disclosure.

Commitments under operating leases include the Group's commercial leases for its fleet vans and items of office equipment. These leases are either short-term (the contract term is less than twelve months) or low-value (underlying asset less than \$5,000) and, therefore, meet the exemption criteria under IFRS 16. They continue to be expensed through the consolidated statement of comprehensive income. These leases have lives between one and three years and some have renewal options included in the contracts. There are no restrictions placed upon the Group as a result of entering into these leases.

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

	2021 £'000	2020 £'000
Future minimum commitments under operating lease agreements are as follows:		
Payable within one year	31	59
Payable within two and five years	14	41
Payable after five years	–	–
	45	100

28 Capital commitments

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

	2021 £'000	2020 £'000
Property, plant and equipment	27,746	–
Intangible assets	–	160
Inventory – work in progress	–	9,370

In 2021, capital expenditure of £27,746,000 contracted for in relation to property, plant and equipment related to the Group's grid-scale battery storage projects under construction.

In 2020, capital expenditure of £9,370,000 contracted for in relation to inventory related to the Group's grid-scale battery storage projects under construction. These costs are now recognised within Property, plant and equipment. See Accounting policies – property, plant and equipment – for further details.

29 Contingencies

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

30 Ultimate controlling party

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

31 Post balance sheet events

Acquisition of grid-scale battery storage project

On 14 February 2022 the Group acquired 100% of the issued share capital of Balance Energy 2 Limited for total purchase consideration of c.£0.8m. The acquisition enables SMS to obtain control over the rights required to develop and commission a 30MW grid-scale battery storage site as part of its ongoing investment strategy in carbon reduction assets.