



# **Arqiva Smart Metering Limited**

**Registered number 08682562**

## **Annual Report and Financial Statements**

**For the year ended 30 June 2020**

## Table of Contents

<b>Strategic report .....</b>	<b>3</b>
<b>Directors' report and statement of Directors' responsibilities.....</b>	<b>5</b>
<b>Independent Auditors' report to the members of Arqiva Smart Metering Limited.....</b>	<b>8</b>
<b>Income statement.....</b>	<b>10</b>
<b>Statement of financial position.....</b>	<b>11</b>
<b>Statement of changes in equity .....</b>	<b>12</b>
<b>Notes to the financial statements.....</b>	<b>13</b>
1 General information	13
2 Basis of preparation and statement of compliance	13
3 Principal accounting policies	14
4 Critical accounting estimates and judgements	16
5 Revenue	17
6 Operating loss	17
7 Employees and Directors	18
8 Finance income	18
9 Finance costs	18
10 Tax	19
11 Trade and other receivables	20
12 Trade and other payables	20
13 Provisions	21
14 Share capital	21
15 Related party disclosures	21
16 Controlling parties	21

## Strategic report

The Directors, in preparing this Strategic report, have complied with section 414C of the Companies Act 2006.

### Our Business Model

The principal activities of Arqiva Smart Metering Limited ('the Company') throughout the year have been the establishment and delivery of shared infrastructure and services related to smart metering communications.

The Company is contracted to build a smart metering communication network in the North of England and Scotland as part of a 15-year contract signed in September 2013 with the Data and Communications Company (the 'DCC', a body licensed by statute and backed by the utility companies).

The Company is supported by the Arqiva Group Limited ('AGL') group ('the Group') of companies in the fulfilment of this contract:

- The Company procures the necessary Communications Hubs for installation by energy suppliers in the 9.3 million homes and small businesses covered by the contract and manages the aggregation of services provided by the Group and associated contract deliverables to the DCC;
- Arqiva Limited, a fellow Group company, builds and operates the communications network utilising circa 800 wireless sites on behalf of the Company; and
- Arqiva Smart Financing Limited, a fellow Group company, raises external financing which is advanced to the Company under a Receivables Purchase Agreement in exchange for the legal assignment of certain future cash flows in connection with the Communications Hubs. These future cash flows are paid directly to Arqiva Smart Financing Limited by the DCC over the contract period. The Receivables Purchase Agreement supports the Company's requirements for financing the procurement of Communications Hubs.

In November 2016, the network commissioned for the DCC began operational service ('go-live') following the completion of integration testing. The Arqiva network, which forms part of that, is successfully transmitting and receiving test messages between DCC users (the energy companies) and consumer electricity and gas meters. The rollout of the service to consumers' homes is expected to continue to accelerate over the next 12 months. The rollout of the Arqiva network continues to evolve and has achieved 99.4% coverage of premises in conjunction with the Group's minimum commitments.

During the year, the Group's recurring revenues continued under the contract. Revenues have decreased due to incremental change request revenues in the prior year not repeated at the same levels as the contracts progresses, partially offset by increased core revenue as the business continues through the delivery.

Furthermore, the supply of Communications Hubs has continued and is expected to increase throughout 2020.

### Financial position, performance and key performance indicators ('KPIs')

Our key performance indicators ('KPIs') reflect both a measure of the financial performance and long term growth of the business and the level of service provided to our customers, including meeting our contractual milestones.

#### Financial KPIs

The key measure of the Company's performance is EBITDA. EBITDA is defined as operating result before depreciation, amortisation and exceptional items. EBITDA for the year ended 30 June 2020 is a loss of £2,994,000 (2019: loss of £1,876,000). There are no reconciling items between operating loss and EBITDA.

The Company anticipates a return to profit next year and continuing improvements in profits during the early years of the contract as services under the contract continue to be rolled out. The Company's revenue for the year was £80,113,000 (2019: £93,376,000), and a loss before taxation of £2,944,000 (2019: loss of £1,554,000).

The Company has net current assets of £148,880,000 (2019: £152,600,000) and total net liabilities of £4,765,000 (2019: £2,380,000).

## **Arqiva Smart Metering Limited (08682562)**

Annual Report and Financial Statements – year ended 30 June 2020

### **Non-financial KPIs**

Delivery on our customer promises, being the measurement of milestones on the Company's significant engineering contract, also forms part of the Company's KPIs. The Company reached network milestone B16, representing 99.4% network coverage, in December 2019 in line with contract obligations. Achievement of other network milestones have been delayed as a result of the Covid-19 pandemic. The Company has continued to hold an open dialogue with stakeholders and plans to complete such milestones in the coming months.

### **Risk management**

#### **Principal risks and uncertainties facing the business**

The principal risk to the Company relates to a possible delay in performance of our contractual obligations brought about by other stakeholders which could increase our costs beyond estimated contingencies. Our contracts are worded such that the Company's risk is mitigated through contractual reimbursements. Our contracts are structured into milestones such that we are accountable to our stakeholders for our contractual obligations and our performance is managed accordingly.

The principal risks and uncertainties of the Group, which include those of the Company, are discussed further in the AGL annual report, a copy of which is available from the address given in note 16 to these financial statements or the Group's website at [www.arqiva.com](http://www.arqiva.com).

#### **Future developments and market outlook**

It is the intention of the Company to continue its smart metering activities, and the intention of the Group to continue to operate and invest in machine-to-machine connectivity infrastructure and services.

### **Section 172 Statement**

The Companies Act 2006 sets out a set of general duties owed by directors to a company, including a list of matters to which the directors must have regard, which are set out in s.172(1)(a) to (f). During the year, in continuing to exercise their duties the directors have had regard to these matters, as well as other factors, in considering proposals from the Management Board and continuing to govern the company on behalf of its shareholders.

From the perspective of the Company the s.172 factors are considered as a whole by the Directors across the Group. How these factors have been addressed, are discussed within the annual report and consolidated financial statements of AGL, a copy of which can be obtained from the address in note 17 of these financial statements or the Group's website at [www.arqiva.com](http://www.arqiva.com).

#### **Stakeholder engagement**

Throughout the year, the Board has continued to ensure engagement with relevant stakeholders both in day to day business, and as part of key developments.

This report was approved by the Board of Directors on 23 October 2020 and signed on its behalf by:



**Frank Dangeard**  
**Director**  
23 October 2020

## **Directors' report and statement of Directors' responsibilities**

The Directors of the Company, registered number 08682562, submit the following annual report and audited financial statements ('the financial statements') in respect of the year ended 30 June 2020. The Company's registered office is Crawley Court, Winchester, Hampshire SO21 2QA.

### **Financial risk management**

The Company's operations expose it to a variety of financial risks that include the effects of credit risk, price risk, and liquidity risk. The Group's overall risk management programme seeks to minimise potential adverse effects as noted below.

#### *Credit risk*

The Group is exposed to credit risk on customer receivables. This is managed through appropriate credit checking procedures prior to taking on new customers. Performance is closely monitored to ensure agreed service levels are maintained reducing the level of queried payments and mitigating the risk of uncollectible debts.

#### *Purchase price risk*

Key revenue and cost milestones are set on larger projects to ensure the financial risks of volatile market pricing are mitigated. Supplier relationships for the existing contract in the Company have agreed prices for the duration of the contract. A large proportion of price increases resulting from changes to the contract can be managed via pass-through arrangements to customers.

#### *Liquidity risk*

The Company is funded through reserves and intercompany debt; there is no external financing within this Company and intercompany debt owed to other Group companies cannot be recalled if the Company is unable to make the repayments. The Group carefully manages the credit risk on liquid funds with balances currently spread across a range of major financial institutions which have satisfactory credit ratings assigned by international credit rating agencies. The levels of credit risk are monitored through the Group's on-going risk management processes, which include a regular review of the credit ratings. Risk in this area is limited further by setting a maximum level and term for deposits with any single counterparty.

### **Principal risks and uncertainties facing the business**

The principal risk to the Company relates to a possible delay in performance of our contractual obligations brought about by other stakeholders which could increase our costs beyond estimated contingencies. Our contracts are worded such that the Group's risk is mitigated through contractual reimbursements. Our contracts are structured into milestones such that we are accountable to our stakeholders for our contractual obligations and our performance is managed accordingly.

The principal risks and uncertainties of the Group, which include those of the Company, are discussed further in the AGL annual report, a copy of which is available from the address given in note 16 to these financial statements or the Group's website at [www.arqiva.com](http://www.arqiva.com).

### **Dividends, results and transfers to reserves**

The Company has not declared or paid any dividends for the year to 30 June 2020 (2019: none). The loss for the financial year of £2,385,000 (2019: loss of £1,259,000) was transferred to reserves.

### **Going concern**

The Company adopts the going concern basis in preparing its financial statements based on the support from its ultimate parent undertaking, the future cash flow forecasts of the Group and Company and available facilities which lead the Directors of the Company to be confident that the Company will have adequate resources to continue in operational existence for the foreseeable future.

The Directors have also taken into account the potential implications of the current Covid-19 situation and have determined that there will continue to be demand for services provided by ASML. On this basis the Directors conclude that the going concern basis remains appropriate. The Directors have continued to monitor the impact of Covid-19 up until the date of issuance of the financial statements.

## Arqiva Smart Metering Limited (08682562)

Annual Report and Financial Statements – year ended 30 June 2020

### Future developments

Future developments are discussed within the strategic report on page 3.

### Events after the reporting period

There have been no events since the balance sheet date which would have a material impact on the Company and require disclosure within the financial statements.

### Directors

The following held office as Directors of the Company during the year and up to the date of this report:

- Christian Seymour
- Mark Braithwaite
- Mike Parton
- Nathan Luckey (Resigned 4 August 2020)
- Sally Davis
- Peter Adams (alternate)
- Neil King
- Martin Healey
- Frank Dangeard
- Paul Donovan (Resigned 20 April 2020)
- Mike Darcey
- Max Fieguth (alternate)

### Company Secretary

Jeremy Mavor is the Company Secretary.

### Directors' indemnities

The Company has provided an indemnity for its Directors and the Company Secretary, which is a qualifying third party indemnity provision for the purposes of the Companies Act 2006. This indemnity was in force during the full financial year and up to the date of approval of the financial statements.

### Disclosure of information to the Independent Auditors

The Directors of the Company in office at the date of approval of this report confirm that:

- So far as the Directors are aware there is no relevant information of which the Auditors are unaware; and
- Each Director has taken all the steps that he/she ought to have taken as a Director to make themselves aware of any relevant information and to establish that the Company's Auditors are aware of that information.

### Independent auditors

The Auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Group's Annual General Meeting.

### Statement of Directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and

## **Arqiva Smart Metering Limited (08682562)**

Annual Report and Financial Statements – year ended 30 June 2020

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The Directors are responsible for the maintenance and integrity of the of the Company's financial statements published on the ultimate parent Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



**Frank Dangeard**  
**Director**  
Crawley Court  
Winchester  
Hampshire  
SO21 2QA

23 October 2020

# Independent Auditors' report to the members of Arqiva Smart Metering Limited

## Report on the audit of the financial statements

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### Opinion

In our opinion, Arqiva Smart Metering Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 June 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Statement of financial position as at 30 June 2020; the Income statement, the Statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

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### Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report and statement of Directors' responsibilities, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

## Arqiva Smart Metering Limited (08682562)

Annual Report and Financial Statements – year ended 30 June 2020

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

### *Strategic report and Directors' report and statement of Directors' responsibilities*

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report and statement of Directors' responsibilities for the year ended 30 June 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report and statement of Directors' responsibilities.

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## Responsibilities for the financial statements and the audit

### *Responsibilities of the Directors for the financial statements*

As explained more fully in the Statement of Directors' responsibilities in respect of the financial statements set out on pages 6 and 7, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

### *Auditors' responsibilities for the audit of the financial statements*

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

### *Use of this report*

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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## Other required reporting

### Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.



Nigel Comello (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
23 October 2020

## Arqiva Smart Metering Limited (08682562)

Annual Report and Financial Statements – year ended 30 June 2020

### Income statement

	Note	Year Ended 30 June 2020 £'000	Year Ended 30 June 2019 £'000
Revenue	5	80,113	93,376
Cost of sales		(81,548)	(93,774)
<b>Gross loss</b>		<b>(1,435)</b>	<b>(398)</b>
Operating expenses		(1,559)	(1,478)
<b>Operating loss</b>	6	<b>(2,994)</b>	<b>(1,876)</b>
Finance income	8	51	323
Finance costs	9	(1)	(1)
<b>Loss before taxation</b>		<b>(2,944)</b>	<b>(1,554)</b>
Tax on loss	10	559	295
<b>Loss for the financial year</b>		<b>(2,385)</b>	<b>(1,259)</b>

All results are from continuing operations.

The Company has no other comprehensive income other than the loss stated above and therefore no separate statement of comprehensive income has been presented.

The notes on pages 13 to 21 form part of these financial statements.

## Arqiva Smart Metering Limited (08682562)

Annual Report and Financial Statements – year ended 30 June 2020

# Statement of financial position

	Note	30 June 2020 £'000	30 June 2019 £'000
<b>Current assets</b>			
Trade and other receivables	11	185,738	189,393
Contract assets	11	18,763	22,707
Cash and cash equivalents		28,583	2,040
<b>Total current assets</b>		<b>233,084</b>	<b>214,140</b>
<b>Current liabilities</b>			
Trade and other payables	12	(58,594)	(39,692)
Contract liabilities	12	(25,610)	(21,848)
<b>Total current liabilities</b>		<b>(84,204)</b>	<b>(61,540)</b>
<b>Net current assets</b>		<b>148,880</b>	<b>152,600</b>
<b>Non-current liabilities</b>			
Contract liabilities	12	(153,208)	(154,761)
Provisions	13	(437)	(219)
<b>Total non-current liabilities</b>		<b>(153,645)</b>	<b>(154,980)</b>
<b>Total liabilities</b>		<b>(237,849)</b>	<b>(216,520)</b>
<b>Net liabilities</b>		<b>(4,765)</b>	<b>(2,380)</b>
<b>Equity</b>			
Share capital	14	-	-
Accumulated losses		(4,765)	(2,380)
<b>Total equity</b>		<b>(4,765)</b>	<b>(2,380)</b>

The notes on pages 13 to 21 form part of these financial statements.

These financial statements on pages 10 to 21 were approved by the Board of Directors on 23 October 2020 and were signed on its behalf by:



Frank Dangeard - Director

**Arqiva Smart Metering Limited (08682562)**

Annual Report and Financial Statements – year ended 30 June 2020

**Statement of changes in equity**

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	Share capital	Accumulated losses	Total equity
	£'000	£'000	£'000
<b>Balance at 1 July 2018</b>	-	(1,121)	(1,121)
Loss for the financial year	-	(1,259)	(1,259)
<b>Balance at 30 June 2019</b>	-	(2,380)	(2,380)
Loss for the financial year	-	(2,385)	(2,385)
<b>Balance at 30 June 2020</b>	-	(4,765)	(4,765)

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## Notes to the financial statements

### 1 General information

Arqiva Smart Metering Limited ('the Company') is a private company limited by shares, incorporated and domiciled in England, United Kingdom ('UK') under the Companies Act under registration number 08682562. The address of the registered office is Crawley Court, Winchester, Hampshire, SO21 2QA.

The nature of the Company's operations and its principal activities are set out in the Strategic report on page 1.

### 2 Basis of preparation and statement of compliance

The financial statements of the Company have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' ('FRS 101'). The financial statements have been prepared on a going concern basis under the historical cost convention and in accordance with the Companies Act 2006. The Group's consolidated financial statements can be obtained from the address in note 16 or are available online at [www.arqiva.com](http://www.arqiva.com).

The requirements have been applied in accordance with the requirements of the Companies Act 2006.

The following disclosure exemptions, as permitted by paragraph 8 of FRS 101, have been taken in these Company financial statements and notes:

<u>EU-adopted IFRS</u>	<u>Relevant disclosure exemptions</u>
IAS 1 <i>Presentation of financial statements</i>	The requirements of paragraphs 10(d), 10(f), 16, 38A, 38B to D, 40A to D, 111 and 134 to 136. The requirements of paragraph 38; comparative information in respect of paragraph 79(a)(iv) of IAS 1.
IAS 7 <i>Statement of Cash Flows</i>	All disclosure requirements.
IAS 8 <i>Accounting policies, changes in accounting estimates and errors</i>	The requirements of paragraphs 30 and 31.
IAS 24 <i>Related Party Disclosures</i>	The requirements of paragraph 17 and 18A; the requirement to disclose related party transactions entered into between two or more members of a Group, provided that any subsidiary party to the transaction is wholly owned by such a member and key management personnel.
IFRS 15 <i>Revenue from Contracts with Customers</i>	The requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129.
IFRS 7 <i>Financial Instruments: Disclosures</i>	All disclosure requirements.

### **3 Principal accounting policies**

The following accounting policies have been applied consistently in relation to the Company's financial statements:

**(a) Going concern**

The Company adopts the going concern basis in preparing its financial statements based upon the support from its ultimate parent undertaking and the future profit, cash flows and available resources of the Group and the Company which lead the Directors of the Company to be confident that the Company will have adequate resources to continue in operational existence for the foreseeable future.

The Directors have also taken into account the potential implications of the current Covid-19 situation and have determined that there will continue to be demand for services provided by ASML. On this basis the Directors conclude that the going concern basis remains appropriate.

**(b) Changes in accounting policy and disclosures**

The Group adopted IFRS 16 'Leases' for the first time in the current year effective from 1 July 2019. There is no impact on the Company accounts.

**(c) Revenue**

Revenue represents the gross inflow of economic benefit in respect of machine-to-machine connectivity infrastructure services and associated products, and includes the value of charges made for infrastructure service fees, sale of communication hubs and their associated servicing. Revenue is stated net of value added tax. Revenue is measured at fair value of the consideration received or receivable.

On inception of a contract, performance obligations are identified for each of the distinct goods or services that have promised to be provided to the customer. The consideration specified in the contract is allocated to each performance obligation identified based on their relative standalone selling prices and is recognised as revenue as they are satisfied. Determining the standalone selling price often requires judgement and may be derived from regulated prices, list prices, a cost-plus derived price, or the price of similar products when sold on a standalone basis by Arqiva or a competitor. In some cases it may be appropriate to use the contract price when this represents a bespoke price that would be the same for a similar customer in a similar circumstance.

Cash received, or invoices raised in advance are taken to deferred income and recognised as contract liabilities, and subsequently recognised as revenue when the services are provided. Where consideration received in advance is discounted, reflecting a significant financing component, it is reflected within revenue and interest payable and similar charges on a gross basis. Revenue recognised in advance of cash being received or an invoice being raised is recognised as accrued income within contract assets and subsequently reclassified to receivables once an invoice is raised. Invoices are issued in line with contract terms.

The following summarises the performance obligations we have identified and provides information on the timing of when they are satisfied and the related revenue recognition policy.

*Rendering of services*

Performance obligations under contracts for the rendering of services are identified for each distinct service or deliverable for which the customer has contracted and are considered to be satisfied over the time period that the services or deliverables are delivered. Revenue is recognised over time in line with the service provision over the contractual period and appropriately reflects the pattern by which the performance obligation is satisfied. Such revenues include machine-to-machine connectivity and network operation.

For long-term services, contract revenue is recognised on a straight-line basis over the term of the contract. However, if the performance pattern is other than straight line, revenue is recognised as services are provided, usually on an output or network coverage basis.

Where contract modifications arise, resulting in changes to the underlying services provided in exchange for an increase in the contract price reflective of the fair value of the additional services provided, the value of these additional services is recognised as revenue over the period of delivery of these services.

*Sale of communications equipment*

Performance obligations from the sale of communications equipment provided as part of customer contracts are satisfied and revenue is recognised at the point in time that control passes to the customer, which is typically upon delivery and acceptance by the customer. In some cases payment is not received in full at the time of the sale, and a

## **Arqiva Smart Metering Limited (08682562)**

Annual Report and Financial Statements – year ended 30 June 2020

contract asset is recognised for the amount due from the customer that will be recovered over the contract period. Revenue to be recognised is calculated by reference to the relative standalone selling price of the equipment.

Provisions for the expected cost of warranty obligations are recognised at the date of sale of the communications hubs, at the directors' best estimate of the expenditure required to settle the Company's obligation.

### **(d) Contract costs**

Costs incurred in the initial set up phase of a contract or a contract change request are deferred. These costs are then recognised in the Income Statement on a straight-line basis over the remaining contract term, unless the pattern of service delivery indicates a different profile is appropriate. These costs are directly attributable to specific contracts, relate to future activity, will generate future economic benefits and are assessed for recoverability on a regular basis. Costs related to delivering services under long-term contractual arrangements are expensed as incurred.

### **(e) Taxation and deferred taxation**

The charge for taxation is based on the result for the year and takes into account taxation deferred due to timing differences between the treatment of certain items for taxation and accounting purposes. Deferred taxation is provided fully in respect of all timing differences using the liability method for timing differences where there is an obligation to pay more tax, or a right to pay less tax, in the future. The provision is calculated using the rates expected to be applicable when the asset or liability crystallises, based on current tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

A deferred tax asset is regarded as recoverable and therefore recognised only when it is more likely than not that there will be sufficient taxable profits against which to recover carried forward tax losses and from which the future reversal of timing differences can be deducted. Deferred tax is measured on an undiscounted basis.

### **(f) Trade and other receivables**

Trade and other receivables are amounts due from customers for services performed or equipment sold in the ordinary course of business. These balances do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

The Company's trade receivables are non-derivative financial assets. They are included in current assets, except where collection is expected in more than one year after the end of the reporting period. These are classified as non-current assets.

Trade receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. Impairment of irrecoverable amounts is based on an expected credit loss model.

### **(g) Trade and other payables**

Trade and other payables consist of amounts payable to suppliers, other Group entities, provisions and deferred income.

Trade payables and other payables are obligations to pay for goods or services acquired in the ordinary course of business from suppliers. These are classified as other financial liabilities. They are not interest bearing and are stated at their nominal value.

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

### **(h) Cash and cash equivalents**

Cash includes cash at bank, in hand and bank deposits repayable on demand.

### **(i) Interest**

Finance income and costs are accounted for on an accruals basis and comprise amounts receivable on bank account balances.

## **4 Critical accounting estimates and judgements**

In the application of the Company's accounting policies, which are described in note 3, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The judgements, estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The judgements, estimates and underlying assumptions are reviewed on an on-going basis. Revisions are recognised in the period in which the estimate is revised.

### ***Critical judgements and key sources of estimation uncertainty in applying the Company's accounting policies***

The following are the critical judgements, and those involving estimations, that the Directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

#### **Revenue recognition**

##### ***Critical accounting judgements:***

In applying the Company's revenue recognition policy, as set out in note 3, judgements are made in respect of certain areas including determination of distinct contract components and performance obligations;

Key estimates are regularly monitored throughout the relevant contractual periods with reference to the stage of completion and any applicable customer milestone acceptance. This is particularly relevant to the approach for significant engineering projects, such as the smart network deployment, which typically contain a programme build phase and a long-term operational phase.

#### **Deferred tax**

##### ***Critical accounting judgements:***

The largest element of deferred tax that requires judgement relates to tax losses carried forward (see note 10). Applicable accounting standards permit the recognition of deferred tax assets only to the extent that future taxable profits will be generated to utilise the tax losses carried forward. As at 30 June 2020 the Company has an unrecognised deferred tax asset of £876,000 (2019: £783,000). Refer to note 10 for further information.

## Arqiva Smart Metering Limited (08682562)

Annual Report and Financial Statements – year ended 30 June 2020

### 5 Revenue

The Company's revenue is generated from the rendering of services and the sale of goods, see note 3(c) for further information regarding the Company's accounting policy.

The following revenue was generated by the Company:

	Year ended 30 June 2020	Year ended 30 June 2019
	£'000	£'000
Rendering of services	63,405	78,835
Sale of goods	16,708	14,541
<b>Revenue</b>	<b>80,113</b>	<b>93,376</b>

All revenue relates to sales originating in the UK.

### Contract assets and liabilities

The Company has recognised the following assets and liabilities in relation to contracts with customers:

	30 June 2020	30 June 2019
	£'000	£'000
<b>Contract assets</b>		
Current	18,763	22,707
<b>Contract liabilities</b>		
Current	25,610	21,848
Non-current	153,208	154,761
	<b>178,818</b>	<b>176,609</b>

£58,776,000 of the contract liability recognised at 30 June 2019 was recognised as revenue during the year. Contract assets are stated after provisions for impairment of £75,000 (2019: £91,000). Other than business-as-usual movements there were no significant changes in contract asset and liability balances during the year.

### 6 Operating loss

Operating loss is stated after charging:

	Year ended 30 June 2020	Year ended 30 June 2019
	£'000	£'000
Management recharge from fellow Group companies	1,403	1,299

In the current year, the Company audit fee was £10,300 (2019: £10,000); this fee was borne by Arqiva Limited, a fellow Group company. The Company has received a management recharge in respect of various staff costs and central facilities and support costs, from a fellow Group company. This management recharge is included within operating expenses within the Income Statement.

## Arqiva Smart Metering Limited (08682562)

Annual Report and Financial Statements – year ended 30 June 2020

### 7 Employees and Directors

#### Employees

The Company had no employees during the year (2019: none).

#### Directors

None (2019: none) of the Directors are employees of the Company and no Director (2019: none) received any remuneration from the Company during the year. Some of the Directors are representatives of the ultimate UK parent undertaking's shareholders and their individual remuneration reflects the services they provide to the Company and other Group companies. It is not possible to make an accurate apportionment of any of the Directors' emoluments in respect of their service to the Company. Accordingly, no emoluments (2019: none) in respect of these Directors services have been disclosed.

### 8 Finance income

	Year ended 30 June 2020	Year ended 30 June 2019
	£'000	£'000
Bank interest receivable	51	23
Other interest receivable	-	300
<b>Total finance income</b>	<b>51</b>	<b>323</b>

### 9 Finance costs

	Year ended 30 June 2020	Year ended 30 June 2019
	£'000	£'000
Bank charges	1	1
<b>Total finance costs</b>	<b>1</b>	<b>1</b>

## Arqiva Smart Metering Limited (08682562)

Annual Report and Financial Statements – year ended 30 June 2020

### 10 Tax

	Year ended 30 June 2020	Year ended 30 June 2019
	£'000	£'000
UK Corporation Tax		
- Current year	(559)	(295)
Total current tax	(559)	(295)
<b>Total tax credit for the year</b>	<b>(559)</b>	<b>(295)</b>

UK Corporation tax is calculated at the rate of 19.0% (2019: 19.0%) of the estimated taxable profit for the year.

The tax (credit) / charge for the year can be reconciled to the loss in the Income Statement as follows:

	Year ended 30 June 2020	Year ended 30 June 2019
	£'000	£'000
Loss before tax	(2,944)	(1,554)
Tax at the UK Corporation tax rate of 19.0% (2019: 19.0%)	(559)	(295)
<b>Total tax credit for the year</b>	<b>(559)</b>	<b>(295)</b>

Due to the impact to the group from changing tax legislation, the decision was made with effect from 1 July 2017 to pay for group relief. The current year UK corporation tax credit represents the receipt from other Group companies for the provision of tax losses by way of group relief.

The main rate of UK corporation tax was 19.0% during the year. In the Finance Act 2016 it was enacted that the main rate of UK corporation tax would be further reduced to 17.0% from 1 April 2020, however this reduction was cancelled in Finance act 2020. UK deferred tax has been valued at 19.0% (30 June 2019: 17.0%) as this is the rate at which the deferred tax balances are forecast to unwind.

Deferred tax assets are not recognised unless it is probably that there will be sufficient taxable profits against which they will be realised. The Company has an unrecognised deferred tax asset of £876,000 (2019: £783,000) in respect of losses at the substantively enacted UK corporation tax rate of 19% (2019: 17%). Such losses could only be utilised if the Company was to generate taxable profits in future years.

## Arqiva Smart Metering Limited (08682562)

Annual Report and Financial Statements – year ended 30 June 2020

### 11 Trade and other receivables

	30 June 2020 £'000	30 June 2019 £'000
Trade receivables	9,346	8,428
Amounts receivable from Group companies	1,056	54
Other receivables	1,261	1,564
Prepayments	174,075	179,347
<b>Total trade and other receivables</b>	<b>185,738</b>	<b>189,393</b>
<b>Contract assets</b>	<b>18,763</b>	<b>22,707</b>

No interest is charged on the amounts owed from Group companies, which are unsecured and are repayable on demand.

Other receivables include pre-contract costs of £911,000 (2019: £1,022,000) incurred during the preferred bidder phase and in finalisation of the contract. They do not include any cost relating to bid activity. These are amortised to the Income statement over the life of the contract.

Contract assets includes the contract milestone revenue. Contract assets are stated after provisions for impairment of £75,000 (2019: £91,000).

### 12 Trade and other payables

	30 June 2020 £'000	30 June 2019 £'000
Trade payables	1,880	2,637
Taxation and social security costs	1,599	-
Amounts owed to Group companies	54,530	34,374
Accruals	585	2,681
<b>Total current trade and other payables</b>	<b>58,594</b>	<b>39,692</b>
<b>Within current liabilities</b>		
<b>Contract liabilities</b>	<b>25,610</b>	<b>21,848</b>
<b>Within non-current liabilities</b>		
<b>Contract liabilities</b>	<b>153,208</b>	<b>154,761</b>

No interest is charged on the amounts owed to Group companies, which are unsecured and are repayable on demand.

Total contract liabilities of £178,818,000 (2019: £176,609,000) comprises cash received in advance of work being performed. This income will be recognised during the operational phase of the associated contract. As disclosed in note 5, £58,776,000 of deferred income recognised at 30 June 2019 has been recognised as revenue in the year, a further £58,985,000 of revenue has been deferred during the year and recognised as a contract liability at 30 June 2020.

## Arqiva Smart Metering Limited (08682562)

Annual Report and Financial Statements – year ended 30 June 2020

### 13 Provisions

	Other £'000	Total £'000
At 1 July 2019	219	219
Additions	218	218
<b>At 30 June 2020</b>	<b>437</b>	<b>437</b>

Provisions are analysed between current and non-current based on expected utilisation as follows:

	30 June 2020 £'000	30 June 2019 £'000
<b>Analysed as:</b>		
Non-current	437	219
	<b>437</b>	<b>219</b>

All of the Company's non-current provisions relate to warranties in respect of Communications Hubs installed.

### 14 Share capital

	30 June 2020 £	30 June 2019 £
<b>Allotted, called up and fully paid:</b>		
1 (2019: 1) ordinary share of £1	1	1

### 15 Related party disclosures

The Company has applied the provisions within FRS 101 to be exempt from the disclosure of transactions entered into, and balances outstanding, with a Group entity which is wholly owned by another Group entity, and key management personnel.

### 16 Controlling parties

The Company's immediate parent undertaking is Arqiva Smart Parent Limited ('ASPL'), a company incorporated in England and Wales.

The ultimate UK parent undertaking is AGL, which is the parent undertaking of both the largest and smallest UK group to consolidate these financial statements.

Copies of the ASPL financial statements and the AGL consolidated financial statements can be obtained from the Company Secretary of each company, at Crawley Court, Winchester, Hampshire, SO21 2QA.

AGL is owned by a consortium of shareholders including Canada Pension Plan Investment Board, Macquarie European Infrastructure Fund II, other Macquarie managed funds and minorities. There is no ultimate controlling party of the Company.