Arqiva Smart Metering Limited

Registered number 08682562

Annual Report and Financial Statements

For the year ended 30 June 2021

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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.

The Group's smart metering communication network in the North of England and Scotland now covers 99.5% of premises. There are currently over 1 million communications hubs operating on the network representing 20.0% of the total UK communication hub installations. The customer, Smart DCC Ltd, (DCC), continues to submit change requests that reflect new industry requirements, but at a reduced volume compared to the previous periods.

The Group continues to support the DCC and their users ahead of meter rollout programmes. DCC has reported that there are now c.8.5 million SMETS2 meters on the national network.

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 2021 is a profit of £1,575,000 (2020: loss of £2,994,000). There are no reconciling items between operating profit and EBITDA.

The Company recorded revenue for the year of £73,133,000 (2020: £80,113,000), and a profit before taxation of £522,000 (2020: loss of £2,944,000).

The overall decreases in project revenues are due to incremental change requests activities which continue but at a lower level than the previous years which benefited from additional testing services provided to the DCC.

The Company has net current assets of £149,007,000 (2020: £148,880,000) and total net liabilities of £3,189,000 (2020: £4,765,000).

Non-financial KPIs

The final network milestone for the Smart energy metering contract, BMax (99.5% network coverage), was achieved in December 2020.

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 17 to these financial statements or the Group's website at 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 Executive Committee 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.

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 22 October 2021 and signed on its behalf by:

Mike Parton
Director

Directors' report

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 2021. 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 Company 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 held by 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 17 to these financial statements or the Group's website at www.arqiva.com.

Dividends, results and transfers to reserves

The Company has not declared or paid any dividends for the year to 30 June 2021 (2020: none). The profit for the financial year of £1,576,000 (2020: loss of £2,385,000) 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 ongoing impact of Covid-19 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.

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 Directors of the company who were in office during the year and up to the date of signing the financial statements were:

- Christian Seymour	
- Mark Braithwaite	
- Mike Parton	
- Nathan Luckey	(Resigned 4 August 2020, reappointed 1 July 2021)
- Sally Davis	
- Peter Adams (alternate)	
- Neil King	
- Martin Healey	(Resigned 12 January 2021)
- Frank Dangeard	(Resigned 1 July 2021)
- Mike Darcey	
- Max Fieguth (alternate)	
- Batiste Ogier	(Appointed 12 January 2021)

Company Secretary
Jeremy Mavor was reappointed as the Company Secretary on 1 July 2021 (previously Rachael Whitaker between 31 March 2021 and 1 July 2021, and Jeremy Mavor prior to 31 March 2021).

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 they 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
- 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.

On behalf of the Board

Mike Parton
Director
Crawley Court
Winchester
Hampshire
SO21 2QA

22 October 2021

Independent auditors' report to the members of Arqiva Smart Metering Limited

Report on the audit of the financial statements

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 2021 and of its profit 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 2021; the Income statement and 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.

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.

Conclusions relating to going concern
Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

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, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 30 June 2021 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.

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, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Communications Act 2003 and UK Tax law, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Discussions with management and Directors, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Challenging assumptions and judgements made by management and considering risk of management bias in their significant accounting estimates as disclosed in Note 4 of the financial statements;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or journals posted by unexpected users;
- Reviewing minutes of meetings of those charged with governance;
- Reviewing financial statement disclosures made by management in their significant accounting estimates and judgements as disclosed in Note 4 of the financial statements;
- As required by ISA 240, incorporating an element of unpredictability into our audit testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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. 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.

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 obtained 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.

N. Comello

Nigel Comello (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
22 October 2021

Income statement

	Note	Year Ended 30 June 2021 £'000	Year Ended 30 June 2020 £'000
Revenue	5	73,133	80,113
Cost of sales		(71,390)	(81,548)
Gross profit / (loss)		**1,743**	**(1,435)**
Operating expenses		(1,220)	(1,559)
Operating profit / (loss)	6	**523**	**(2,994)**
Finance income	8	-	51
Finance costs	9	(1)	(1)
Profit / (loss) before taxation		**522**	**(2,944)**
Tax on profit /(loss)	10	1,054	559
Profit / (loss) for the financial year		**1,576**	**(2,385)**

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.

Statement of financial position

	Note	30 June 2021 £'000	30 June 2020 £'000
Non-current assets			
Deferred tax	13	1,153	-
		1,153	**-**
Current assets			
Trade and other receivables	11	189,275	185,738
Contract assets	11	17,216	18,763
Cash and cash equivalents		13,054	28,583
Total current assets		**219,545**	**233,084**
Total assets		**220,698**	**233,084**
Current liabilities			
Trade and other payables	12	(38,998)	(58,594)
Contract liabilities	12	(31,540)	(25,610)
Total current liabilities		**(70,538)**	**(84,204)**
Net current assets		**149,007**	**148,880**
Non-current liabilities			
Contract liabilities	12	(152,729)	(153,208)
Provisions	14	(620)	(437)
Total non-current liabilities		**(153,349)**	**(153,645)**
Total liabilities		**(223,887)**	**(237,849)**
Net liabilities		**(3,189)**	**(4,765)**
Equity			
Share capital	15	-	-
Accumulated losses		(3,189)	(4,765)
Total equity		**(3,189)**	**(4,765)**

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 22 October 2021 and were signed on its behalf by:

Mike Parton - Director

Statement of changes in equity

	Share capital £'000	Accumulated losses £'000	Total equity £'000
Balance at 1 July 2019	**-**	**(2,380)**	**(2,380)**
Loss and total comprehensive expense for the financial year	-	(2,385)	(2,385)
Balance at 30 June 2020	**-**	**(4,765)**	**(4,765)**
Profit and total comprehensive expense for the financial year	-	1,576	1,576
Balance at 30 June 2021	**-**	**(3,189)**	**(3,189)**

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 2.

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 17 or are available online at 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:

IAS 1 *Presentation of financial statements*	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 *Statement of Cash Flows*	All disclosure requirements.
IAS 8 *Accounting policies, changes in accounting estimates and errors*	The requirements of paragraphs 30 and 31.
IAS 24 *Related Party Disclosures*	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 *Revenue from Contracts with Customers*	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 *Financial Instruments: Disclosures*	All disclosure requirements.

Adoption of new Standards

New and revised Standards
The following new and revised Standards and Interpretations have been adopted in the current year. Their adoption has not had any significant impact on the amounts reported in these financial statements.

Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform
Amendments to IFRS 16	Covid-19 Related Rent Concessions
Annual Improvements to IFRS Standards 2018 – 2020 Cycle	Various standards

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

Amendments to IAS 1	Classification of Liabilities as Current or Non-current
Amendments to IFRS 3	Reference to the Conceptual Framework
Improvements to IFRS Standards 2018-2020 Cycle	Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture

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 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 ongoing impact of Covid-19 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.

(b) 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 been 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 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.

(c) 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.

(d) 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.

(e) Trade and other receivables

Trade and other receivables are amounts due from customers, and other group entities 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.

(f) Trade and other payables

Trade and other payables consist of amounts payable to suppliers, other Group entities, provisions and contract liabilities.

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.

(g) Cash and cash equivalents

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

(h) 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.

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.

5 Revenue

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

The following revenue was generated by the Company:

	Year ended 30 June 2021 £'000	Year ended 30 June 2020 £'000
Rendering of services	56,565	63,405
Sale of goods	16,568	16,708
Revenue	**73,133**	**80,113**

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 2021 £'000	30 June 2020 £'000
Contract assets		
Current	17,216	18,763
	17,216	**18,763**
Contract liabilities		
Current	31,540	25,610
Non-current	152,729	153,208
	184,269	**178,818**

£25,610,000 of the contract liability recognised at 30 June 2020 was recognised as revenue during the year (2020: £21,849,000). Contract assets are stated after provisions for impairment of £69,000 (2020: £75,000). Other than business-as-usual movements there were no significant changes in contract asset and liability balances during the year.

6 Operating profit / (loss)

Operating profit / (loss) is stated after charging:

	Year ended 30 June 2021 £'000	Year ended 30 June 2020 £'000
Management recharge from fellow Group companies	1,331	1,403

In the current year, the Company audit fee was £11,000 (2020: £10,300); 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. There were no charges relating to non-audit fees in the financial year.

7 Employees and Directors

Employees
The Company had no employees during the year (2020: none).

Directors
None (2020: none) of the Directors are employees of the Company and no Director (2020: 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 (2020: none) in respect of these Directors services have been disclosed.

8 Finance income

	Year ended 30 June 2021 £'000	Year ended 30 June 2020 £'000
Bank interest receivable	-	51
Total finance income	**-**	**51**

9 Finance costs

	Year ended 30 June 2021 £'000	Year ended 30 June 2020 £'000
Bank charges	1	1
Total finance costs	**1**	**1**

10 Tax

	Year ended 30 June 2021 £'000	Year ended 30 June 2020 £'000
UK Corporation Tax		
- Current year	99	(559)
Total current tax	99	(559)
Deferred tax (see note 13)		
Recognition of previously unrecognised deferred tax asset	(1,153)	-
	(1,153)	(133)
Total tax credit for the year	**(1,054)**	**(76)**

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 for the year can be reconciled to the profit / (loss) in the Income Statement as follows:

	Year ended 30 June 2021 £'000	Year ended 30 June 2020 £'000
Profit/(loss) before tax	522	(2,944)
Tax at the UK Corporation tax rate of 19.0% (2019: 19.0%)	99	(559)
Recognition of previously unrecognised deferred tax asset	(1,153)	-
Total tax credit for the year	**(1,054)**	**(559)**

The current year UK corporation tax credit (2020: credit) represents the payment made to (2020: received from) other Group companies.

The main rate of UK corporation tax was 19.0% during the year. In the Finance Act 2021 it was enacted that the main rate of UK corporation tax would be increased to 25.0% from 1 April 2023. UK deferred tax has been valued at either 19.0% or 25.0% (30 June 2019: 19.0%) depending on the period it is forecast to unwind as this is the rate substantively enacted for these periods.

11 Trade and other receivables

	30 June 2021 £'000	30 June 2020 £'000
Trade receivables	6,174	9,346
Taxation and social security costs	126	-
Amounts receivable from Group companies	813	1,056
Other receivables	1,297	1,261
Prepayments	180,865	174,075
Total trade and other receivables	**189,275**	**185,738**
Contract assets	**17,216**	**18,763**

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 £839,000 (2020: £911,000) 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 £69,000 (2020: £75,000).

12 Trade and other payables

	30 June 2021 £'000	30 June 2020 £'000
Trade payables	2,931	1,880
Taxation and social security costs	-	1,599
Amounts owed to Group companies	36,061	54,530
Accruals	6	585
Total current trade and other payables	**38,998**	**58,594**
Within current liabilities		
Contract liabilities	**31,540**	**25,610**
Within non-current liabilities		
Contract liabilities	**152,729**	**153,208**

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

Total contract liabilities of £184,269,000 (2020: £178,818,000) 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, £25,610,000 of deferred income recognised at 30 June 2020 (2020: £21,849,000) has been recognised as revenue in the year.

13 Deferred Tax

The balance of deferred tax recognised at 30 June 2021 is £1,153,000 (2020: £nil). The movement in deferred income tax assets and liabilities during the year is as follows:

	Tax Losses £'000	Total £'000
Deferred tax assets		
At 1 July 2019	-	-
(Charged) / credited to the income statement	-	-
At 30 June 2020	-	-
Credited to the income statement	1,153	1,153
At 30 June 2021	**1,153**	**1,153**

Deferred tax assets are not recognised unless it is probable that there will be sufficient taxable profits against which they will be realised. The Company has an unrecognised deferred tax asset of £nil (2020: £876,000) in respect of losses at the substantively enacted UK corporation tax rate of 25.0% (2020: 19.0%). Such losses could only be utilised if the Company was to generate utilisable taxable profits in future years.

Deferred tax has been measured at the UK corporation tax rate using substantially enacted rates at the balance sheet date, 19.0% for the period to 31 March 2023 and 25.0% from 1 April 2023 (2020: 19.0%).

The Company recognises its deferred tax assets based upon the long term contract held by the Company. No attributes have a time expiry. Due to the long-term stable nature of the business, with significant long term contracts, the recognised deferred tax asset is not considered to be materially exposed to the performance of the Group based on reasonably possible trading forecasts.

14 Provisions

	Other £'000	Total £'000
At 1 July 2020	437	437
Income statement expense	183	183
At 30 June 2021	**620**	**620**

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

	30 June 2021 £'000	30 June 2020 £'000
Analysed as:		
Non-current	620	437
	620	**437**

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

15 Share capital

	30 June 2021 £	30 June 2020 £
Allotted, called up and fully paid:		
1 (2020: 1) ordinary share of £1	**1**	**1**

16 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.

17 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 above AGL.