Arqiva Smart Metering Limited

Registered number 08682562

Annual Report and Financial Statements

For the year ended 30 June 2023

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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 ('Smart DCC Ltd' or 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, raised external financing which was 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. This external funding from Arqiva Smart Financing has now ceased but the Company continues to hold a Receivables Purchase Agreement supporting 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 continues to cover 99.5% of premises. There are currently over 2 million communications hubs operating on the network representing 20% of the total UK communication hub installations. The DCC continues to submit change requests that reflect new industry requirements and Arqiva maintains a strong pipeline. Arqiva's relationship with DCC remains strong and has been formally rated positively by the DCC as "green".

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 a non-GAAP measure and refers to earnings before interest, tax, depreciation and amortisation. EBITDA for the year ended 30 June 2023 is £3,029,000 (2022: £1,931,000). There are no reconciling items between operating profit and EBITDA.

The Company recorded revenue for the year of £103,876,000 (2022: £82,760,000), and a profit before taxation of £3,029,000 (2022: £1,902,000). This increase is driven by higher device sales in the year.

The Company has net current assets of £132,675,000 (2022: £168,105,000) and total net assets of £760,000 (2022: net liabilities of £1,648,000).

Non-financial KPIs

The Smart metering contract has continued to achieve 99.5% network coverage in the North of England and Scotland (2022: 99.5%).

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.

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 16 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.

Detail of the Group's approach to stakeholder engagement as a whole are discussed within the Annual Report and Consolidated Financial Statements of AGL on pages 42 and 43, a copy of which is available from the address in note 18 of these financial statements or the Group's website at www.arqiva.com.

This report was approved by the Board of Directors on 24 October 2023 and signed on its behalf by:

Scott Longhurst
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 2023. The Company's registered office is Crawley Court, Winchester, Hampshire SO21 2QA.

Business review and principal activities

The Company operates within the Arqiva Group Limited ('AGL') group of companies ('the Group').

Arqiva Smart Metering Limited (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 ('Smart DCC Ltd' or the 'DCC', a body licensed by statute and backed by the utility companies). It is the intention of the Company to continue its smart metering activities.

The Company made a profit in the year of £2,408,000 (2022: £1,541,000)

Key performance indicators ('KPIs')

Details of the key performance indicators are included in the Strategic report on page 2.

Principal risks and uncertainties
Details of the principal risks and uncertainties are included in the Strategic report on page 3.

Financial risk management

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

Foreign currency risk
While some supplier contracts are denominated in US dollars ('USD'), the majority of the Group's costs are Sterling based and accordingly exposure to foreign exchange risk is limited.

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 to the extent that such repayment would reasonably be expected to result in the company being unable to pay their creditors as and when they fall due. 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.

Dividends, results and transfers to reserves

The Company has not declared or paid any dividends for the year to 30 June 2023 (2022: none). The profit for the financial year of £2,408,000 (2022: £1,541,000) was transferred to reserves.

Going concern

In determining the appropriate basis of preparation of the financial statements, the Directors are required to consider whether the Company can continue in operational existence for the foreseeable future. The Company's ability to continue as a going concern is dependent on the operational performance of the Group. The Group performs a review of going concern through a review of forecasting including cash flow forecasts and considering the requirements of capital expenditure and debt repayments and including any severe but plausible scenarios.

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 and continue to meet debt and interest payments as they fall due.

The Group has provided a letter of support which confirms that Arqiva Group Limited will, to the extent it is able, provide such financial assistance to all its wholly owned (directly and indirectly held) subsidiaries in order to meet liabilities as they fall due for a period of 12 months from the date of signing the 30 June 2023 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 year end 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	(Resigned 17 January 2023)
- Mike Parton	(Resigned 1 February 2023)
- Sally Davis	(Resigned 31 January 2023)
- Neil King	(Resigned 18 October 2022)
- Mike Darcey	
- Max Fieguth	(Appointed 6 December 2022)
- Batiste Ogier	(Resigned 18 October 2022)
- Susana Leith-Smith	
- Paul Donovan	(Appointed 1 July 2022)
- Arnaud Jaguin	(Appointed 5 December 2022)
- Scott Longhurst	(Appointed 1 February 2023)
- Matthew Postgate	(Appointed 17 November 2022)
- David Stirton	(Appointed 2 February 2023)
- Thorsten Johnsen	(Appointed 31 October 2022, resigned 21 November 2022)

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.

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, 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 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 also 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 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.

Directors' confirmations

In the case of each director in office at the date the Directors' report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

On behalf of the Board

Scott Longhurst
Director

24 October 2023

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 2023 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, including 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 2023; 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 2023 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 Companies Act 2006 and UK Tax law, and we considered the extent to which non-compliance might have a material effect on the financial statements. 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;
- Identifying and testing unexpected journal entries, including any journal entries posted with unusual account combinations;
- Reviewing minutes of meetings of those charged with governance; and
- 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.

Charlotte Anderson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
24 October 2023

Income statement

1626	Note	Year Ended 30 June 2023 £'000	Year Ended 30 June 2022 £'000
Revenue	5	103,876	82,760
Cost of sales		(99,541)	(79,203)
Gross profit		**4,335**	**3,557**
Operating expenses		(1,306)	(1,626)
Operating profit	6	**3,029**	**1,931**
Finance costs	8	-	(29)
Profit before taxation		**3,029**	**1,902**
Tax on profit	9	(621)	(361)
Profit for the financial year		**2,408**	**1,541**

All results are from continuing operations.

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

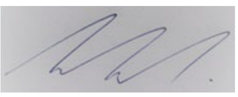
The notes on pages 13 to 20 form part of these financial statements.

Statement of financial position

	Note	30 June 2023 £'000	30 June 2022 £'000
Non-current assets			
Deferred tax	13	1,153	1,153
		1,153	**1,153**
Current assets			
Trade and other receivables	10	165,824	203,685
Contract assets	10	2,505	1,632
Cash and cash equivalents		2,411	3,523
Total current assets		**170,740**	**208,840**
Total assets		**171,893**	**209,993**
Current liabilities			
Trade and other payables	11	(9,672)	(10,231)
Contract liabilities	11	(28,393)	(30,504)
Total current liabilities		**(38,065)**	**(40,735)**
Net current assets		**132,675**	**168,105**
Non-current liabilities			
Contract liabilities	11	(131,871)	(170,018)
Provisions	12	(1,197)	(888)
Total non-current liabilities		**(133,068)**	**(170,906)**
Total liabilities		**(171,133)**	**(211,641)**
Net assets / (liabilities)		**760**	**(1,648)**
Equity			
Called up share capital	14	-	-
Retained earnings / (Accumulated losses)		760	(1,648)
Total equity		**760**	**(1,648)**

The notes on pages 13 to 20 form part of these financial statements.

These financial statements on pages 10 to 20 were approved by the Board of Directors on 24 October 2023 and were signed on its behalf by:



Scott Longhurst - Director

Statement of changes in equity

	Share capital[1]	(Accumulated losses) / Retained Earnings	Total equity
	£'000	£'000	£'000
Balance at 1 July 2021	**-**	**(3,189)**	**(3,189)**
Profit for the financial year	-	1,541	1,541
Balance at 30 June 2022	**-**	**(1,648)**	**(1,648)**
Profit for the financial year	-	2,408	2,408
Balance at 30 June 2023	**-**	**760**	**760**

[1] Comprises 1 (2022: 1) authorised, issued and fully paid ordinary share of £1.

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 Adoption of new and revised 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.

Initial Application of IFRS 17 and IFRS 9 (Amendments to IFRS 17)	Comparative Information about financial assets presented on initial application of IFRS 17.
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to IAS 8	Definition of Accounting Estimates
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction

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 IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendments to IAS 1	Classification of Liabilities as Current or Non-current

The above are not expected to have a material impact on the Company.

3 Principal accounting policies

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.

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.

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

(a) Going concern

In determining the appropriate basis of preparation of the financial statements, the Directors are required to consider whether the Company can continue in operational existence for the foreseeable future. The Company's ability to continue as a going concern is dependent on the operational performance of the Group. The Group performs a review of going concern through a review of forecasting including cash flow forecasts and considering the requirements of capital expenditure and debt repayments and including any severe but plausible scenarios.

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 and continue to meet debt and interest payments as they fall due.

(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 estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical 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.

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 2023 £'000	Year ended 30 June 2022 £'000
Rendering of services	72,127	63,347
Sale of goods	31,749	19,413
Revenue	**103,876**	**82,760**

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 2023 £'000	30 June 2022 £'000
Contract assets		
Current	2,505	1,632
	2,505	**1,632**
Contract liabilities		
Current	28,393	30,504
Non-current	131,871	170,018
	160,264	**200,522**

£30,504,000 of the contract liability recognised at 30 June 2022 was recognised as revenue during the year (2022: £31,540,000). Contract assets are stated after provisions for impairment of £10,000 (2022: £7,000). The increase in contracts assets is from business-as-usual movements.

6 Operating profit

Operating profit is stated after (crediting) / charging:

	Year ended 30 June 2023 £'000	Year ended 30 June 2022 £'000
Management recharge from fellow Group companies	1,399	1,387
Professional fees	111	97
Foreign Exchange (Gain) / Loss	(204)	142

In the current year, the Company audit fee was £12,000 (2022: £11,000); 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. There were no charges relating to non-audit fees in the financial year (2022: nil).

7 Employees and Directors

Employees
The Company had no employees during the year (2022: none).

Directors
None (2022: none) of the Directors are employees of the Company and no Director (2022: 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 (2022: none) in respect of these Directors services have been disclosed.

8 Finance costs

	Year ended 30 June 2023 £'000	Year ended 30 June 2022 £'000
Bank charges	-	29
Total finance costs	**-**	**29**

9 Tax on profit

	Year ended 30 June 2023 £'000	Year ended 30 June 2022 £'000
UK Corporation Tax		
- Current year	621	361
Total current tax	621	361
Total tax charge for the year	**621**	**361**

UK Corporation tax is calculated at the rate of 20.5% (2022: 19.0%) of the taxable profit for the year.

The tax credit for the year can be reconciled to the profit in the Income Statement as follows:

	Year ended 30 June 2023 £'000	Year ended 30 June 2022 £'000
Profit before tax	3,029	1,902
Tax at the UK Corporation tax rate of 20.5% (2022: 19.0%)	621	361
Total tax charge for the year	**621**	**361**

The current year UK corporation tax charge (2022: charge) represents the payment made to other Group companies for the provision of tax losses by way of group relief.

The average blended rate of UK corporation tax was 20.5% during the year. In the Finance Act 2022 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 25%.

On 20 June 2023, Finance (No.2) Act 2023 was substantively enacted in the UK, introducing a global minimum effective tax rate of 15%. The legislation implements a domestic top-up tax and a multinational top-up tax, effective for accounting periods starting on or after 31 December 2023. The Company has applied the exception allowed by an amendment to IAS 12 to recognising and disclosing information about deferred tax assets and liabilities related to top-up income taxes.

10 Trade and other receivables

	30 June 2023 £'000	30 June 2022 £'000
Trade receivables	8,116	4,304
Taxation and social security costs	97	180
Amounts receivable from Group companies	7	1,837
Other receivables	1,476	1,352
Prepayments	156,128	196,012
Total trade and other receivables	**165,824**	**203,685**
Contract assets	**2,505**	**1,632**

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 £624,000 (2022: £737,000) 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 include the contract milestone revenue. Contract assets are stated after provisions for impairment of £10,000 (2022: £7,000).

11 Trade and other payables

	30 June 2023 £'000	30 June 2022 £'000
Trade payables	1,975	32
Amounts owed to Group companies	3,642	7,352
Accruals	4,055	2,847
Total current trade and other payables	**9,672**	**10,231**
Within current liabilities		
Contract liabilities	**28,393**	**30,504**
Within non-current liabilities		
Contract liabilities	**131,871**	**170,018**

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

Total contract liabilities of £160,264,000 (2022: £200,522,000) comprises cash received in advance of work being performed. This income is being recognised during the operational phase of the associated contract.

12 Provisions

	Other £'000	Total £'000
At 1 July 2022	888	888
Income statement expense	309	309
At 30 June 2023	**1,197**	**1,197**

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

	30 June 2023 £'000	30 June 2022 £'000
Analysed as:		
Non-current	1,197	888
	1,197	**888**

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

13 Deferred Tax

The balance of deferred tax recognised at 30 June 2023 is £1,153,000 (2022: £1,153,000). 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 2021	1,153	1,153
Credited to the income statement	-	-
At 30 June 2022	**1,153**	**1,153**
Credited to the income statement	-	-
At 30 June 2023	**1,153**	**1,153**

The corporation tax rate was increased to 25% from 19% effective from 1 April 2023; the deferred tax asset is therefore recognised at the 25% tax rate.

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 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 a significant long term contract, 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 Called up share capital

	30 June 2023 £	30 June 2022 £
Allotted, called up and fully paid:		
1 (2022: 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 Digital 9 Infrastructure, Macquarie European Infrastructure Fund II, other Macquarie managed funds and minorities. There is no ultimate controlling party of the Company.