

Registered number: 07139151

## **WPD Smart Metering Limited**

### **ANNUAL REPORT AND FINANCIAL STATEMENTS**

**For the year ended 31 March 2019**



**WPD Smart**   
**Metering**  
*Electricity metering for business*

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## Strategic report

For the year ended 31 March 2019

The directors present their annual report and the audited financial statements of WPD Smart Metering Limited (the 'Company') (registered number 07139151) for the year ended 31 March 2019.

### Review of the business

The Company is an indirect wholly-owned subsidiary of Western Power Distribution plc, which is owned indirectly by PPL Corporation, an electricity utility holding company of Allentown, Pennsylvania, USA. PPL Corporation trades in the UK as Western Power Distribution plc ('WPD' and 'Group'), operating the electricity networks in South Wales, and the South West and Midlands areas of England.

The principal activities of the Company during the year under review continued to be the provision of:

- half-hourly ('HH') and non half-hourly ('NHH') meter operator services;
- supply of meters and associated equipment; and
- technical and field support to WPD Group companies relating to metering equipment.

The Company provides a national service to commercial customers and to electricity suppliers, and holds accreditation to operate HH and NHH metering systems under the Balancing and Settlement Agreement ('BSC') and is a Registered Supplier Agent under the Smart Energy Code ("SEC"). The Company is a signatory to the Meter Operator Code of Practice Agreement ('MOCOPA'), which allows the Company to undertake work on electricity distribution networks.

The Company is accredited and certified to BS/EN ISO9001:2015, which is a quality management system designed to ensure that organisations meet the needs of their customers and other stakeholders.

The Company's financial and non-financial key performance indicators during the year were as follows:

	2019 £'000	2018 £'000	Increase %
Turnover	10,128	8,756	15.7%
Profit on ordinary activities before interest and tax	1,341	766	75.1%
Profit for the financial year	1,088	622	74.9%
Equity shareholder's funds	10,202	9,310	9.6%

  

	2019 Number	2018 Number	Increase %
<b>Number of metering systems operated</b>			
Half-hourly	43,590	39,073	11.6%
Non half-hourly	86,369	62,557	38.1%

  

	2019 %	2018 %	Improvement %
<b>Meter reliability (installations without fault visit as % of total)</b>			
Half-hourly	92.1	88.5	4.1%
Non half-hourly	98.0	95.3	2.8%

Turnover increased by 15.7% during the year under review as a result of contract gains and increased volumes.

Profit before interest and tax increased, as the turnover growth was achieved only by operating a significantly higher volume of meterings systems and the resulting sales and administration expenses.

The number of half-hourly metering systems operated by the Company increased by 11.5% during the year as a result of contract awards, particularly with suppliers seeking to address settlement performance issues. The number of non half-hourly metering systems increased by 36.6% as work directly for suppliers has increased and the deployment of SMETS2 metering to the non-domestic sector.

Meter reliability for both HH and NHH metering systems improved during the year reflecting the investment in systems and processes to manage third party metering and the increasing maturity of these systems from the NHH to the HH market under the P272 programme.

## **Strategic report (continued)**

For the year ended 31 March 2019

### **Principal risks and uncertainties**

#### *Competitive risks*

The provision of commercial metering services remains highly competitive, with significant price pressure. As many competitors focus their development on the smart metering implementation programme for domestic customers, the Company continues to enhance its differentiated offering for commercial customers, in particular for those associated with distributed generation.

#### *Regulation and technology change*

The national smart metering programme will change the market, with a new regulatory and operational framework together with changes in metering technology. The Company will need to ensure it can continue to offer its customers a direct service, whilst building on its strong portfolio of contracts with small suppliers and Small and Medium Sized Enterprises (SMEs).

The Company is undertaking the necessary system development and compliance testing to offer SMETS2 metering services to suppliers now that the SMETS2 deployment to the non-domestic sector has commenced and appears secure. The Company continues to invest in systems to improve and differentiate its services in this sector.

#### *Reliance on suppliers*

The Company continues to review its supported meter base and has increased its ability to support interoperability (operating existing metering systems irrespective of manufacturer or installing company). The Company's data collection service partnership with Stark Software International Limited ('SSIL') remains key to its offering to customers and the two companies continue to invest in systems and processes to maximise the advantages of the alliance.

#### *Liquidity and interest rate risk*

Western Power Distribution (South West) plc ('WPD South West'), a fellow subsidiary, provides day-to-day banking for WPD, including WPD Smart Metering Limited. It is a regulated electricity distribution company which must maintain an investment grade credit rating. WPD affiliates pay or receive interest to/from WPD Smart Metering Limited based on the Bank of England base rate.

#### **Customers**

The Company retains a strong and diverse portfolio of contracts with commercial customers, achieving a high retention rate for existing contracts. In addition to contracting directly with commercial customers, there are three primary channels for sales:

- SSIL subcontract WPD to fulfil HH, NHH and sub-metering contracts;
- suppliers where NHH smart meters are funded by a third party; and
- energy consultants that refer HH metering opportunities to their clients.

The Company has been successful in supporting suppliers as SMETS2 metering is deployed in the non-domestic space.

The Company will continue to provide support to the WPD Group in maintaining the metering related assets across its distribution network although the proportion of Company income from the wider WPD Group continues to fall as improved processes are implemented by the Network Services teams.

#### **Quality of service**

The Company has a strong reputation for the installation and operation of commercial metering. The Company continues to invest in key elements which differentiate its service, such as software which facilitates automated updates, image capture and sharing, automated test dialling and field work deprogramming.

#### **Following appropriate strategies**

The Company's core competence is the design, installation and operation of commercial metering solutions, and the demand for increased data, delivered more rapidly, will continue to grow strongly. The Company will continue to pursue other opportunities in the sector as they arise.

**Strategic report (continued)**  
For the year ended 31 March 2019

**Employees**

WPD Smart Metering Limited is committed to equality of opportunity in employment and this is reflected in its equal opportunities policy and employment practices. Employees are selected, treated, and promoted according to their abilities and merits and to the requirements of the job. Applications for employment by people with disabilities are fully considered, and in the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Company/continues by way of making adjustments to their role and/or working environment or through retaining arranged as appropriate. It is the policy of WPD Smart Metering Limited that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

WPD Smart Metering Limited places considerable value on the involvement of its employees in its affairs. Staff are kept informed of the Company's and Group's aims, objectives, performance and plans, and their effect on them as employees through newsletters, regular team briefings and other meetings. A series of road show presentations by the Group's directors each year ensure that all staff are aware of, and can contribute to, the corporate goals of the Group.

**Capital investment and future developments**

A proportion of the metering systems supplied by the Company are rented to customers, predominantly those with the largest HH sites. This investment will continue with organic growth in this market.

By Order of the Board



I.R. Williams  
Director  
20 November 2019

## **Directors' report**

For the year ended 31 March 2019

The directors present their annual report and the audited financial statements of WPD Smart Metering Limited (the 'Company') (registered number 07139151) for the year ended 31 March 2019.

### **Directors and their interests**

The directors who served during the year, and up to the date of signing the financial statements, unless otherwise stated were:

I R Williams (appointed 01 April 2018)  
G R Halladay (appointed 14 January 2019)  
P Swift (resigned 15 January 2019)

During and at the end of the financial year, no director was interested in any contract of significance in relation to the Company's business other than service contracts. Insurance in respect of directors and officers is maintained by the WPD's ultimate parent, PPL Corporation. The insurance, which is third party qualifying indemnity insurance, is subject to the conditions set out in the Companies Act 2006 and remains in force at the date of signing the Director's report.

### **Results and dividends**

The profit for the year ended 31 March 2019 amounted to £1,088,000 (2018: £622,000). There were dividends paid in the year of £195,731 (2018: £480,686).

### **Going concern**

After consideration, the directors of the Company have concluded that the Company has sufficient resources available to enable it to continue in existence for the foreseeable future and at least for a period of 12 months from the date of signing the accounts and have therefore continued to adopt the going concern basis in preparing the financial statements. This consideration included the overall position of the balance sheet which shows net current assets of £1.2m, cash flows from its operations, the forecast long term business plan, and the stable nature of its business.

### **Financial risk management and future developments**

Comment on principal risks and uncertainties and future developments is included in the Strategic report (page 2).

### **Impact of Brexit**

The European Union referendum vote on 23 June 2016 resulted in considerable volatility to UK markets; however Brexit does not have significant operational impact for the Company. All of the Company's revenue is generated in the UK and the Company relies mainly on suppliers in the UK to provide services to its customers. Thus as a UK focused business, the Company's exposure to risks from the EU market place is minimal.

Uncertainty around Brexit has resulted in weakening of sterling thus creating a potential credit risk. However since substantially all of the Company's transactions are made in sterling and the majority of receivables are repayable on demand, which pertain to WPD Group undertakings, the Company is not exposed to any significant financial risk as a result of Brexit.

Nevertheless the Company will continue to monitor the implications of Brexit on its operations including review of all technical notices issued by the UK Government offering advice to businesses on a 'no deal' Brexit.

### **Statement of disclosure to auditor**

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the Company's auditor, each director has taken all the steps that they should have taken as a director to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of S418 of the Companies Act 2006.

**Directors' report (continued)**

For the year ended 31 March 2019

**Independent auditor**

Elective resolutions to dispense with the holding of annual general meetings, the laying of financial statements before the Company and the appointment of auditors annually are currently in force. The auditor, Deloitte LLP, will therefore be deemed to have been reappointed at the end of 28 days beginning with the day on which copies of this report and financial statements are sent to the member.

Approved by the board of directors and signed on its behalf by:



I R Williams

Director

20 November 2019

**WPD Smart Metering Limited**

Avonbank

Feeder Road

Bristol

BS2 0TB

## **Directors' responsibilities statement**

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard ("FRS") 101 "Reduced Disclosure Framework". 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 the profit or loss of the Company for that year.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
  - make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 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. They 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.



## **Independent auditor's report to the member of WPD Smart Metering Limited**

### **Report on the audit of the financial statements**

#### **Opinion**

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of WPD Smart Metering Limited (the 'Company') which comprise:

- the profit and loss account;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 19

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

#### **Basis of opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs(UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Conclusions relating to going concern**

We are required by ISAs (UK) to report in respect of the following matters where:

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

We have nothing to report in respect of these matters.

#### **Other information**

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion 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 such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in 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 in respect of these matters.

## **Independent auditor's report to the member of WPD Smart Metering Limited (continued)**

### **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors 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.

### **Auditor's 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

### **Report on other legal and regulatory requirements**

#### **Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

#### **Matters on which we are required to report by exception**

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

## **Independent auditor's report to the member of WPD Smart Metering Limited (continued)**

### **Use of our report**

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Suzanne Gallagher (Senior statutory auditor)  
for and on behalf of Deloitte LLP,  
Statutory Auditor,  
Reading, United Kingdom

21 November 2019

**Profit and loss account**

For the year ended 31 March 2019

	Note	2019 £'000	2018 £'000
<b>Turnover</b>	4	<b>10,128</b>	8,756
Operating expenses	5	(8,786)	(7,988)
<b>Operating profit</b>		<b>1,342</b>	768
Loss on disposal of fixed assets		(1)	(2)
<b>Profit before interest and tax</b>		<b>1,341</b>	766
Interest receivable	7	9	5
Interest payable	8	(1)	-
<b>Profit before tax</b>		<b>1,349</b>	771
Tax on profit	9	(261)	(149)
<b>Profit for the financial year</b>		<b>1,088</b>	622

All activities relate to continuing operations.

There is no comprehensive income other than that included in the profits above and therefore no separate statement of comprehensive income has been prepared.

The accompanying notes are an integral part of these financial statements.

**Balance sheet**

As at 31 March 2019

	Note	2019 £'000	2018 £'000
<b>Fixed assets</b>			
Intangible assets	11	2,818	2,760
Tangible fixed assets	12	5,676	5,416
Deferred tax	16	525	482
		<b>9,019</b>	<b>8,658</b>
<b>Current assets</b>			
Stocks	13	547	427
Trade and other receivables	14	3,730	3,356
		<b>4,277</b>	<b>3,783</b>
<b>Current liabilities</b>			
Trade Creditors and other payables	15	(3,094)	(3,131)
<b>Net current assets</b>		<b>1,183</b>	<b>652</b>
<b>Total assets less current liabilities</b>		<b>10,202</b>	<b>9,310</b>
<b>Net assets</b>		<b>10,202</b>	<b>9,310</b>
<b>Capital and reserves</b>			
Called-up share capital	18	5,000	5,000
Share premium reserve		2,500	2,500
Profit and loss reserve		2,702	1,810
<b>Total shareholder's funds</b>		<b>10,202</b>	<b>9,310</b>

The accompanying notes are an integral part of these financial statements.

The financial statements of the Company (registered number 07139151) on pages 10 to 26 were approved and authorised for issue by the board of directors on 20 November 2019 and were signed on its behalf by :



I R Williams  
Director

# Statement of changes in equity

For the year ended 31 March 2019

	Note	Called-up share capital £'000	Share premium reserve £'000	Profit and loss reserve £'000	Total £'000
<b>At 1 April 2017</b>		<b>5,000</b>	<b>2,500</b>	<b>1,669</b>	<b>9,169</b>
Profit for the financial year		-	-	622	622
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>-</b>	<b>-622</b>	<b>-622</b>
Dividends paid	10	-	-	(481)	(481)
<b>At 31 March 2018</b>		<b>5,000</b>	<b>2,500</b>	<b>1,810</b>	<b>9,310</b>
Profit for the financial year		-	-	1,088	1,088
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>-</b>	<b>1,088</b>	<b>1,088</b>
Dividends paid	10	-	-	(196)	(196)
<b>At 31 March 2019</b>		<b>5,000</b>	<b>2,500</b>	<b>2,702</b>	<b>10,202</b>

## Notes to the financial statements

For the year ended 31 March 2019

### 1. Authorisation of financial statements and statement of compliance with FRS 101

The financial statements of WPD Smart Metering Limited (the "Company") for the year ended 31 March 2019 were authorised for issue by the board of directors on 20 November 2019 and the balance sheet was signed on the board's behalf by I R Williams. WPD Smart Metering Limited is a private company limited by shares incorporated in the UK and registered in England and Wales.

The Company meets the definition of a qualifying entity under FRS 100 Application of Financial Reporting Requirements issued by the FRC.

These financial statements have been prepared in accordance with Financial Reporting Standard 101 - Reduced Disclosure Framework ('FRS 101') and in accordance with the provisions of the UK Companies Act 2006.

### 2. Significant accounting policies

#### Basis of preparation

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, impairment of assets and related party transactions.

Where required, equivalent disclosures are given in the financial statements of Western Power Distribution plc. The financial statements of Western Power Distribution plc are available to the public and can be obtained as set out in note 19.

The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

The Company's financial statements are presented in Sterling as this is the currency of the primary economic environment in which the Company operates. All values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated.

The principal accounting policies adopted are set out below.

#### Going concern

After consideration, the directors of the Company have concluded that the Company has sufficient resources available to enable it to continue in existence for the foreseeable future and at least for a period of 12 months from the date of signing the accounts and have therefore continued to adopt the going concern basis in preparing the financial statements. This consideration included the overall position of the balance sheet which shows net current assets of £1.2m, cash flows from its operations, the forecast long term business plan, and the stable nature of its business.

#### Impact of New International Financial Reporting Standards

The following new standards are effective for accounting periods beginning on or after 1 January 2018:

##### *IFRS 15*

IFRS 15 'Revenue from Contracts with Customers' supersedes the current revenue recognition guidance including IAS 18 Revenue and the related interpretations and establishes a single comprehensive five-step model to account for revenues arising from contract with customers, focusing on the identification and satisfaction of performance obligations.

The Company has assessed the impact of this standard and concluded that there will be no material change to the Company's financial statements.

##### *IFRS 9*

IFRS 9 "Financial Instruments" supersedes IAS 39 "Financial Instruments: Recognition and Measurement" and impacts the classification and measurement of financial assets and financial liabilities, impairment of financial assets and hedge accounting.

The Company has assessed the impact of this standard and concluded that there will be no material change to the Company's financial statements.

## Notes to the financial statements (continued)

For the year ended 31 March 2019

### 2. Significant accounting policies (continued)

#### Revenue recognition

Revenue is recognised when, or as the Company satisfies the performance obligations and is measured at the fair value of the consideration received or receivable, stated net of value added tax. Turnover primarily consists of revenue from activities relating to rental, installation and sale of smart meters.

#### *Rental income*

Rental income arising from smart meters is accounted for on a straight line basis over the term of the contract.

#### *Installation income*

Turnover arising from meter installation is recognised on completion of the installation.

#### *Other income*

Other income includes income from WPD group undertakings, which is recharged as the work is completed, and third party agency income, which is a combination of rental and meter installation income.

#### Taxation

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date. Deferred income tax assets and liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the Company to make a single net payment.

Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity. Otherwise income tax is recognised in the profit and loss account.



## Notes to the financial statements (continued)

For the year ended 31 March 2019

### 2. Significant accounting policies (continued)

#### Financial assets

Financial assets are classified as debt instruments at amortised cost; debt instruments at fair value through other comprehensive income (FVOCI); financial assets at fair value through profit and loss (FVTPL); derivatives designated as hedging instruments in an effective hedge; or as equity instruments designated at FVOCI, as appropriate. Financial assets include trade and other receivables. The Company determines the classification of its financial assets at initial recognition. Financial assets are recognised initially at fair value, normally being the transaction price plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. For financial assets at FVTPL, transaction costs are immediately recognised in the profit and loss account.

The subsequent measurement of financial assets depends on their classification, as follows:

##### *Debt instruments at amortised cost*

Debt instruments that meet the hold-to-collect business model test and sole payment principal and interest ('SPPI') contractual cash flow test, are carried at amortised cost using the effective interest method, if the time value of money is significant. Gains and losses are recognised in income when the debt instruments are derecognised or impaired, as well as through the amortisation process. This category of financial assets includes trade and other receivables.

#### Impairment of financial assets

The Company recognises impairment on financial assets following the expected credit loss ('ECL') model in IFRS 9.

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL, as default is a component of the probability of default ('PD') which affects the measurements of ECLs. The Company constitutes the following as an event of default:

- (i) Borrower is past due more than 90 days on any material credit obligation to the Company; or
- (ii) Borrower is unlikely to pay its credit obligation to the Company in full

The Company has the following financial assets not measured at FVTPL that are subject to ECL:

##### *Trade and other receivables*

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all receivables except amounts due from WPD undertakings. Lifetime ECLs result from all possible default events over the life of a financial instrument. Amounts due from WPD undertakings are repayable on demand and considered to be low risk and therefore the impairment provision, if any, is determined as 12 months expected credit loss. 12 month ECL results from those default events on the financial assets that are possible within 12 months after the reporting date.

#### Financial liabilities

Financial liabilities are classified as financial liabilities at FVTPL; or as financial liabilities measured at amortised cost, as appropriate. Financial liabilities include creditors. The group determines the classification of its financial liabilities at initial recognition. The measurement of financial liabilities depends on their classification, as follows:

##### *Financial liabilities measured at amortised cost*

All financial liabilities are initially recognised at fair value. For interest-bearing loans and borrowings this is the fair value of the proceeds received net of issue costs associated with the borrowing.

After initial recognition, financial liabilities other than those at FVTPL are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses arising on the repurchase, settlement or cancellation of liabilities are recognised respectively in interest and other income and finance costs.

This category of financial liabilities includes creditors.

## Notes to the financial statements (continued)

For the year ended 31 March 2019

### 2. Significant accounting policies (continued)

#### Set-off of financial assets and liabilities

Financial assets and liabilities are presented gross in the balance sheet unless both of the following criteria are met: the group currently has a legally enforceable right to set off the recognised amounts; and the group intends to either settle on a net basis or realise the asset and settle the liability simultaneously. A right of set off is the group's legal right to settle an amount payable to a creditor by applying against it an amount receivable from the same counterparty. The relevant legal jurisdiction and laws applicable to the relationships between the parties are considered when assessing whether a current legally enforceable right to set off exists.

#### Tangible fixed assets

Tangible assets are stated at cost, less accumulated depreciation and impairments. Borrowing costs directly attributable to assets under construction and which meet the recognition criteria in International Accounting Standard ("IAS") 23 are capitalised as part of the cost of that asset.

Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended. Employee costs incurred in implementing the capital schemes of the Company are capitalised within infrastructure assets together with the cost of materials.

Depreciation is provided on all tangible non-current assets on a straight-line basis over their expected useful lives as follows:

- Meters - between 5 and 10 years
- Fixtures and equipment - up to 12 years
- Vehicles - between 4 and 7 years

The carrying values of tangible non-current assets are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable, and are written down immediately to their recoverable amount. Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively.

An item of tangible fixed assets is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the derecognition of the asset is included in the profit and loss account in the year of derecognition.

#### Intangible assets

Intangible assets are stated at the amount initially recognised, less accumulated amortisation and accumulated impairment losses.

Intangible assets acquired separately from a business are carried initially at cost. The initial cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. An intangible asset acquired as part of a business combination is measured at fair value at the date of acquisition and is recognised separately from goodwill if the asset is separable or arises from contractual or other legal rights.

Intangible assets with a finite life are amortised on a straight-line basis over their expected useful lives.

The expected useful lives of assets are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

#### Computer software

Costs directly associated with the development of computer software for internal use are capitalised where technical feasibility can be demonstrated, the Company is satisfied that future economic benefits will flow to the Company and the cost can be separately identified and reliably measured. Software is measured initially at cost and amortised on a straight-line basis over its estimated useful life. Carrying amount is reduced by any provision for impairment where necessary. The estimated useful life assigned to computer software is up to eight years.

## Notes to the financial statements (continued)

For the year ended 31 March 2019

### 2. Significant accounting policies (continued)

#### Intangible assets (continued)

##### *Goodwill*

Goodwill is initially measured as the excess of the aggregate of the consideration transferred, the amount recognised for any non-controlling interest and the acquisition-date fair values of any previously held interest in the acquiree over the fair value of the identifiable assets acquired and liabilities assumed at the acquisition date.

At the acquisition date, any goodwill acquired is allocated to each of the cash-generating units, or groups of cash-generating units, expected to benefit from the combination's synergies.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

The UK Companies Act requires goodwill to be reduced by provisions for depreciation on a systematic basis over a period chosen by the directors, its useful economic life. However, under IFRS 3 Business Combinations goodwill is not amortised. Consequently, the Company does not amortise goodwill, but reviews it for impairment on an annual basis or whenever there are indicators of impairment. The Company is therefore invoking a 'true and fair view override' to overcome the prohibition on the non-amortisation of goodwill in the Companies Act. Had the Company amortised goodwill, a period of 15 years would have been chosen as its useful economic life. Profit for the year would have been £240,000 lower had goodwill been amortised on this basis.

##### *Impairment of tangible fixed assets, intangible assets, and goodwill*

The Company assesses goodwill and intangibles with indefinite useful life for impairment annually and other assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any such indication of impairment exists, the group makes an estimate of the asset's recoverable amount. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. An asset group's recoverable amount is the higher of its fair value less costs of disposal and its value in use. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount.

Fair value less costs of disposal is the price that would be received to sell the asset in an orderly transaction between market participants and does not reflect the effects of factors that may be specific to the entity and not applicable to entities in general.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate the recoverable amount of the group of cash-generating units ('CGUs') to which the goodwill relates should be assessed. In assessing whether goodwill has been impaired, the carrying amount of the group of CGUs (including goodwill) is compared with their recoverable amount. The recoverable amount of a group of CGUs to which goodwill is allocated is the higher of value in use and fair value less costs of disposal. Where the recoverable amount of the group of CGUs to which goodwill has been allocated is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

##### **Stocks**

Meters are valued at the lower of cost and net realisable value which takes account of any provision necessary to recognise damage and obsolescence.

## Notes to the financial statements (continued)

For the year ended 31 March 2019

### 2. Significant accounting policies (continued)

#### Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Assets leased out under operating leases are included in tangible fixed assets and depreciated over their estimated useful lives. Rental income, including the effect of lease incentives, is recognised on a straight-line basis over the term of the lease. Lease termination fees are allocated to the profit and loss account upon termination.

#### Pensions

The Company participates in one defined benefit pension scheme, a segment of the Electricity Supply Pension Scheme ("ESPS"), to which most employees in the Group in the South West of England and South Wales belong, and which has approximately 10,156 members. The ESPS is a group defined benefit pension plan that shares risks between entities under common control. In accordance with International Accounting Standard ("IAS") 19, Employee Benefits, the scheme has been accounted for as a defined benefit scheme by WPD South West and Western Power Distribution (South Wales) plc ("WPD South Wales") as these businesses have legal responsibility for the plan. As there is no contractual arrangement or stated policy for charging the net defined benefit cost of the plan to individual group entities, the Company accounts for its ongoing contributions to the scheme as if it were a defined contribution scheme, and charges contributions to the profit and loss account as they become payable in accordance with the rules of the scheme.

The ESPS is closed to new members. The Company also participates in a defined contribution scheme, the Western Power Pension Scheme ("WPPS"). Contributions are charged to the profit and loss account as they become due.

### 3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 2, 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 ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

#### Key sources of estimation uncertainty

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

#### Goodwill

WPD Smart Metering records goodwill at fair value. Goodwill is not amortised but is subject, as a minimum, to annual tests for impairment. The initial goodwill recorded and subsequent impairment analysis require management to make subjective judgements concerning the fair value of cash-generating units, specifically in relation to the discount rate. Estimates of fair value are consistent with market information and the WPD Group's plans and forecasts.

At 31 March 2019, the carrying value of goodwill amounted to £2,638,000 (2018: £2,638,000). Refer to Note 11 for further details on the impairment testing performed on goodwill.

There are no judgements dependent upon assumptions which could change in the next financial year and have a material effect on the carrying amounts of assets and liabilities recognised at the balance sheet date.

**Notes to the financial statements (continued)**  
For the year ended 31 March 2019

**4. Turnover**

Turnover represents the continuing activities of the rental and installation of smart meters and other turnover including the sale of smart meters. The Company operates wholly in the United Kingdom.

Turnover by activity:

	2019 £'000	2018 £'000
Rental	5,900	5,379
Installation	2,394	1,638
Other	1,834	1,739
	10,128	8,756

Other income includes income from partner company, charges for aborted appointments, meter sales and charges in respect of terminated contracts.

**5. Operating expenses**

The directors consider that the nature of the business is such that the analysis of expenses shown below is more informative than that set out in the formats in the Companies Act 2006.

	2019 £'000	2018 £'000
Cost of sales	3,718	2,939
Staff Costs (see note 6)	1,321	1,370
Transport, travel and subsistence	247	230
Administration and other expenses	1,411	1,484
Bad and doubtful debts	(22)	(35)
Depreciation (note 12)	2,088	1,982
Amortisation (note 11)	23	18
	8,786	7,988

We have reviewed the allocation of certain costs in the period and updated the comparatives accordingly. The total remains unchanged.

Administration and other expenses include an allocation of group central costs (including auditor's remuneration of £8,011 (2018: £2,524) for auditing these financial statements). There were no non-audit fees in the current or prior year.

**Notes to the financial statements (continued)**

For the year ended 31 March 2019

**6. Staff costs****a) Employee costs**

	2019 £'000	2018 £'000
Wages and salaries	2,073	1,870
Pension costs (note 17)	285	272
Social security costs	233	212
Total employee costs	2,591	2,354
Less: amounts capitalised as part of tangible fixed assets	(1,270)	(984)
Charged to the profit and loss account	1,321	1,370

Pension costs are from contributions to defined benefit and defined contribution pension schemes as set out in note 17.

The average number of employees during the year was 48 (2018: 44). Employees are employed under contracts of service with affiliates, however, their time is substantially devoted to WPD Smart Metering Limited.

	2019	2018
Business support	19	17
Commercial	6	5
Operational	23	22
	48	44

**b) Directors' emoluments**

The directors did not directly receive remuneration in either the current or prior year for their services as directors of the Company as they are incidental to their roles elsewhere in the Group.

**7. Interest receivable**

	2019 £'000	2018 £'000
On amounts owed by other WPD companies	9	5

**8. Interest payable**

	2019 £'000	2018 £'000
On amounts owed to other WPD companies	1	-

**Notes to the financial statements (continued).**

For the year ended 31 March 2019

**9. Tax****a) Analysis of charge in year**

	2019 £'000	2018 £'000
Current tax:		
UK corporation tax on profits for the year	304	198
Total current tax	304	198
Deferred tax:		
Origination and reversal of temporary differences	(48)	(53)
Adjustments in respect of prior year	-	(2)
Impact of change in corporation tax rate	5	6
Total deferred tax (note 16)	(43)	(49)
Tax charge	261	149

**b) Reconciliation of the total tax charge**

The total tax assessed for the year is different to the standard rate of corporation tax in the UK of 19.00% (2018: 19.00%). The differences are reconciled below:

	2019 £'000	2018 £'000
Profit before tax	1,349	771
Profit multiplied by standard rate of corporation tax in the UK of 19.00% (2018: 19.00%)	256	146
Effects of:		
Adjustments in respect of prior year	-	(3)
Impact of change in corporation tax rate	5	6
Tax charge	261	149

**c) Change in corporation tax rate**

From 1 April 2017 the standard rate of corporation tax was reduced from 20% to 19%. In addition the Finance Act 2016 reduced the standard rate of corporation tax to 17% from 1 April 2020. This future change has been enacted and included in the calculation of deferred tax with respect to any temporary differences that are expected to reverse after the effective date.

**Notes to the financial statements (continued)**

For the year ended 31 March 2019

**10. Dividends**

	2019 £'000	2018 £'000
Amounts recognised as distributions to equity holders in the year:		
Interim dividends - equivalent to 3.9 pence per share (2018: 9.6p)	196	481

**11. Intangible assets**

	Computer software £'000	Goodwill £'000	Total £'000
<b>Cost</b>			
At 1 April 2018	194	2,638	2,832
Additions	81	-	81
<b>At 31 March 2019</b>	<b>275</b>	<b>2,638</b>	<b>2,913</b>
<b>Amortisation</b>			
At 1 April 2018	72	-	72
Charge for the year	23	-	23
<b>At 31 March 2019</b>	<b>95</b>	<b>-</b>	<b>95</b>
<b>Net book value</b>			
<b>At 31 March 2019</b>	<b>180</b>	<b>2,638</b>	<b>2,818</b>
At 1 April 2018	122	2,638	2,760

Goodwill acquired through business combinations has been allocated to one cash-generating unit ("CGU"). This represents the lowest level within the Company at which goodwill is monitored for internal management purposes.

In assessing whether goodwill has been impaired, the carrying amount of the CGU (including goodwill) is compared with the recoverable amount of the CGU. The recoverable amount is the higher of fair value less costs to sell and value in use. In the absence of any information about the fair value of a CGU, the recoverable amount is deemed to be the value in use.

The recoverable amount of the Company's CGU has been determined based on a value in use calculation using cash flow projections based on financial budgets reviewed by management covering a five year period.

The key assumptions for the value in use calculation are those regarding the discount rate, expected cash flows arising from revenues, direct costs, and capital expenditure during the year, and the growth rate used to extrapolate cash flows beyond the budget period.

The discount rate applied to cash flow projections is 12.0% (2018: 12.0%).

At 31 March 2019, WPD Smart Metering Limited's recoverable amount exceeded its carrying amount by £1,365,016 (2018: £2,197,216).



## Notes to the financial statements (continued)

For the year ended 31 March 2019

### 11. Intangible assets (continued)

Reasonable possible changes in key assumptions:

	Reduction in value in use 2019 £'000
0.5% increase in the discount rate to 12.5%	666
1.0% decrease in the premium on the RAV to 4.50% at 31 March 2023	1,007
	<b>1,673</b>

An increase in discount rate by 1.2% to 13.2% would cause goodwill to be impaired.

A decrease in the terminal value growth rate by 2% to 3.50% would cause goodwill to be impaired.

### 12. Tangible fixed assets

	Fixtures and equipment £'000	Meters £'000	Vehicles £'000	Total £'000
<b>Cost</b>				
At 1 April 2018	89	10,031	470	10,590
Additions	26	2,252	72	2,350
Disposals	-	(1,712)	(48)	(1,760)
<b>At 31 March 2019</b>	<b>115</b>	<b>10,571</b>	<b>494</b>	<b>11,180</b>
<b>Depreciation</b>				
At 1 April 2018	41	4,940	193	5,174
Charge for the year	7	1,997	84	2,088
Disposals	-	(1,712)	(46)	(1,758)
<b>At 31 March 2019</b>	<b>48</b>	<b>5,225</b>	<b>231</b>	<b>5,504</b>
<b>Net book value</b>				
<b>At 31 March 2019</b>	<b>67</b>	<b>5,346</b>	<b>263</b>	<b>5,676</b>
At 1 April 2018	48	5,091	277	5,416

Assets comprise mainly meters, tools and equipment. WPD Smart Metering Limited rents meters to its customers. These assets are often re-used by the Company upon cessation of the initial rental period.

Included within tangible fixed assets is £1,270,000 (2018: £984,000) of capitalised staff time. See note 6.

**Notes to the financial statements (continued)**

For the year ended 31 March 2019

**13. Stocks**

	2019 £'000	2018 £'000
Meters and modems	547	427

The cost of inventories recognised as an expense during the year was £789,489 (2018: £503,558). The cost of inventories recognised as an expense includes £17,217 (2018: £nil) in respect of write downs of inventory to net realisable value.

The value of meters is not considered to be materially different from their replacement cost.

**14. Trade debtors and other receivables**

	2019 £'000	2018 £'000
Amounts falling due within one year:		
Amounts owed by other WPD undertakings	1,539	1,253
Trade and other debtors	861	1,034
Prepayments	359	260
Accrued income	971	809
	3,730	3,356

Amounts owed by other WPD undertakings are unsecured and repayable on demand.

**15. Creditors**

	2019 £'000	2018 £'000
Amounts falling due within one year:		
Amounts owed to other WPD undertakings	-	225
Trade creditors	137	164
Corporation tax payable	304	199
VAT payable	328	281
Other creditors	123	141
Accruals	500	526
Deferred income	1,702	1,595
	3,094	3,131

Amounts owed to Group undertakings are unsecured and are repayable on demand.

## Notes to the financial statements (continued)

For the year ended 31 March 2019

### 16. Deferred tax

Deferred tax asset arising in respect of temporary differences between capital allowances and depreciation is as follows:

	Deferred tax £'000
At 1 April 2018	482
Movement during the year (note 9)	43
<b>Balance at 31 March 2019</b>	<b>525</b>

A deferred tax asset has been recognised as it is probable, based on the company's trading history and forecast long term business plan, that the company will earn sufficient taxable profits in future periods against which the capital allowances may be deducted.

### 17. Pension commitments

#### Defined benefit scheme

The Company participates in one defined benefit pension scheme, a segment of the ESPS, to which most employees in the Group in the South West of England and South Wales belong, and which has approximately 10,156 members. The ESPS is a group defined benefit pension plan that shares risks between entities under common control. The ESPS is closed to new members.

There is no contractual agreement or stated policy for charging the net defined benefit cost and, therefore, WPD South West and WPD South Wales, fellow subsidiaries of the Company that are jointly responsible for the scheme, recognise the whole of the scheme surplus or deficit in their financial statements, allocated in accordance with pensionable salaries. In accordance with IAS 19 (Revised 2011), the Company recognises a cost equal to its contribution payable for the period, which in the year ended 31 March 2019 was £202,000 (year ended 31 March 2018: £202,000).

Further details of the Group defined benefit scheme are disclosed in the consolidated financial statements of Western Power Distribution plc, which are available as disclosed in Note 19 below.

#### Defined contribution scheme

The Company also participates in a defined contribution scheme, the Western Power Pension Scheme. The assets of the scheme are held separately from those of the Company in funds under the control of trustees. The total cost charged to income of £83,000 (2018: £70,000) represents contributions payable to this scheme by the Company at rates specified in the rules of the plan.

### 18. Called-up share capital and reserves

	2019 £	2018 £
<b>Allotted, called-up and fully paid:</b>		
5,000,001 ordinary shares of £1 each	5,000,001	5,000,001

**Notes to the financial statements (continued)**

For the year ended 31 March 2019

**19. Ultimate parent undertaking**

The immediate parent undertaking of WPD Smart Metering Limited is WPD Distribution Network Holdings Limited.

The smallest group in which the results of the Company are consolidated is that headed by Western Power Distribution plc, incorporated in England and Wales. Copies of these financial statements may be obtained from Companies House or from its registered address, Avonbank, Feeder Road, Bristol BS2 0TB.

The largest group in which the results of the Company are consolidated is that headed by PPL Corporation, incorporated in the United States of America, which is the ultimate parent undertaking and controlling party. Copies of their financial statements may be obtained from their registered address at Two North Ninth Street, Allentown, Pennsylvania, PA18101-1179, US.

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