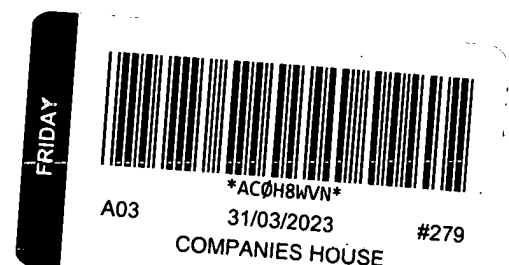


Registered number: 07139151

**Stark Connect Limited (formerly WPD Smart Metering
Limited)**

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 March 2022



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Strategic report

For the year ended 31 March 2022

The directors present their annual report and the audited financial statements of Stark Connect Limited (formerly WPD Smart Metering Limited) (the "Company") (registered number 07139151) for the year ended 31 March 2022.

Review of the business

As at 31 March 2022, the Company was an indirect wholly-owned subsidiary of National Grid Electricity Distribution plc (formerly Western Power Distribution plc) which is a public limited company registered in England and Wales. The primary business of National Grid Electricity Distribution plc (formerly Western Power Distribution plc) and its subsidiaries (the "NGED Group" or "NGED") is the distribution of electricity in the South West and Midlands regions in England and in South Wales. The NGED Group is owned by National Grid Plc ("National Grid"), registered in England and Wales. National Grid is an energy company operating in the UK and United States of America.

On 14 June 2021, PPL Corporation completed the sale transaction of its UK investment in the NGED Group, which includes the Company, to National Grid Plc ("National Grid"). On completion of the sale the ultimate controlling parent of the NGED Group became National Grid Plc, registered in England and Wales. National Grid is an energy company operating in the UK and United States of America.

On 1 June 2022, the NGED Group concluded the sale of Stark Connect Limited (formerly WPD Smart Metering Limited) to Stark Software International (Holdings) Limited ("Stark"). Subsequent to the sale, the 100% controlling parent of the Company is Stark.

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 NGED 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:

| | 2022 £'000 | 2021 £'000 | Increase % |
|--------------------------------|---------------|---------------|---------------|
| Turnover | 12,421 | 11,688 | 6.3% |
| Profit before interest and tax | 1,379 | 871 | 58.3% |

| | 2022 Number | 2021 Number | Increase % |
|-------------------------------------|----------------|----------------|---------------|
| Number of metering systems operated | | | |
| Half-hourly | 58,560 | 52,847 | 10.8% |
| Non half-hourly | 143,387 | 167,536 | (14.4)% |

Strategic report (continued)

For the year ended 31 March 2022

Review of the business (continued)

The Company's half-hourly and non half-hourly metering services are centred on the installation and maintenance of BSC Code of Practice compliant meters with non half-hourly meters referred to as 'Advanced'. 'Smart' meters comply with the specification set out in the Smart Meter Programme, often referred to as 'SMETS2'. The number of half-hourly metering systems operated by the Company increased by 10.8% during the year as a result of contract awards. Whilst work directly for suppliers continues to grow, the number of non half-hourly metering systems decreased by 14.4%.

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

Regulation and technology change

The national smart metering programme is now having a significant impact on the provisioning of metering for small and medium enterprises ("SMEs"). The Company continues with its industry engagement to ensure that business customers are able to exercise choice in their preferred metering services provider.

During the year, the Company continued its deployment of SMETS2 services in the electricity only SME market and is on course to deliver significant growth in the sector.

Reliance on suppliers

The impact of the COVID-19 pandemic on global supply chains impinged significantly on smart meter production. The Company has diversified its supplier base, introducing new meters into its supported product set, to mitigate increases in lead times and prices.

The acquisition of the Company by Stark strengthens the Company's position with many common suppliers and with many services provided to and from Stark.

Liquidity and interest rate risk

Until 31 March 2022, National Grid Electricity Distribution (South West) plc (formerly Western Power Distribution (South West) plc) ("NGED South West"), a fellow subsidiary, provided day-to-day banking for the Company. It is a regulated electricity distribution company which must maintain an investment grade credit rating. NGED affiliates pay or receive interest to/from the Company based on the Bank of England base rate. After acquisition of the Company by Stark Software International (Holdings) Ltd, the Group manages its cash and borrowing requirements in order to maximise interest income and minimise interest expense, whilst ensuring the Group has sufficient liquid resources to meet the operating needs of the businesses.

Strategic report (continued)

For the year ended 31 March 2022

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:

- Stark subcontract NGED to fulfil HH, NHH and sub-metering contracts;
- suppliers where NHH advanced and SMETS2 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 NGED Group under a commercial agreement.

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, the most significant of these developments during the year was the deployment of an online customer engagement work scheduling and management system.

Following appropriate strategies

The Company's core competence, 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.

Employees

The Company 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 retraining arranged as appropriate. It is the policy of the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

The Company 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.

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.

Section 172 statement

Refer to page 4 below for our Section 172 statement.

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


Alex Warren (Mar 31, 2023 13:04 GMT+1)

A M Warren
Director

31 March 2023

Section 172 statement

For the year ended 31 March 2022

The directors of all UK companies must act in accordance with their duties under the Companies Act 2006. This includes a fundamental duty to promote the success of the Company for the benefit of its members as a whole. This duty has been central to the Company's decision-making processes and outcomes over many years. The Board has well-established policies defining the Board's duties and responsibilities including those under section 172.

The information below describes how, in performing their duties during the year, the directors have had regard to the matters set out in Section 172(1) (a) to (f) of the Act, and constitutes the Board's Section 172 Statement.

Strategy and long-term decision-making

The Board strives to promote the success of the Company by providing premium metering solutions to businesses across the UK to help them manage their energy effectively. Providing an excellent and reliable service is a strategic priority for the Board. This is evidenced by the fact that the Company retains a strong and diverse portfolio of contracts with commercial customers, maintaining a high retention rate with existing contracted clients.

For the year ended 31 March 2022, the Board devolved day-to-day management and decision-making to its senior management team, and maintained oversight of the Company's performance, and reserved specific matters for approval. Policies are in place defining the powers of delegation by the Board, the matters reserved for the Board and the areas of responsibilities and accountability of directors. There were established policies that defined the framework within which managers and employees are expected to operate.

By receiving regular updates on business objectives and performance for the year ended 31 March 2022, the Board monitored that the management was acting in accordance with the strategic direction of the Company. During the year, processes were in place to ensure that the Board received all relevant information to enable it to make well-judged decisions in support of the Company's long-term success.

For the year ended 31 March 2022, the Board had oversight responsibility for the key risks of the Company and the Board ensured the strategic priorities of the Company were aligned to its appetite for risk.

Following the acquisition by Stark the Company will play a key role in empowering organisations to better manage energy through Stark's suite of connection, metering and data services. The Company remains based in Bristol and has retained the senior management team. The performance of the Company is overseen monthly by the executive team which includes the Group CEO, Executive Chair and Group Head of Finance of the Stark Group.

Employee interests

Like all successful enterprises, our strength is our talented teams. Our business is built by our people and we are committed to ensuring that interests of employees are taken into consideration while promoting the success of the Company.

As at 31 March 2022, all our employees were effectively employees of the NGED Group and their interests were managed at the Group level.

Equal opportunity is key to the NGED Group's approach to hiring, training and promoting employees. NGED holds the British Service Standard for diversity and inclusion and acknowledges the value that a diverse workforce brings to the organisation. We have an established Equality and Diversity policy demonstrating the equal treatment of all existing and future employees.

Within the NGED Group, 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 retraining.

NGED also provides an ethics helpline that employees can use to report any concerns.

For details in relation to employee interests of the NGED Group, refer to the Strategic report and Corporate governance statement in the National Grid Electricity Distribution plc (formerly Western Power Distribution Plc) Annual Report and Consolidated Financial Statements, available at the below link:

<https://www.westernpower.co.uk/about-us/financial-information>

Section 172 statement (continued)

For the year ended 31 March 2022

Employee interests (continued)

Following the acquisition by Stark, the Company continues to invest in its people with recruitment resulting in an 80% reduction in reliance of agency staff. The Company will ensure increased opportunity for staff looking to develop careers in a larger and more diverse energy services business.

Stakeholder engagement

As at 31 March 2022, one key stakeholder of the Company is NGED, being its customer as well as its shareholder. Other key stakeholders of the Company are external customers, employees, regulators, suppliers and our ultimate shareholder.

NGED Group

During the year ended 31 March 2022, the two directors of the Company were executive directors of the NGED Group. This ensured that there was active engagement with the NGED Group on all key matters. All key information in relation to the Company was fed back to the NGED Group Board. The strategic direction of the Company in many ways was aligned to the NGED Group's strategy and goals.

Subsequent to the sale transaction on 1 June 2022, the shareholder of the Company is Stark.

Customers

The Company aims to meet the needs of its customers by effectively implementing the new generation of meters that enables businesses to manage their energy, and by providing reliable and quality after-service. The Company continues to invest in key elements which differentiate its service in terms of settlement data quality and customer service. The Company has been successful in supporting suppliers as SMETS2 metering is deployed in the non-domestic space.

The Company offers various management and reporting solutions to customers. During the whole process from initial appointment to the meter installation the Company can provide reports that provide the status of a metering system and these reports can be delivered at a frequency the customer requests.

The Company's reputable and premium clientele is testimony to the position and reputation of the Company in the market and to the Board's commitment to meeting customer needs.

Performance is monitored via Key Performance Indicators ("KPIs"); this is reviewed by senior management and includes various customer related KPIs such as completion rate, settlement performance, scheduling rate and fault rectification percentages. Key information, if any, is fed back by the senior management to the directors of the Company in the regular update meeting.

The review of KPIs along with conducting regular key customer meetings allows the management to review and resolve customer issues effectively and efficiently and improve contract fulfilment.

Suppliers

The Company maintains open and positive communications and ensures that fair and standard industry contracts are in place with all suppliers. The management ensures that the active supplier engagement contributes to the strategic direction of the Company. Therefore it continues to review its supported meter base and as a result has increased its ability to support the interoperability i.e. operating existing metering systems irrespective of manufacturer or installation company.

Regulators

The Company holds accreditation to operate half-hourly and non-half hourly metering systems under the Balancing and Settlement Agreement ("BSC") which is administered by Elcxon and is a Registered Supplier Agent under the Smart Energy Code ("SEC") as issued by the Department of Business, Energy and Industrial Strategy ("BEIS"). 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 and the Company's customer engagement and site visit protocols comply with the Smart Meter Installation code of Practice ("SMICoP")

Ofgem monitors compliance with Smart metering licence conditions that suppliers must abide by and also makes decisions on any proposed modifications to BSC, SMICoP and SEC.

Section 172 statement (continued)

For the year ended 31 March 2022

Stakeholder engagement (continued)

Regulators (continued)

By virtue of these accreditation and registrations, the key regulators for the Company are Ofgem, BEIS and Elexon. The directors aim to maintain an open and transparent relationship with all the industry regulators.

The Company is actively engaged with Ofgem by ensuring that all expectations of Ofgem as the key industry regulator are met. One such example has been the implementation of triOpsis, a workforce management and scheduling solution, that has enabled the Company to more effectively monitor the Compliance with SMICoP and meet Ofgem's requirements regarding customer appointments.

The Company continuously engages with BEIS and plays an active role in their various initiatives and measures pertaining to the industry by diligently responding to consultations on all key matters. One such example of this has been the Company's participation in the consultation on the Smart Meter Policy Framework.

With regards to BSC compliance as administered by Elexon, the Company continues to maintain audit performance. This is achieved by monitoring and review by senior management of all key quality assurance KPIs that contribute to the BSC audit report, such as data flow processing, fault processing etc. Key information on these KPIs, if any, is fed back to the directors by the senior management.

Another regulator for the Company is the Health and Safety Executive ("HSE"). The Company is compliant with the Safety, Health and Environment ("SHE") regulations and KPIs in relation to its compliance are monitored by management through its KPIs.

Impact on communities and environment

The service that the Company provides to commercial customers and to electricity suppliers is an important national service as it supports achieving efficiencies and effectiveness within the critical utility sector. The directors believe that working closely with our communities is important in creating shared values for the businesses and industries we serve and the communities we operate in.

The Company's data collection service assisted the NGED Group in targeting unoccupied electricity waste and reducing its electricity consumption through reporting and engagement. The Company continues to invest in systems and processes to maximise the advantages of this service, which is evidence of the fact that the directors consider the impact on the environment and communities as a key part of our strategic direction.

As part of the Stark Group, the Company will contribute to the Group's position as community and climate action champions. The Company will continue its drive to live Net Zero as well as providing services to help our customers on this journey. This includes the use of electric vehicles both for the field team and supporting employees to obtain and charge their own vehicles. Each year the Company will support selected community and charity projects.

Since the directors of the Company were also executive directors of the NGED Group, during the year, they directly and indirectly, through the senior management team, engaged with over 44,000 (2021: 37,000) stakeholders via a range of methods and delivered 384 (2021: 356) improvement actions based on feedback received. These actions cover a variety of stakeholder groups including the important areas of vulnerable customers and smart networks. The NGED Group has supported over 25,000 fuel poor customers in making annual savings of £14.6 million.

Environmental sustainability is one of the key goals of all the companies within the NGED Group.

Section 172 statement (continued)

For the year ended 31 March 2022

Reputation for high standards of business conduct

The directors aspire to develop a culture where the management and workforce is motivated to be successful for its shareholder by creating long term value and at the same time is committed to satisfying customer needs.

The directors are committed to quality and security for their customers and their communities and therefore aim to be compliant with all relevant industry standards. 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 implementation of triOpsis is another step that reflects the Board's commitment to high standards of business conduct, as it allows the Company to monitor the health and safety requirements more effectively with quick turnarounds. The triOpsis system allows the Company to capture photographic evidence on site visits and manage and share them as efficiently as needed. Review of the triOpsis observations as part of the KPI dashboard by management ensures that required actions are taken as needed and post-completion inspections are instigated.

In order to ensure that the high standards of conduct are maintained in all aspects of the business, the Company ensures that all its contractors and subcontractors are MOCOPA registered.

The Company is also an active member of the Association of Meter operators ("AMO") and one of the key objectives of AMO is to promote the best working practices and efficiency within the industry.

The need to act fairly as between members of the Company

The Company's only shareholder is Stark. The directors of the Company effectively and constructively engage with and report to the shareholder.

Examples of key decisions

Key developments presenting opportunities for the Company are the continued deployment of SMETS2 meters for SME customers and the introduction of Mandatory Half Hourly Settlement ("MHHS") which is subject to a significant change process within the industry and will increase the onus on metering services businesses to provide high quality services.

To ensure the Company can deliver services to meet this demand, during the period to 31 March 2022 the Company has made significant investment in its field team and in the systems that allow customers to interact with the Company through automated scheduling. This highlights the focus of the directors in ensuring the success of the Company and generating value for the shareholder by adequately meeting the needs of its customers.

Directors' report

For the year ended 31 March 2022

The directors present their annual report and the audited financial statements of Stark Connect Limited (formerly WPD Smart Metering Limited) (the 'Company') (registered number 07139151) for the year ended 31 March 2022.

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:

J D B Stark (appointed 1 June 2022)
A M Warren (appointed 1 June 2022)
I R Williams (resigned 1 June 2022)
G R Halladay (resigned 1 June 2022)

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 Company's parent, Stark. 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 2022 amounted to £1,361,000 (2021 £697,000). There were dividends paid in the year of £1,871,507 (2021: £nil).

Going concern

The directors have considered the appropriateness of adopting the going concern principle. The Company has net current assets of £0.7m, consistent income from its operations and stable nature of its business. Confirmation has also been obtained from the parent undertaking that it will provide financial support to the Company for not less than 12 months from the date of approval of the financial statements and the directors have considered the ability of the parent undertaking to provide such financial support. 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.

Financial risk management and future developments

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

Subsequent events

Subsequent to the year end, no additional dividend has been paid or proposed by the directors.

On 1 June 2022, the NGED Group concluded the sale of Stark Connect Limited (formerly WPD Smart Metering Limited) to Stark. Thus, subsequent to year end, the controlling parent of the Company is Stark.

On 22 November 2022, the name of the Company was changed from WPD Smart Metering Limited to Stark Connect Limited.

Statement of disclosure to independent 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, of which the auditor is unaware. Each director has taken all the steps that he/she ought to have taken as a director to make himself/herself 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 2022

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

Alex Warren
Alex Warren (14 Mar 2023 11:09 GMT+1)

A M Warren
Director

31 March 2023

Stark Connect Limited (formerly WPD Smart Metering Limited)
Sentinel House
10-12 Massetts Road
Horley, England
RH6 7DE

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 of 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;
- 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditor's report to the member of Stark Connect Limited (formerly WPD Smart Metering Limited)

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Stark Connect Limited (formerly WPD Smart Metering Limited) (the 'company'):

- give a true and fair view of the state of the company's affairs as of 31 March 2022 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 which comprise:

- the profit and loss account;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 20

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 for 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 (the 'FRC'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

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.

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.

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. 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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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 this regard.

Independent auditor's report to the member of Stark Connect Limited (formerly WPD Smart Metering Limited)

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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

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.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act 2006 and tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included General Data Protection requirements, Anti-bribery and corruption policy and the Foreign Corrupt Practices Act.

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in manual adjustments to revenue. Our specific procedures performed to address the risk are described below:

- Tested manual adjustments to revenue through inspection of supporting documentation and assessed underlying business rationale to confirm the validity of the manual adjustment being posted.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;

Independent auditor's report to the member of Stark Connect Limited (formerly WPD Smart Metering Limited)

Extent to which the audit was considered capable of detecting irregularities, including fraud (continued)

- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance.

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 and 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.

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

31 March 2023

Profit and loss account

For the year ended 31 March 2022

| | Note | 2022 £'000 | 2021 £'000 |
|---------------------------------------|------|---------------|---------------|
| Turnover | 4 | 12,421 | 11,688 |
| Operating expenses | 5 | (11,042) | (10,817) |
| Profit before interest and tax | | 1,379 | 871 |
| Interest (payable)/receivable | 7 | (2) | 2 |
| Profit before tax | | 1,377 | 873 |
| Tax on profit | 8 | (16) | (176) |
| Profit for the financial year | | 1,361 | 697 |

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 2022

| | Note | 2022 £'000 | 2021 £'000 |
|--|------|---------------|---------------|
| Non-current assets | | | |
| Intangible assets | 10 | 2,929 | 2,960 |
| Tangible fixed assets | 11 | 5,703 | 4,954 |
| Deferred tax | 15 | 916 | 687 |
| | | 9,548 | 8,601 |
| Current assets | | | |
| Stocks | 12 | 1,057 | 656 |
| Trade debtors and other receivables | 13 | 3,667 | 5,346 |
| | | 4,724 | 6,002 |
| Current liabilities | | | |
| Trade creditors and other payables | 14 | (3,985) | (3,805) |
| Net current assets | | 739 | 2,197 |
| Total assets less current liabilities | | 10,287 | 10,798 |
| Net assets | | 10,287 | 10,798 |
| Capital and reserves | | | |
| Share capital | 17 | 5,000 | 5,000 |
| Share premium reserve | | 2,500 | 2,500 |
| Profit and loss reserve | | 2,787 | 3,298 |
| Total shareholder's funds | | 10,287 | 10,798 |

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

The financial statements of the Company (registered number 07139151) on pages 14 to 30 were approved and authorised for issue by the board of directors on 31 March 2023 and were signed on its behalf by:

Alex Warren
Alex Warren (14 Mar 31, 2023 11:08 GMT+1)

A M Warren
 Director

Statement of changes in equity

For the year ended 31 March 2022

| Note | Share capital £'000 | Share premium reserve £'000 | Profit and loss reserve £'000 | Total £'000 |
|--|------------------------|-----------------------------------|-------------------------------------|----------------|
| At 1 April 2020 | 5,000 | 2,500 | 2,601 | 10,101 |
| Profit for the financial year | - | - | 697 | 697 |
| Total comprehensive income for the year | - | - | 697 | 697 |
| At 31 March 2021 | 5,000 | 2,500 | 3,298 | 10,798 |
| Profit for the financial year | - | - | 1,361 | 1,361 |
| Total comprehensive income for the year | - | - | 1,361 | 1,361 |
| Dividends paid | - | - | (1,872) | (1,872) |
| At 31 March 2022 | 5,000 | 2,500 | 2,787 | 10,287 |

Notes to the financial statements

For the year ended 31 March 2022

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

The financial statements of Stark Connect Limited (formerly WPD Smart Metering Limited) (the "Company") for the year ended 31 March 2022 were authorised for issue by the board of directors on 31 March 2023 and the balance sheet was signed on the board's behalf by A M Warren. Stark Connect Limited (formerly WPD Smart Metering Limited) is a private company limited by shares incorporated in the UK and registered in England and Wales. The registered address is included in Note 20.

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

These financial statements were 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. The Company has used a true and fair view override in respect of the non-amortisation of goodwill (see Note 2).

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 group financial statements of National Grid Electricity Distribution plc (formerly Western Power Distribution plc). These group financial statements are available to the public and can be obtained as set out in note 20.

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 comparative financial information has been presented on the same basis as the current year financial information.

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

The directors have considered the appropriateness of adopting the going concern principle. The Company has net current assets of £0.7m, consistent income from its operations and stable nature of its business. Confirmation has also been obtained from the parent undertaking that it will provide financial support to the Company for not less than 12 months from the date of approval of the financial statements and the directors have considered the ability of the parent undertaking to provide such financial support. 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.

Impact of New Financial Reporting Standards

The following new standards are effective for accounting periods beginning on or after 1 January 2021:

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - amendments in relation to Interest Rate Benchmark Reform, Phase 2. These amendments are effective for annual periods beginning on or after 1 January 2021;
- Amendments to IFRS 16 - amendments regarding COVID-19 related rent concessions, effective for annual periods beginning on or after 1 June 2020 and further extension effective for annual periods beginning on or after 1 April 2021.

The Company has assessed the impact of these standards and concluded that these standards do not have any material impact on the Company's financial statements.

Notes to the financial statements (continued)

For the year ended 31 March 2022

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 NGED 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

The income tax expense (or credit) for the period comprises current and deferred tax. Income tax is recognised in the income statement unless it relates to an item that has been recognised in other comprehensive income, in which case it is also be recognised in other comprehensive income.

Current tax is measured at the amount expected to be payable (or recoverable) in respect of the taxable profit (or loss) for the period based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date. This includes UK corporation tax payable to HM Revenue and Customs ("HMRC") and amounts payable to (or receivable from) other UK group companies for losses and other amounts transferred between them ("group relief").

A provision is recognised for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to HMRC. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Company supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice.

Deferred tax is the tax expected to be payable (or recoverable) in future periods due to differences between the time when profits and losses are recognised in the financial statements and the time when those profits and losses are included in tax returns filed with HMRC. These temporary differences arise in the current period and then reverse in future periods. The temporary differences are calculated by comparing the carrying value of assets and liabilities at the balance sheet date with their corresponding tax bases included in tax returns.

Deferred tax is recognised on all temporary differences except:

- 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; and
- deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the asset may be recovered.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods when the temporary differences will reverse based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are offset only to the extent permitted by tax legislation.

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:

Notes to the financial statements (continued)

For the year ended 31 March 2022

2. Significant accounting policies (continued)

Financial assets (continued)

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 NGED undertakings. Lifetime ECLs result from all possible default events over the life of a financial instrument. Amounts due from NGED 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.

Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

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.

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Notes to the financial statements (continued)

For the year ended 31 March 2022

2. Significant accounting policies (continued)

Offsetting 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

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost less estimated residual value of each asset on a straight-line basis over its expected useful life, as follows:

- Meters - 5 years
- Fixtures and equipment - between 5 - 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 eight years.

Notes to the financial statements (continued)

For the year ended 31 March 2022

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 £176,000 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

Stocks are valued at the lower of cost and net realisable value. Cost is determined using the first in, first out ("FIFO") method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. It excludes borrowing costs.

Notes to the financial statements (continued)

For the year ended 31 March 2022

2. Significant accounting policies (continued)

Pensions

The Company participates in one defined benefit pension scheme, a section 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 9,302 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 National Grid Electricity Distribution (South West) plc (formerly Western Power Distribution (South West) plc) and National Grid Electricity Distribution (South Wales) plc (formerly Western Power Distribution (South Wales) plc) 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. 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 material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Goodwill

The Company 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 and terminal value multiple applied at end of the cash flow period.

At 31 March 2022, the carrying value of goodwill amounted to £2,638,000 (2021: £2,638,000). Refer to Note 10 for further details on the impairment testing performed on goodwill and the related sensitivity information.

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.

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:

| | 2022 £'000 | 2021 £'000 |
|-----------------|---------------|---------------|
| Rental | 8,014 | 7,267 |
| Installation | 2,429 | 2,337 |
| Agency income | 1,335 | 1,273 |
| Internal income | 157 | 500 |
| Other | 486 | 311 |
| | 12,421 | 11,688 |

Notes to the financial statements (continued)

For the year ended 31 March 2022

4. Turnover (continued)

Agency income consists of income from a partner company. Internal income includes recharges of staff and other costs from the NGED Group. Other income includes 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.

| | 2022 £'000 | 2021 £'000 |
|-----------------------------------|---------------|---------------|
| Cost of sales | 4,271 | 3,837 |
| Staff Costs (see Note 6) | 1,792 | 1,810 |
| Transport, travel and subsistence | 270 | 182 |
| Administration and other expenses | 2,435 | 2,703 |
| Bad and doubtful debts | 201 | 229 |
| Depreciation (Note 11) | 2,015 | 2,014 |
| Amortisation (Note 10) | 58 | 42 |
| | 11,042 | 10,817 |

Administration and other expenses include an allocation of group central costs (including auditor's remuneration of £8,503 (2021: £8,503) for auditing these financial statements). There were no non-audit fees in the current or prior year.

6. Staff costs

a) Employee costs

| | 2022 £'000 | 2021 £'000 |
|--|---------------|---------------|
| Wages and salaries | 2,724 | 2,223 |
| Pension costs (Note 16) | 294 | 266 |
| Social security costs | 314 | 248 |
| Total employee costs | 3,332 | 2,737 |
| Less: amounts capitalised as part of tangible fixed assets | (1,540) | (927) |
| Charged to the profit and loss account | 1,792 | 1,810 |

Pension costs are from contributions to defined benefit and defined contribution pension schemes as set out in note 16.

The average number of employees during the year was 58 (2021: 52). Employees are employed under contracts of service with affiliates, however, their time is substantially devoted to the Company.

| | 2022 | 2021 |
|------------------|------|------|
| Business support | 21 | 16 |
| Commercial | 4 | 8 |
| Operational | 33 | 28 |
| | 58 | 52 |

Notes to the financial statements (continued)

For the year ended 31 March 2022

6. Staff costs (continued)**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 (payable) / receivable

| | 2022 £'000 | 2021 £'000 |
|---|---------------|---------------|
| On amounts owed by other NGED companies | (2) | 2 |

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

| | 2022 £'000 | 2021 £'000 |
|---|---------------|---------------|
| Current tax: | | |
| Current tax charge on profits for the year | 255 | 216 |
| Adjustment in respect of prior years | (10) | - |
| Total current tax | 245 | 216 |
| Deferred tax (Note 15): | | |
| Origination and reversal of temporary differences | (9) | (40) |
| Impact of change in corporation tax rate | (220) | - |
| Total deferred tax credit | (229) | (40) |
| Tax charge | 16 | 176 |

b) Reconciliation of the total tax charge

The tax assessed for the year is different to the standard rate of corporation tax in the UK of 19.00% (2021: 19.00%). The differences are explained below:

| | 2022 £'000 | 2021 £'000 |
|---|---------------|---------------|
| Profit before tax | 1,377 | 873 |
| Profit before tax multiplied by standard rate of corporation tax in the UK of 19.00% (2021: 19.00%) | 262 | 166 |
| Effects of: | | |
| Expenses not deductible and income not taxable for tax purposes | - | 10 |
| Group relief received at non-standard rates | (16) | - |
| Adjustment in respect of prior years | (10) | - |
| Impact of change in corporation tax rate | (220) | - |
| Tax charge | 16 | 176 |

Notes to the financial statements (continued)

For the year ended 31 March 2022

8. Tax (continued)

c) Change in corporation tax rate

In the Spring Budget 2021, the UK government announced an increase in the main corporation tax rate from 19% to 25% with effect from 1 April 2023. This was substantively enacted on 24 May 2021. Deferred tax balances as at 31 March 2022, that are expected to reverse after 1 April 2023, have been provided for at 25%.

9. Dividends

| | 2022 £'000 | 2021 £'000 |
|--|---------------|---------------|
| Amounts recognised as distributions to equity holders in the year: | | |
| Dividends - equivalent to 37.4 pence per share (2021: 0p) | 1,872 | - |

10. Intangible assets

| | Computer software £'000 | Goodwill £'000 | Total £'000 |
|-------------------------|-------------------------------|-------------------|----------------|
| Cost | | | |
| At 1 April 2021 | 494 | 2,638 | 3,132 |
| Additions | 27 | - | 27 |
| Disposals | (19) | - | (19) |
| At 31 March 2022 | 502 | 2,638 | 3,140 |
| Amortisation | | | |
| At 1 April 2021 | 172 | - | 172 |
| Charge for the year | 58 | - | 58 |
| Disposals | (19) | - | (19) |
| At 31 March 2022 | 211 | - | 211 |
| Net book value | | | |
| At 31 March 2022 | 291 | 2,638 | 2,929 |
| At 1 April 2021 | 322 | 2,638 | 2,960 |

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 approved by management covering a five year period. The impacts of COVID-19 have also been taken into consideration by the management in the financial budgets.

Notes to the financial statements (continued)

For the year ended 31 March 2022

10. Intangible assets (continued)

The key assumptions for the value in use calculation are those regarding the discount rate, budgeted cash flows and the growth rate used to extrapolate cash flows beyond the budget period of 5 years.

The Company does not engage in raising of debt and relies on NGED Group for any funding, thus the discount rate is derived from the cost of equity within NGED's pre-tax weighted average cost of capital ("WACC"). The cost of equity is adjusted for an additional equity beta and size premium to account for the small size of the Company. The discount rate applied to cash flow projections is 12.0% (2021: 12.0%).

The terminal value growth rate of 4% (2021: 4%) is based on the budgeted increase in the revenue in the 5 year plan. The cash flows and the terminal value reflects an implied growth rate of 6.40%(2021: 6.8%), which exceeds the long term forecasted RPI for the UK. This long term growth rate is supported by the management's plans for rolling out additional smart meters in future years.

At 31 March 2022, Stark Connect Limited's (formerly WPD Smart Metering Limited) recoverable amount exceeded its carrying amount by £5,757,846 (2021: £1,342,285). The increase in the headroom is driven by the actual growth in revenue and net profit of the Company during the year, resulting in an increase in future cash flow forecasts while maintaining the growth rate of cash flows same as last year. .

Reasonable possible changes in key assumptions:

| | Reduction in value in use 2022 £'000 |
|--|---|
| 1.0% increase in the discount rate to 13.0% | 2,013 |
| 1.0% decrease in the terminal value growth rate to 3.0% at 31 March 2027 | 1,524 |
| | <hr/> |
| | 3,537 |
| | <hr/> |

An increase in discount rate by 4% to 16% would cause goodwill to be impaired.

A decrease in the terminal value growth rate to 0% will not cause any goodwill impairment.

Notes to the financial statements (continued)

For the year ended 31 March 2022

11. Tangible fixed assets

| | Fixtures and equipment £'000 | Meters £'000 | Vehicles £'000 | Total £'000 |
|-------------------------|------------------------------------|-----------------|-------------------|----------------|
| Cost | | | | |
| At 1 April 2021 | 115 | 10,095 | 557 | 10,767 |
| Additions | - | 2,764 | - | 2,764 |
| Disposals | - | (1,855) | (14) | (1,869) |
| At 31 March 2022 | 115 | 11,004 | 543 | 11,662 |
| Depreciation | | | | |
| At 1 April 2021 | 69 | 5,326 | 418 | 5,813 |
| Charge for the year | 11 | 1,947 | 57 | 2,015 |
| Disposals | - | (1,855) | (14) | (1,869) |
| At 31 March 2022 | 80 | 5,418 | 461 | 5,959 |
| Net book value | | | | |
| At 31 March 2022 | 35 | 5,586 | 82 | 5,703 |
| At 1 April 2021 | 46 | 4,769 | 139 | 4,954 |

Assets comprise of mainly meters, tools and equipment. The Company 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 £1,540,000 (2021: £927,000) of capitalised staff time. See note 6.

12. Stocks

| | 2022 £'000 | 2021 £'000 |
|-------------------|---------------|---------------|
| Meters and modems | 1,057 | 656 |

The cost of inventories recognised as an expense during the year was £600,2213 (2021: £701,781). The cost of inventories recognised as an expense includes £147,244 (2021: £41,877) 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.

13. Trade debtors and other receivables

| | 2022 £'000 | 2021 £'000 |
|---|---------------|---------------|
| Amounts falling due within one year: | | |
| Amounts owed by other NGED undertakings | 817 | 2,135 |
| Trade and other debtors | 1,357 | 1,807 |
| Other debtors | - | 12 |
| Prepayments | 743 | 495 |
| Accrued income | 750 | 897 |
| | 3,667 | 5,346 |

Notes to the financial statements (continued)

For the year ended 31 March 2022

13. Trade debtors and other receivables (continued)

The amounts owed by other NGED undertakings accrue interest at the Bank of England base rate and are unsecured and repayable on demand.

14. Trade creditors and other payables

| | 2022 £'000 | 2021 £'000 |
|--------------------------------------|---------------|---------------|
| Amounts falling due within one year: | | |
| Trade creditors | 218 | 244 |
| Corporation tax payable | 44 | - |
| Group tax relief payable | 97 | 168 |
| VAT payable | 364 | 414 |
| Other creditors | 570 | 559 |
| Accruals | 442 | 532 |
| Deferred income | 2,251 | 1,888 |
| | 3,985 | 3,805 |

15. 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 2021 | 687 |
| Charge to profit and loss (Note 8(a)) | 229 |
| Balance at 31 March 2022 | 916 |

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.

16. 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 9,302 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, NGED South West and NGED 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 2022 was £101,000 (year ended 31 March 2021: £134,000).

Notes to the financial statements (continued)

For the year ended 31 March 2022

16. Pension commitments (continued)

Defined benefit scheme (continued)

Further details of the Group defined benefit scheme are disclosed in the consolidated financial statements of National Grid Electricity Distribution plc (formerly Western Power Distribution plc), which are available as disclosed in note 20 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 £194,000 (2021: £132,000) represents contributions payable to this scheme by the Company at rates specified in the rules of the plan.

17. Share capital

| | 2022 £ | 2021 £ |
|--|-----------|-----------|
| Issued and fully paid: | | |
| 5,000,001 ordinary shares of £1 each (2020: 5,000,001) | 5,000,001 | 5,000,001 |

The shares entitle the holders thereof to one vote per share held. Each share ranks equally for any dividend declared and any distribution made on a winding up. The shares are not redeemable.

As at 31 March 2022, all shares are held by National Grid Electricity Distribution Network Holdings Limited (formerly WPD Distribution Network Holdings Limited).

18. Capital Commitments

There was £nil worth of capital expenditure contracted for at the balance sheet date that was not recognised in the financial statements (2021: £23,687).

19. Events after the reporting period

Subsequent to the year end, no additional dividend has been paid or proposed by the directors.

On 1 June 2022, the NGED Group concluded the sale of Stark Connect Limited (formerly WPD Smart Metering Limited) to Stark. Thus Subsequent to year end, the controlling parent of the Company is Stark.

On 22 November 2022, the name of the Company was changed from WPD Smart Metering Limited to Stark Connect Limited.

Notes to the financial statements (continued)

For the year ended 31 March 2022

20. Ultimate parent undertaking

As at 31 March 2022, the immediate parent undertaking of Stark Connect Limited (formerly WPD Smart Metering Limited) is National Grid Electricity Distribution Network Holdings Limited (formerly WPD Distribution Network Holdings Limited), which is registered in England and Wales.

As at 31 March 2022, the smallest group in which the results of the Company are consolidated is that headed by National Grid Electricity Distribution plc (formerly 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.

Until 13 June 2021, the largest group in which the results of the Company were consolidated was that headed by PPL Corporation, incorporated in the United States of America, which was the ultimate parent undertaking and controlling party. Copies of its accounts may be obtained from its registered address at Two North Ninth Street, Allentown, Pennsylvania, PA18101-1179, US. On 14 June 2021, PPL completed the sale transaction of its UK investment in the NGED Group to National Grid Plc. On completion of the sale, the ultimate controlling parent of the Company is National Grid Plc, registered in England and Wales.

As at 31 March 2022, the largest group which includes the Company and for which consolidated financial statements are prepared is National Grid plc, registered in England and Wales. Copies of these consolidated financial statements can be obtained from the Company Secretary, National Grid plc, 1-3 Strand, London WC2N 5EH.

From 1 June 2022 onwards, the ultimate controlling parent of the Company is Stark Software International (Holdings) Limited.

Registered office:

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Smart Metering Limited)**
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