Data Communications Company

Smart DCC Ltd

Annual Report

including the Regulatory Financial Statements for the year ended 31 March 2017

Contents

Chairman's Statement

I am delighted to present Smart DCC's (DCC's or the Company's) fourth Annual Report. 'DCC Live' was achieved during the year with the first release of the new DCC supported smart meters network. With the first SMETS 2 meters about to be installed in consumer's homes and with the completion of the next major release only days away, the next stage of DCC's activities and development is about to commence as it supports the large scale installation of SMETS 2 smart meters across Great Britain. The Board and I have been extremely impressed by the ability, focus and tenacity of the DCC team in driving the programme forward and taking pragmatic decisions to deliver its commitments.

The year has seen a change in the leadership of DCC and I would like to take this opportunity on behalf of the Board to thank our outgoing Managing Director, Jonathan Simcock for his dedicated leadership and tenacity in getting DCC to its current position. I would also like to welcome Angus Flett as the new Managing Director who joined the organisation, following an extended handover with Jonathan, in February 2017. Angus has already made a significant impact in transitioning DCC from what has essentially been to date a single, albeit huge, programme into a business delivering multiple programmes, whilst delivering and improving an effective operation to support the mass roll-out of meters across Great Britain.

This is a highly complex and challenging programme with a very high standard of security. Consequently, although 'DCC Live' was achieved a couple of months after the agreed contingency period, it remains a deeply impressive outcome. It is a tribute to all those involved that we achieved so much in the year including 'DCC Live', which was achieved in November 2016.

During the coming year, DCC will be able to demonstrate the success of our collective efforts as we make the transition to an effective operation that can support the mass installation and adoption of smart meters across Great Britain by 2020. DCC will also be heavily engaged in the Enrolment and Adoption of SMETS1 meters, and in the procurement of a centralised registration service, which will be a key component in facilitating easier switching for consumers, a major government and regulatory objective.

My Board colleagues and I recognise that significant challenges lie ahead and that there are more hurdles for us and our delivery partners to clear, the scale of which should not be underestimated. However, with our growing organisational maturity, hard won experience and the right capability in place, I believe DCC is well positioned for success.

Richard McCarthy CBE
Chairman

6 July 2017

Managing Director's Statement

It is a very exciting time to join DCC and it is a huge privilege to have the opportunity to lead this game-changing business while working with a dedicated and truly expert team. The DCC system will transform Great Britain's energy infrastructure and facilitate the transition from an analogue based system to a smart and fully interconnected digital eco-system.

In looking back over last year's performance and achievements, 2016/17 was a significant year for DCC. In particular, the achievement in delivering Release 1.2 'DCC Live' in November 2016, after a period of rigorous testing of the network was a tremendous step forward. Release 1.3 has now successfully moved into end to end testing and will be the next key step in the delivery of the smart metering service over the coming months.

The additional industry requirements for the Enrolment and Adoption of SMETS1 meters, the provision of dual band communications hubs and the ramp up of the Switching programme activity, has added to the overall costs forecast in our indicative charging statements and budgets[1]. However, we are actively looking to reduce our unit cost and provide continuing value for money for our customers, and as part of this activity, DCC has already refinanced costs with service providers, which will benefit our customers with lower costs over the following three years.

DCC also made significant progress in finalising its Switching business case, a key part of its commitment to Ofgem to deliver the infrastructure to support its Central Switching Service (CSS). DCC's service will provide the backbone of the CSS, enabling consumers to switch energy suppliers and realise the benefits of an integrated smart metering service.

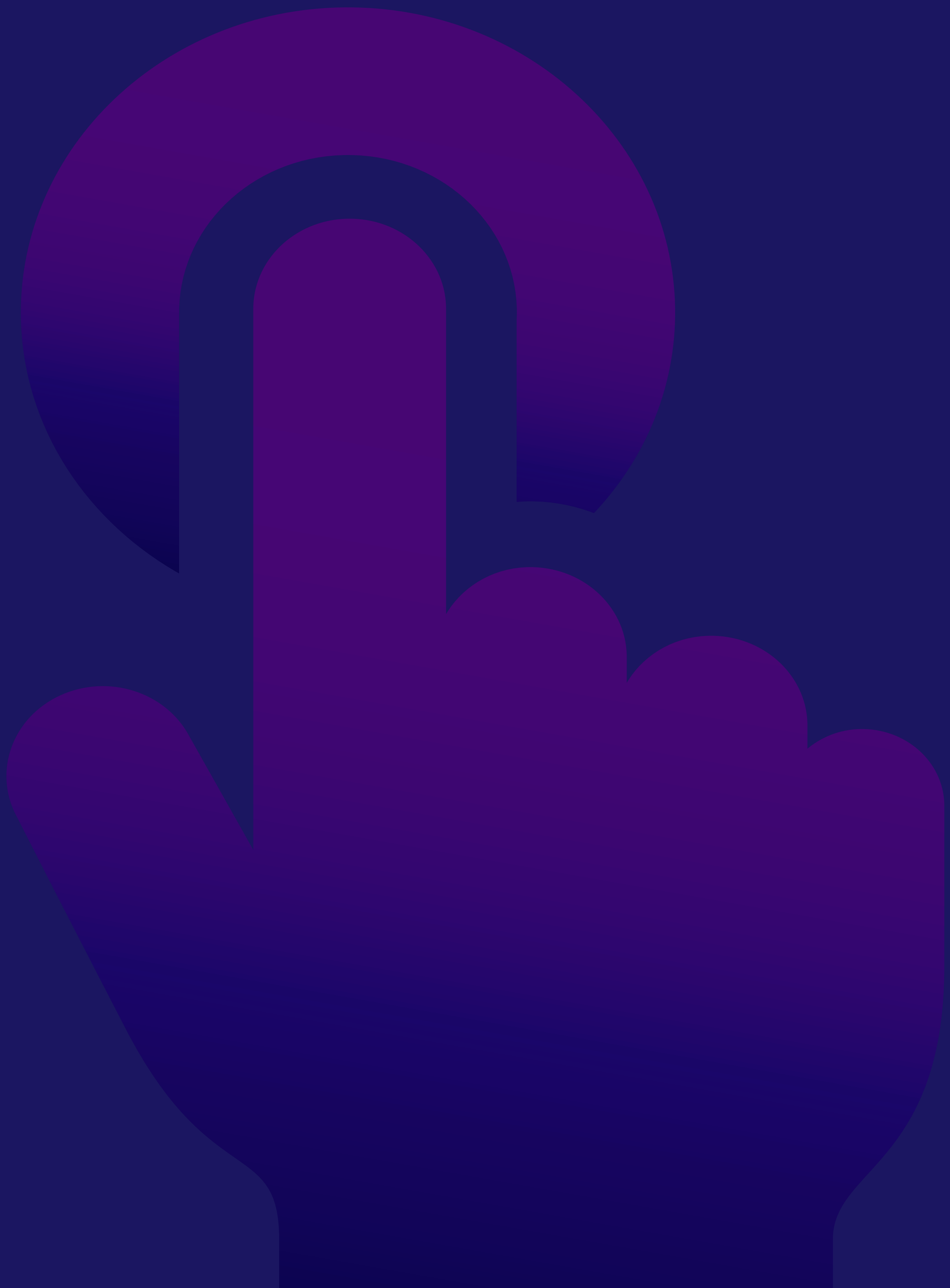
Since taking up my role as Managing Director in early 2017, I have also taken the opportunity to meet with key stakeholders in Government, Ofgem, our customers and Service Providers. This has been enormously valuable, providing the opportunity to listen, learn and better understand the issues we face so that DCC can work together with all to improve the service we offer.

Today, we are creating the infrastructure for smart meters. Tomorrow, DCC's infrastructure will support development of a fully interconnected smart grid – the foundation of a decentralised and low carbon energy system. Whilst there is a tremendous amount of work to deliver over the coming years, my team and I are very excited about what the future will hold for the industry and for DCC as a facilitator and transformation partner.

Angus Flett
Managing Director

6 July 2017

1 These are available at www.smartdcc.co.uk/charges



Strategic Report

About DCC

DCC is responsible for establishing and managing the common infrastructure necessary to support the roll-out of the Government's Smart Metering Implementation Programme (SMIP). The Government's vision is for every home in Great Britain to have a smart energy meter. The SMIP calls on the energy suppliers to lead the roll-out of an estimated 53 million smart electricity and gas meters to domestic and small non-domestic properties in Great Britain by 2020.

DCC is designing, building and operating the shared data management systems and communications network necessary to deliver a reliable, secure and fair environment for the energy industry. DCC's infrastructure will connect smart meters to the business systems of energy suppliers, network operators and other authorised service users. The infrastructure is being delivered by two Communications Services Providers (CSPs), Arqiva and Telefónica; and a Data Services Provider (DSP), CGI.

DCC operates under the Smart Meter Communication Licence, granted on 23 September 2013 and is regulated by Ofgem. DCC's service design and delivery is required to comply with the Smart Energy Code (SEC).

Bringing Benefits to the Whole Energy Market

The DCC system will transform how energy is supplied and give consumers greater control over their energy use. Real time information to help manage energy usage, save money and reduce emissions. Energy suppliers will be able to forecast demand better, reduce costs and use smart meters as a platform to develop more innovative services. Network operators will be able to use smart metering data to improve network management and make informed decisions on investment, including the development of smart grids. DCC is making this happen with, and on behalf of, the energy industry.

Performance Review for 2016/17

DCC's services will transform the energy industry and fundamentally change the way that parties in the energy value chain interact with one another and with the DCC system. Complexity is inherent in a programme of this size. Ensuring that we deliver a robust, effective and enduring system takes time and effort and it is critical that we get this right. DCC is committed to working with all its stakeholders over coming years to ensure delivery of a scalable, reliable and cost effective smart metering service.

Key Achievements in 2016/17

This has been an important year for DCC as it moves from being a single programme delivering SMETS2, to a business managing multiple programmes. The smart meter communication service is evolving to include multiple programmes for SMETS2; SMETS1 Enrolment and Adoption; and Switching, each of which bring its own challenges. Significant progress was made in each of these areas during the year.

Building on the achievements of previous years, DCC delivered a number of key projects in this period, which underpin the data and communications infrastructure for the roll-out of smart meters across Great Britain. 2016/17 highlights include:

DCC Live - delivering a live service

In November 2016, we delivered DCC Live, the infrastructure and operation which will support the roll-out of smart meters to 2020 and beyond. DCC Live was achieved through Release 1.2 which provides the core functionality of the communication service for SMETS2 meters to credit customers and allows networks to access some service requests. DCC Live was delivered after extensive testing and operational readiness activities.

DCC also continued its work on Release 1.3 which delivers functionality to support pre-payment customers. When this is delivered it will largely complete the core SMETS2 smart meter communication service as prescribed in the Smart Energy Code (SEC). At the time of writing, DCC is nearing completion of testing on Release 1.3 and expects it to be delivered in the summer of 2017.

SMETS1 Enrolment and Adoption

DCC also made good progress towards developing solutions to support the Enrolment and Adoption of SMETS1 meters. DCC is managing a programme to consider how first generation SMETS1 meters can be enrolled into its infrastructure which will allow energy suppliers and other authorised parties to communicate with both SMETS2 and SMETS1 meters via DCC systems.

In 2016, DCC undertook important work engaging with industry, leading to an Initial Enrolment Project Feasibility Report (IEPFR) in November 2016. The public consultation for the report closed in January 2017. The IEPFR outlining enrolment options is due to be published later in 2017.

Faster, more reliable Switching

The Government and Ofgem have made faster, reliable switching for energy consumers a priority. Faster, reliable Switching will improve consumers' experience of changing their energy supplier, facilitate competition and lead to better engagement in the retail market.

The Switching programme will be delivered through an Ofgem-led initiative to transform current switching arrangements. DCC is also undertaking important work to support Ofgem's Switching Programme. DCC is playing a key role in:

- supporting the design and development of the new industry wide switching arrangements, and;
- designing and procuring a new Centralised Registration Service (CRS) to support the new arrangements.

DCC's Switching Programme team developed a business case for DCC activities during the Transitional Phase of the Switching Programme (the period from 1 April 2016 up to the point of contract signature for Fundamental Registration Service Capability to deliver the CRS). The business case sets out DCC's forecast activities and costs relating to its role in supporting Ofgem's Switching Programme during this phase.

DCC's Business Case was baselined in March 2017 and published on the DCC website, following scrutiny by Ofgem and consultation with industry.

Network coverage

Work to construct the Smart Metering Wide Area Network across Great Britain by the CSPs is progressing to plan, with Arqiva at 88% and Telefónica at 97.75% at the end of the regulatory year. Arqiva and Telefónica are targeting 99.5% and 99.25% coverage respectively by the end of 2020.

Preparation for live operations

We have continued to work closely with Customers (Service Users) and our Service Providers to develop end-to-end operational processes. This work will ensure a seamless experience for Customers and ultimately for energy consumers.

Our operational process design is based on ITIL industry best practice, which has been tailored to meet the needs of the SMIP. We have also implemented the Service Management System that supports many of these processes. Operational resources have been developed to support our existing live operations, and the preparation for the smart metering roll-out. Anticipating that we will need to scale the operation, we have put plans in place to build the capability and capacity required to run an industrial scale business that has to first install and then operate a new nationwide service.

Engagement with Stakeholders

DCC is a delivery body on behalf of the energy sector. It operates within a complex and extensive stakeholder universe, involving many participants, project partners and an extensive supply chain - all of which will be connected via the DCC system.

In 2016/17 DCC continued its commitment to being open, transparent and pro-active in sharing relevant information with its External Service Providers, BEIS, Ofgem, the SEC Panel and industry stakeholders. Industry engagement has included:

- Participation in transitional and enduring SEC governance groups.
- DCC Industry Days – two events were held during the year with over 250 participants. Feedback showed over three-quarters of attendees rated the events as either good/ very good/excellent.
- Independent Supplier events. DCC ran three events: two in London and one in Leicester, as well as two Meter Operator Forums.
- DCC Forums– 46 were held during the year. Topics included: Service Management Design, Design Release, Communications Hub & SM WAN and Testing. Each forum typically lasted half a day with 20 – 30 attendees.
- Quarterly finance webinars to explain DCC's financial forecasts for the coming years in the charging statements.
- An extensive consultation programme, including consultation briefings and contact with all stakeholders disagreeing with, or having questions on, the proposals set out in consultation drafts.
- Frequent and structured reporting to Parties on testing activities, including progress through Systems Integration Testing and end stage reports.
- On-going customer engagement through DCC Industry Partnership Managers, who engaged with more than 50 individual SEC Party organisations during the year.
- Industry consultation on DCC's Business Plan, published on www.smartdcc.co.uk.

Ofgem's Price Control Assessment

Every year Ofgem carries out a price control assessment of Smart DCC. The primary purpose of the assessment is to ensure that costs incurred in the previous regulatory year were economic and efficient in nature. Close scrutiny of our costs and associated revenues in this way provides comfort to BEIS, Ofgem and our customers that they are receiving the best value for money.

In July 2016, we submitted our price control report for the 2015/16 regulatory year. Ofgem's assessment resulted in £0.6m of unacceptable costs, which represents approximately 1% of the total costs incurred in that year. All planned milestones were judged to be met and an adjustment to increase the baseline margin by £1.1m (of which £0.4m relates to 2016/17), was also agreed. In addition, we submitted an External Contract Gain Share application in relation to refinancing activity completed, which was agreed for a value of £2.9m.

Non-financial key performance indicators

Implementation Milestones

The primary measure of our non-financial performance for our SMETS2 programme until financial year 2016/17 is our performance against Implementation Milestones (IMs) which are defined in our Licence. Each regulatory year, Ofgem measures our performance against IMs, which can affect the value of the baseline margin earned during the implementation period. Ofgem confirms its assessment as part of the Price Control conclusions, finalised in the year following the year of IM achievement.

In February 2017, Ofgem determined that we achieved IM8a (Licensee is ready for Systems Integration Testing in the North Region) and IM8b (Licensee is ready for Systems Integration Testing in the Central and South Regions) both of which fell due on the 1 September 2015. However, as IM8a was met 27 days late, the margin associated with the IM was reduced by £0.053m.

In last years' report we mentioned that we were in the consultation process to change the dates for IM8, as above, and IMs 9 and 10, which will be concluded on in 2017/18. The latter proposed changes reflected the planned two stage go-live releases; 1.2 and in 1.3. Following the consultation process we submitted our proposal with which BEIS agreed, and issued a direction to that effect. These were the IMs created which had two distinct deadlines as follows:

20 July 2016

- IM9a - Licensee is ready for commencement of DCC Live (Release 1.2) in the North Region
- IM9b - Licensee is ready for commencement of DCC Live (Release 1.2) in the Central and South Regions

26 September 2016

- IM10a - Licensee is ready for commencement of Release 1.3 in the North Region
- IM10b - Licensee is ready for commencement of Release 1.3 in the Central and South Regions

We are likely to retain 4% of the margin associated with IM9b. No margin is expected to be retained relating to IM9a, or for either IM10a or IM10b, due to the later than planned delivery of releases 1.2 and 1.3.

Operational Performance Regime

Following the delivery of release 1.3, we anticipate that Ofgem's Operational Performance Regime, as defined in the licence, will become the key set of performance metrics for the SMETS2 programme. We anticipate that it will be operational from April 2018.

Our financial performance

Overview

We operate on a £nil profit model where our revenues are exactly equal to our costs. Our charges to Service Users are structured in such a way that we receive funds that are sufficient to cover our expected costs for the year, plus a contingent amount, known as the Prudent Estimate. At the end of the year, amounts that we have charged to our Service Users in the year but have not spent are reflected as deferred revenue in our Statement of Financial Position. With this in mind, expenditure is the primary driver of our financial performance.

The way in which our Service Users and other stakeholders gain comfort from this arrangement is through Ofgem's annual Price Control Assessment as noted on page 11, and our determination to secure value for money for energy consumers.

Costs incurred in the year

In 2016/17 we have recognised costs of £347.6m (2016: 301.1m). 84% of our costs relate to those incurred under contracts with the DSP and the CSPs, which is reflective of the value of work they have completed. Figure 1 shows a breakdown of our costs incurred compared to the prior year.

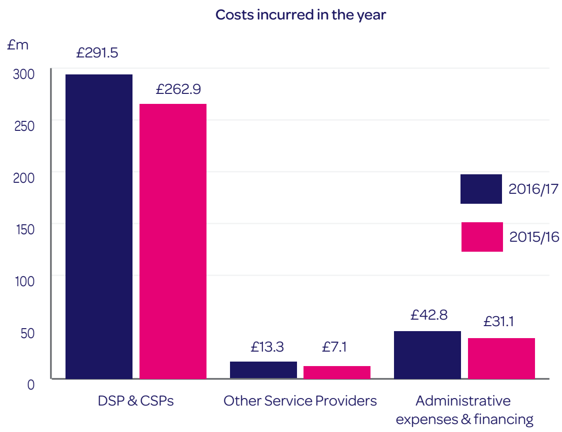


Figure 1 – Costs incurred in the year

Costs relating to the DSP and the CSPs

Costs we have recognised relating to the contracts with the DSP and the CSPs are reflective of the achievement they have made in completing work against their contractual obligations, and also represent the impact of change on the activities they are carrying out.

During the year the CSPs achieved payment milestones, in relation to which we have recognised £166.9m (2016: £115.2m). We will make payments for these milestones over several years as defined in their contracts. Milestones have been recognised initially at their net present value, with a subsequent monthly finance cost calculated at an effective interest rate. This year we have recognised £14.8m (2016: £5.5m) in financing costs for all milestones achieved to date.

Furthermore, the DSP and the CSPs have progressed in their delivery against the additional scope of work required for alignment to the latest version of the Great Britain Companion Specification (GBCS) and other SEC amendments. In relation to these changes to their original contracts we have recognised £112.8m (2016: £139.2m). The balance of the total DSP and CSP costs are amounts incurred for impact assessments, projects authorised during the year and fixed operating charges.

As at the 31 March 2017, we have a liability of £337.5m, including accruals(2016: £243.6m) for future payments to be made to the DSP and CSPs for work they have completed to date. Of this, £90.4m (2016: £38.0m) is due within 12 months of the year end.

Charges from other Service Providers

These charges relate to critical services required for implementation of the SMIP, provided by other key Service Providers. £2.9m (2016: £3.8m) was spent in the year on the delivery of the SMKI and the Parse and Correlate service. Together, these two services will ensure effective and secure communication between Service Users and smart metering devices. £1.4m (2016: £0.7m) was spent on running the service desk, which went to 24/7 operation for DCC Live.

The remaining £1.1m (2016: £1.5m) was spent on the development of the billing system and automated testing of GBCS. DCC collects, through its Service Charges, amounts on behalf of the administrator of the SEC, £6.3m (2016: £1.1m) and £1.6m (2016: nil) on behalf of the AltHANCo.

Administration expenses

Administration expenses include all operational costs of the organisation. £27.6m (2016: £20.4m) of our expenditure is staff related costs, which has increased as we have resourced at an appropriate level to support the progress towards an operational service, the additional activity arising from the implementation of a multiple release strategy, and the resourcing of the Enrolment and Adoption and Switching programmes.

The remainder of our expenses consist of IT spend, accommodation costs, professional fees, gain share, financing and margin (baseline and incremental). Our baseline margin of £2.2m (2016: £2.9m) is a fixed amount specified in our Licence, adjusted for the outcome of our price control assessment for the 2015/16 regulatory year. Gain share of £2.9m (2016: nil) was awarded to DCC as its share of the saving from refinancing DSP costs during the year, in accordance with the Licence.

Comparison to the 2016/2017 charging statement

Charges to DCC's customers (the Service Users) are based on a fixed service charge per meter, set at the beginning of the period in our charging statement. The licence requires that charges to Service Users for the year are sufficient to cover our budgeted costs, and to ensure we have adequate cash for our operational purposes.

The charging statement uses different categorisations of costs to the financial statements. In the charging statement, External Costs only include amounts charged by the DSP and the CSPs. To enable comparison, £5.3m

(2016: £5.9m) of costs from other Service Providers which have been classified as cost of sales in the financial statements are included in actual Internal Costs in Figure 2. External Costs in the financial statements also include accrued income of £132.9m relating to milestones recoverable. These have been recognised in the profit and loss account this year but are not due for payment by our Service Users until after 31 March 2017, so are not included in total external costs of £291.5m. Overall, the actual expenditure incurred was significantly lower than in the charging statement due to a refinancing arrangement which re-phased DSP costs at a lower ongoing interest rate, and the non-payment of incentives where milestones were not met.

An overview of the variance between actual spend in the year and that forecast in the charging statement for the same period is shown in Figure 2:

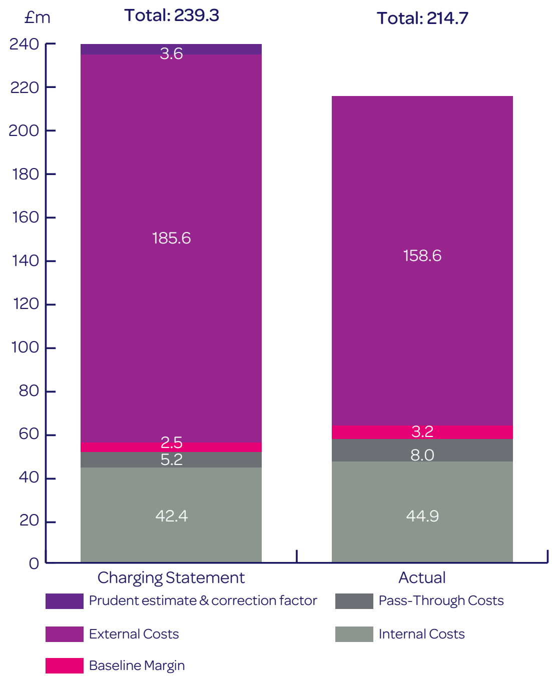


Figure 2 – Comparison of actual spend to the RY2016/17 Charging Statement

In the year we billed our Service Users £240.8m compared to a charging statement estimate of £239.3m. The £1.5m difference is due to an increase in the actual number of meters on which a fixed charge has been applied compared to the numbers anticipated in our charging statement, plus additional SEC parties acceding during the year, whose volumes were not known at the time of the charging statement.

Against the total estimated costs in the charging statement for the year of £239.3m, we have incurred £214.7. The difference of £24.6m is primarily due to external costs, which are £27.0m below the charging statement. This consists of £10.8m savings from refinancing of DSP costs and the requirement not to pay incentive payments on certain milestones due. These were offset by a net movement of £2.5m additional internal costs. DCC was required to pay additional amounts due to the delays to the delivery of Releases 1.2 and 1.3. These include £2.1m of additional contractor costs and £2.6m for additional professional fees.

Pass-through cost increases of £2.8m represent additional amounts due to the SEC administrator, SECCo Ltd of £1.2m and the AltHANCo charges of £1.6m for the development of the alternative HAN solution, which were not known at the time of the charging statement.

At the beginning of the year we had brought forward deferred revenue of £15.0m. Taking into account the amount unspent in 2017 and the additional funds collected due to additional meter numbers, £42.8m of deferred revenue represents cash available for expenditure in future years.

At the end of the year we have a closing trading cash position of £39.0m and a closing credit cover deposit balance of £4.2m. This balance is required for the payment of net current liabilities and funds for future use where the revenue has been deferred and is reflective of the increasing scale of DCC operations and activity.

Financial Key Performance Indicators (KPIs)

During the period we have focussed on financial KPIs to monitor financial stability, and progress on meeting IMs specified in the Licence. We are required to provide assurance of financial stability under the terms of the Licence, as this underpins our ability to continue in operation. The key metrics that are reviewed by the Board with respect to liquidity are the cash ratio (ratio of cash and cash equivalents to current liabilities), debtor days (the average number of days debtors take to pay) and cash conversion cycle (average number of days between outlay of cash and cash recovery). The Board also reviews the quarterly cash flow forecast.

To ensure that we are able to make payments for liabilities due in full we aim for a cash ratio in accordance with the healthy ranges provided to Ofgem. This is achieved by accurate cost forecasting and ensuring that charges to Service Users are set at an appropriate level to ensure adequate cash levels are maintained. At the end of the year the cash ratio, defined as cash divided by current liabilities, was 0.30 (2016: 0.42). This ratio is negatively impacted by the £87.4m (2016: £38.0m) accrued in short term liabilities for payments to be made within 12 months from the year end for work completed against milestones and other contractual activities, and a further £29.5m (2016: £nil) of accruals for delay payments. The adjusted cash ratio excluding these amounts payable within 12 months was 1.67 (2016: 1.25). The adjusted cash ratio provides a more appropriate measure of the proportion of cash to liabilities due in full at the end of the year. Milestone and delay payments are due after the year end and receipts that are collected in the next 12 months will go towards these future payments.

Parties are required to pay invoices in accordance with payment terms set out in the SEC, being the later of five working days from the date of invoice and eight working days following the end of the month to which the invoice relates. This is closely monitored for both liquidity and compliance purposes. Average debtor days did not increase above the expected level of five days during the year.

After receipt of cash from parties we aim for payments to our suppliers to be made within their contractual terms, which can range up to 30 days. The average cash conversion cycle during the year was 23 days (2016: 25 days).

Our business strategy

In line with our General Objectives[2] and the expectations of the energy industry and government, our unequivocal focus is the implementation of the DCC Services and infrastructure to enable the roll-out of smart meters. Alongside this, we must identify, create and respond to opportunities to improve, develop and widen DCC Services in order to provide further benefit to consumers and the energy industry.

Our strategic priorities and our approach to achieving them are included in our Business Plan[3], which requires DCC to focus on the following priorities over the next four-year planning period:

- completing the implementation of the smart meter communication service, scaling a reliable live service to support the roll-out of smart meters and being responsive to solve any issues;
- establishing the enduring model for delivering change to the live service, to help realise the industry transformation made possible by smart meters; and
- increasing our level of engagement with Users to understand evolving requirements and to increase the level of stakeholder involvement in decisions.

It is also important that we continue to build DCC's expertise and core capabilities over the coming years, including:

- our knowledge of the real-life capabilities and performance of the live service;

2 Smart Meter Communication Licence – Condition 5. General Objectives of the Licensee
3 www.smartdcc.co.uk/about-dcc/business-plan/ - January 2017

- our ability to successfully deliver change in a multiple programme environment; and
- our ability to provide increasing value for money for our Users and the consumer, as we exploit the capabilities of the infrastructure.

To deliver on our priorities we have developed a portfolio of programmes that covers roll-out, service improvement, enabling energy industry transformation and the considered diversification of DCC Services. To execute these priorities, we are building a central strategic development capability to manage development and improvement across the delivery lifecycle.

Achieving our strategic priorities

We will deliver our strategic priorities through our efficient and goal focused business model. The priorities of this model are:

Strong leadership and management

Our strategy and business model are driven by our Board, working in partnership with the executive management team, who are best placed to understand the risks and challenges that face our business and how best to mitigate and manage them. We believe that management set the tone for the rest of the Company and recognise that their knowledge and understanding is absolutely key to shaping the skillset of the rest of the workforce.

Sourcing the best resources and capability

Our business and service can only be as good as the people we employ. We are therefore resolute in nurturing the best talent. We do this through continuous learning and training, regularly inviting guests from industry and other businesses to participate in workshops and presentations to keep our teams fully up-to-date with current developments and issues.

Development of important external relationships

We recognise that maintaining strong relationships with industry, the regulator and Government is the best way for us to deliver maximum efficiency for the consumer. We achieve this in a variety of ways. We engage with senior personnel from industry, Government and the regulator through Transitional Governance meetings such as the Smart Metering Delivery Group, Implementation Managers Forum and the Technical Business and Design Group. We host a number of technical groups such as the Design Release Forum, Service Management Design Forum and the Communications Hub and SM-WAN Forum where we work in partnership with industry to develop technical aspects of the programme. Our Industry Partnership Managers manage over 120 industry accounts and we delivered a successful Industry Day and three Independent Supplier Days last year where, we briefed representatives from industry, Government, the regulator and other stakeholders on the progress of the programme and collaborated on common issues and risks. Our extensive engagement work is recognised and valued by many from the wider smart metering programme.

Extensive governance and risk management

We recognise that controlling risk to acceptable levels is central to our success. The Board is responsible for determining the nature and extent of significant risks, as well as the internal control systems to mitigate them. We maintain a strong focus on risk management as we understand that this drives our strategic decision making process. The risk management process is led in the first instance by the Board who ensure that our governance, processes, controls and risk management strategies are effective, with the Audit Committee advising the Board on governance, risk management and internal control.

Future developments

Our priority is managing the implementation of the service and the scaling of operations to support the mass roll-out of meters to domestic properties and non-domestic sites by 2020.

Alongside this, we are managing a portfolio of new programmes which will maximise the number of consumers who stand to benefit from smart meters and radically change the way consumers interact with their energy supplier. These include:

- delivery of a programme to Enrol and Adopt SMETS1 meters into the DCC service. We have developed, consulted on and delivered the Initial Enrolment and Adoption Feasibility Report as required by the Smart Energy Code in May 2017. We currently expect that migration of SMETS1 meters to the new service will be underway in 2018;

- introduction of a dual band communications hub which will increase the range of the Home Area Network. During the year we initiated an impact assessment with our Service Providers for the provision of a dual band communications hub and are expecting to introduce it in 2018; and

- implementation and operation of a Centralised Registration Service which will enable delivery of reliable next-day switching. Ofgem has concluded that activity to design and procure a Centralised Registration Service should form part of DCC's Mandatory Business. During 2016/17 DCC produced the baselined DCC Switching Business Case, which sets out DCC's forecast activities and costs and margin. DCC will report its actual and forecast costs to Ofgem throughout each regulatory year and will justify its expenditure on the programme through its annual ex-post Price Control reporting.

Principal risks and uncertainties

Our Risk Management Strategy consists of identifying and managing risks to objectives across the full range of our operations. Strategic risks that have been identified are reviewed regularly by the Board. The most significant strategic risks are summarised in table 1:

Risk	Assessment of change in risk since inception	Mitigation of risk
Solution Delivery		
The Company is currently in a programme phase of the SMETS2 solution delivery, working through a number of release phases, with the delivery of a sustainable and secure solution that can be rolled out at scale being the fundamental driver to success. In addition to commercial penalties, failure to deliver would have a significant adverse reputational impact.	DCC Live was achieved in November 2016, with Release 1.3 delivering prepaid functionality in RY 2017/18. Further releases are currently scheduled, including the availability of Dual band communications hubs, which will be an essential element in meeting programme availability targets.	• The Company is structured to support both the programme and the enduring phases of service delivery. A fully resourced programme management function is in place to oversee the programme phase. • Stakeholders are consulted on a regular basis through dedicated industry, regulatory and commercial teams to ensure that issues are identified and addressed. • DCC is ISO27001 accredited and the design, build and test of the solution has been reviewed by a Competent Independent Organisation.
In addition to the SMETS2 solution delivery programme DCC is involved in additional programmes, the effective delivery of which are critical to the delivery of the wider SMIP goals	The nature of the risks has not changed, but the programmes are at a more advanced stage this regulatory year.	• The Company has evolved into a multi-programme delivery organisation
Third Party Dependence		
The Company's success is dependent on the achievements of its Service Providers. If a Service Provider fails to deliver then the Company may not meet its objectives.	There has been no significant change in the nature of the dependencies during the year for the SMETS2 programme.	• Dedicated commercial and programme resources are in place to manage the contractual relationships with Service Providers. • The Company continues to invest in maintaining strong collaborative relationships with Service Providers.
Regulation		
Over the life of the programme, and the subsequent enduring operation there may be changes to the business context of the SMIP. These may arise from changes to Government policy.	There has been no significant change in the political or regulatory environment relating to SMIP during the year.	• Dedicated industry and regulatory teams are in place. • Smart Metering aligns with stated policy goals of the main political parties.
Financial exposure		
There is a risk that the regulator could judge that costs have been incurred inappropriately with financial and reputational consequences for the Company.	The Company has now had three Price Control Assessments and has a more advanced understanding of the regulator's position and requirements.	• Regular reinforcement of economic and efficient requirements by the DCC Executive Board and the DCC Board. • Robust change control and benchmarking processes • Ongoing engagement with the regulator.
Licence Compliance		
The Company provides services due to its position as the Licence holder and, as such, has a commitment to meeting all requirements of the Licence. If breaches of the Licence occur then sanctions, including the removal of the Licence could be enforced by the regulator.	Through ongoing engagement, the Company has been able to develop its understanding of the regulators' expectations and requirements. No additional areas of risk have been identified.	• The Company has developed an Internal Control environment and Risk Management strategy that includes controls to ensure compliance with Licence provisions. • Ongoing review of controls and reporting to the Board of any exceptions identified.

Table 1 Significant Strategic Risks

Future Viability

In accordance with provision C.2.2 of the 2014 revision to the Corporate Governance Code, the Directors have assessed the prospects of the Company over a four year period, rather than the 12 months required by the 'Going Concern' provision. The four year period for review was selected for the following reasons:

i. The Company is required to publish charging statements, indicative charging statements and budgets for a period of four years from the end of the regulatory year

ii. This period is well within the dates of the Licence term (currently 2025)

iii. The Company's business plan covers a four year period

The business plan considers the progress of programme delivery and roll-out of the DCC service. The charging statement and budget process requires DCC to review its ongoing activities and future plans, supported by a monthly review of internal activities and ongoing review of external Service Provider activities. These are the basis for the charges to be recovered from Service Users. In addition to cost identification, DCC is able to make adjustments to the charges that mitigate the risk of under-recovery of charges for prior years (correction factor), and ensuring that DCC remains cash positive (Prudent Estimate). The Company's Licence allows the recovery of all costs that are efficiently and economically incurred.

The Directors confirm that their assessment of the principal risks facing the Company set out above to be robust. Based on this assessment, and providing that the Company can satisfy Ofgem that its costs have been incurred economically and efficiently, and that the smart metering programme is not cancelled, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to March 2021.

Employees, environmental and social issues

At the end of the year, the number of employees of the Company in continuing operations (including Directors and Senior Managers) was as follows:

	Female	Male
Directors	-	6
Senior management	2	4
Employees	98	158

Information regarding environmental matters, employees, and social, community, and human rights issues has not been included in this report as they are not necessary for the understanding of the development, performance, or position of our business in this reporting period. In general the Company follows the policies of the parent company.

Going concern basis

The Notes to the financial statements describe how the Board manages financial risks, in particular liquidity, to ensure adequate resources for the continuation of the business. The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. At the same time as the approval and signing of this Annual Report they have approved a certificate of financial resources, as required by the Licence, which confirms that the Directors have a reasonable expectation that the Company will have sufficient financial resources and financial facilities available to itself to carry on operations for a period of 12 months from the date of the certificate. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and accounts.

On behalf of the board

Richard McCarthy CBE
Chairman

6 July 2017

Corporate Governance Statement

Compliance with the Code

The Company is required by its Licence to include within both its Statutory and Regulatory Annual Reports a corporate governance statement which describes how the main principles of the UK Corporate Governance Code[4] (the 'Code') have been applied, and is comparable to the statement a quoted company is required to prepare. We have applied the principles of the Code applicable to a company outside of the FTSE 350.

As a subsidiary of Capita, the Company operates according to the corporate governance framework of Capita and maintains its own governance arrangements where necessary.

With regard to disclosures within this statement Ofgem has granted consent for exclusion in the following area:

- Re-election of the Board, Code provisions B.7.1 to B.7.2
- Greenhouse gas emissions disclosure in the Directors' report
- The Company's capital structure in the Directors' report
- The Directors' Remuneration Report (in its entirety)

The Company is not compliant with the following areas of the Code:

Code Provison	Area of non-compliance
B.2 (1-4)	The Company has not appointed a Nomination Committee, as Board appointments are conducted in accordance with Capita policy and Licence conditions. Additionally, neither an external search agency nor open advertising were used in the appointment of Mr Hemming, as he was appointed in accordance with Capita policy as a non-independent, Non-Executive Director.
B.3.2	The terms and conditions of appointment for the non-independent Non-Executive Directors are not available at the Company's registered office, since these are set out in their employment contracts with Capita.
C.3.1	The Code provides that the Board should establish an Audit Committee of at least three, or in the case of smaller companies two, independent non-executive Directors. . In addition, Disclosure, Guidance and Transparency Rule 7.1.1 sets out that the majority of the Audit Committee should be independent. However, the membership of the Committee, which consists of two independent and two non-independent members, is considered suitable for the nature and size of the business and will be reviewed on a regular basis.
D.1.1	The Remuneration Committee has discussed the recommendation of the Code to include provisions that would enable the Company to recover sums paid or withhold the payment of any sum, and determined that it did not seem appropriate, given the nature of the Company and its activities.
D.2.1 and D2.2	The Chairman of the Board, a non-independent Non-Executive Director, is also the Chairman of the Remuneration Committee. The arrangement is considered suitable for the nature and size of the business. The arrangement will be reviewed on a regular basis. Furthermore, the Remuneration Committee does not determine the Chairman's remuneration, because, as a Non-Executive Director who is employed by Capita, he does not receive additional remuneration for his role on the Board.
E.2 (1-4)	The Company does not hold General Meetings since the Company has only one shareholder, Capita.

4 The UK Corporate Governance Code, September 2014 – www.frc.org.uk

Leadership

The Role of the Board

The role of the Board is set out in the Company's Board and Governance Manual, which has been adopted by the Board and is reviewed annually. The Board is responsible for monitoring the effectiveness of the day to day operation and management of the Company's compliance with the Licence, including ensuring that the independence requirements are met. The Company is governed by a Board of six Directors (increased from five in RY 2015/16, with the appointment of the new Finance and Commercial Director to the Board). Four of the Directors are Non-Executive Directors. Two of these Non-Executive Directors are considered to be Sufficiently Independent as defined by the Licence and Independent in accordance with the Code. Meetings are chaired by the Chairman, who sets the agenda, and are convened on at least a quarterly basis.

The following matters are reserved for the Board:

- Providing leadership for the Company within a framework of effective controls which will enable risk to be assessed, monitored and managed;
- Approving the Company's internal control and risk management systems;
- Setting strategic aims for the Company, and ensuring that it has the necessary financial and human resources to meet its objectives;
- Reviewing the Company's financial stability and governance arrangements;
- Reviewing management performance and providing guidance on the Company's values and standards;
- Reviewing the Company's compliance report as required by the Licence and Annual Report produced by the Compliance Officer;
- Reviewing and approving certificates for Ofgem, ensuring that the Company is compliant with its Licence and that it has the adequate financial and operating resources; and
- Approving the Company's Statutory and Regulatory Annual Reports.

Meetings

The attendance at Board and Committee meetings by the Directors and Committee members, expressed as a number of meetings attended out of a number eligible to attend, are shown in table 2. Jonathan Simcock, Stephen Sharp, Angus Flett and David Brown are not members of the Audit Committee or the Remuneration Committee. Nicolas Bedford is not a Director, but is a member of the Audit Committee.

Name	Board Meetings	Audit Committee	Remuneration Committee
Richard McCarthy (Chairman of Board and Remuneration Committee and Non-Executive Director)	12 of 12	2 of 2	2 of 2
Philip Male (Senior Independent Non-Executive Director)	11 of 12	2 of 2	2 of 2
William Rickett (Chairman of Audit Committee and Independent Non-Executive Director)	12 of 12	2 of 2	2 of 2
Stephen Sharp (Non-Executive Director, resigned 31 January 2017)	8 of 10	N/A	N/A
Joe Hemming (Non-Executive Director, appointed 31 January 2017)	2 of 2	N/A	N/A
Nicolas Bedford	N/A	2 of 2	N/A
Jonathan Simcock (Executive Director, resigned 28 February 2017)	11 of 11	N/A	N/A
Angus Flett (Executive Director, appointed 28 February 2017)	1 of 1	N/A	N/A
David Brown (Executive Director, appointed 28 September 2016)	5 of 5	N/A	N/A

Table 2 - Attendance at Board and Board Committees

Insurance

The Company has arranged appropriate indemnity insurance cover for its Directors and Officers.

Division of Responsibilities

The Board sets the tone for the Company and the atmosphere within which the senior management team operates through the DCC Executive Board. The Board therefore ensures that the way in which it conducts itself, its attitude to ethical matters, its definition of success and how its risk appetite is defined are all clearly communicated to management via meetings.

The DCC Executive Board is required to provide such information to the Board as needed to enable it to exercise its judgement over the matters reserved for it.

The Company's operating model is to maintain its own financial operations, management and reporting functions, with additional financial systems and administrative support provided by Capita through an internal trading arrangement. Operational and financial performance is reviewed on a monthly basis.

Company Secretarial support, provided by Capita, is available to Directors as required.

Non-Executive Directors

Philip Male has been appointed as the Senior Independent Non-Executive Director and he is available to serve as an intermediary for those Directors who do not wish to approach the Chairman directly.

Effectiveness

Composition of the Board

The initial appointments were managed through Capita's appointment process, subject to the Licence requirement that at least two of the persons at any time appointed as Directors must be Sufficiently Independent from the Company and any affiliates or related parties. The arrangement also ensures that the Board has the appropriate balance of skills, experience, independence, and knowledge of the Company to enable them to discharge their respective duties and responsibilities effectively. The appointments of the independent Non-Executive Directors are subject to Letters of Appointment. These are reviewed by representatives of the shareholder on an annual basis. The appointments of the non-independent Non-Executive Directors have regard to the terms of their employment contract with Capita. Capita ensures that the non-independent Non-Executive Directors' roles are structured to enable them to devote sufficient time to meet what is expected from them in relation to their duties for the Company.

Appointments to the Board

The Code provisions B.2 (1-4) require the Company to have a Nomination Committee in place to lead the process for all Board Appointments. The Company does not comply with these provisions of the Code. Board appointments are conducted in accordance with Capita policy and Licence requirements. While the benefits of diversity, including gender, will be taken into account in Board appointments, the overriding priority should be appointment on merit. Due to the size and nature of the Company the appointment of a Nomination Committee would not be appropriate.

During the year, following rigorous recruitment processes a new Managing Director (Angus Flett), Finance and Commercial Director (David Brown) and Non-Executive Director (Joe Hemming), were appointed following the resignations of the previous incumbents. Mr Flett was appointed to the Board with effect from 28 February 2017 and Mr Hemming was appointed to the Board with effect from 31 January 2017. The Board considered that the new Finance and Commercial Director should become an Executive Director on the Board and this appointment was duly made, effective 28 September 2016. Drax Recruitment Consultants were engaged in relation to the Managing Director and the Finance and Commercial Director recruitment process. The Company has no other connection with this agency. Neither an external search agency nor open advertising were used in the appointment of Mr Hemming, as he was appointed in accordance with Capita policy as a non-independent, Non-Executive Director.

Commitment

In the absence of a Nomination Committee, the Capita appointment process ensures that the Chairman, Executive Directors and Non-Executive Directors have the appropriate availability to undertake their respective roles satisfactorily. The appointment process also ensures that the Executive Directors have not taken on more than one Non-Executive Directorship or Chairmanship of a FTSE 100 company. The Chairman also holds the following positions: Director of Company of Dreams Limited, Director of The National Communities Resource Centre Limited, Director of Funding Affordable Homesited, Director of FERA Science Limited, Director of Capita Property and Infrastructure (Structures) Limited and Director of Civitas Housing Advisors Limited. During the year the Chairman notified to the Board his additional directorships for FERA Science Limited and Civitas Housing Advisors Limited. He confirmed that following these appointments he continued to have appropriate availability to undertake his role satisfactorily. The Board regularly reviews any conflicts of interest which are likely to affect, or could appear to affect a Director's judgement.

The terms and conditions of appointment of the Non-Executive Directors are available for inspection at the Company's registered office. Since the terms and conditions of appointment of the non-independent Non-Executive Directors are set out in their employment contract with Capita, these are not available for inspection at the Company's registered office.

Development

Board members receive an induction on joining the Board and have the opportunity to discuss with the Chairman any training and development needs and the Chairman regularly reviews Directors' development and training needs through the annual Board evaluation. The Board is aware that it needs to continually monitor and improve performance and recognises this can be achieved through a Board evaluation, conducted on an annual basis, the format of which is determined by the Board.

Information and Support

All the Company's Directors are able to obtain independent professional advice at the Company's expense and have access to the services of the Company Secretary. This ensures that the Board have sufficient resources available to undertake their duties satisfactorily.

Evaluation of the Board

A meeting was held in June 2017 between the Senior Independent Non-Executive Director, the other Independent Non-Executive Director and the Chairman. Amongst other matters, the performance of the Executive Directors was discussed and deemed satisfactory.

During the year a Board Evaluation Questionnaire was circulated to all Directors which, amongst other matters, included sections on the performance of the Chairman, the Board and its committees and individual Director's self-evaluation. An executive summary of the findings was provided to all Directors at the Board Meeting on 28 March 2017. The evaluation indicated that all Directors continued to contribute effectively and demonstrated commitment to the role. As a result of the evaluation, the Board identified additional areas of focus for future training and Board meeting agenda. As part of the evaluation, the review of the Chairman was positive. The Non-Executive Directors also met without the Chairman present and, among other things, deemed that the performance of the Chairman was deemed satisfactory.

Accountability

Financial and Business Reporting

The Directors are responsible for the preparation of the Annual Report and accounts and have done so on the basis that the Company is a going concern. In this respect, the Company does not have any material uncertainties to the Company's ability to continue over a period of at least twelve months from the date of approval of the financial statements. The Directors have also assessed the prospects of the Company over a four year period and have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to March 2021. Further detail about the assessment is set out in the Strategic Report on page 19. As part of the Annual Report, the Directors are also required to provide commentary on the Company's business model and strategy. Further information to this effect can be found in the Statement of Directors' Responsibilities on page 31 and in the Strategic Report (pages 9 to 19).

Risk Management and Internal Control

The Board, supported by the Audit Committee, is responsible for determining the nature and extent of the principal risks that are appropriate for the operations of the Company, the risk management and internal control systems that mitigate these risks, and for monitoring the effectiveness of these on an ongoing basis. These risks are considered in more detail in the Strategic Report on page 18. The system is designed to manage, rather than eliminate, the risk of failure to achieve the business objectives and is not absolute assurance against material misstatement or loss.

The most recent versions of the Company's Risk Management Strategy and Internal Control Documents are available on our website www.smartdcc.co.uk. The Risk Management Strategy includes the ongoing process for identifying, evaluating, and managing the significant risks faced by the Company, and the Internal Control Document defines the governance and organisation structures that support the DCC Internal Control Framework.

Risks to programme delivery, meeting Licence obligations, and other governance requirements are reviewed by the Board regularly. A process of risk review has been in place during the year and at the date of approval of the Annual Report. It includes a review of risks considered strategic to the Company as the Licensee, and the risks to the delivery of the programme.

The effectiveness of the DCC Internal Control Framework is assessed throughout the year by the Board through both a regular cycle of evaluation and reporting, utilising DCC's business assurance capability.

A full review of the risk management and internal control system was conducted on 13 December 2016 and 25 April 2017 by the Audit Committee and no significant failings or weaknesses were identified. This was summarised from the ongoing evaluation activities performed throughout the year. The Board also carried out its own review of all material controls, including financial, operational and compliance.

The Board note that the structure of DCC's Risk Management Strategy and Internal Control Framework will continue to evolve as the Company matures, and as it moves from primarily a programme assurance to a service delivery environment.

Audit Committee

The Board has appointed an Audit Committee to oversee the relationship with the Company's auditor, in addition to advising the Board on risk management and internal control. Provision C.3.1 of the Code requires the Audit Committee to consist of at least two independent Non-Executive Directors. On 27 May 2015, Nicolas Bedford was appointed a member of the Audit Committee and fulfils the requirement for a member of the Committee to have recent and relevant financial experience. The remaining members are the two independent Non-Executive Directors and the Chairman. The make-up of the Committee is considered to be suitable for the size and nature of the Company. The adequacy of this arrangement continues to be reviewed on an ongoing basis.

Full details of the Committee's duties are detailed in the Audit Committee Report on page 27.

Compliance Officer

As per Condition 12 of the Licence, the Company has appointed a Compliance Officer (Deloitte LLP). The role of the Compliance Officer is to:

- Provide relevant advice and information to facilitate the Company's compliance with the Licence's arrangements for the Licensee's independence;
- Monitor the effectiveness of the Company's practices, procedures and systems in accordance with the Compliance Statement required under Part C of Licence Condition 10 (Protection of Confidential Information) and provide relevant advice and information;
- Advise whether, to the extent that the implementation of the above practices, procedures and systems requires the co-operation of any other person, they are designed so as reasonably to allow the required co-operation;
- Investigate any complaint or representation that is made and recommend remedial actions where required; and
- Produce an Annual Report that will be issued to the Company's Board setting out an opinion on the Company's compliance for the year and summarising the Compliance Officer's activities during the year.

On 7 June 2017, Deloitte LLP published the 'Independent Compliance Officer's Annual Report to the Licensee's Directors'. The report concluded that in all material aspects, the Company had complied with all relevant Licence Conditions for the year ended 31 March 2017.

Renumeration

The Remuneration Committee consists of Richard McCarthy (Chairman) and the two independent Non-Executive Directors. It is responsible for reviewing and advising Capita on setting the remuneration for all Executive Directors including pension rights and compensation payments. The Remuneration Committee has previously discussed the recommendation of the Code to include provisions that would enable the Company to recover sums paid or withhold the payment of any sum, and determined that did not seem appropriate, given the nature of the Companies and its activities. Capita, in its capacity as the Parent Company, has the final say in determining the remuneration policy.

The Remuneration Committee also recommends and monitors the structure of remuneration for other designated senior management, including bonuses and incentive payments, with approval from Capita.

The remuneration of the Independent Non-Executive Directors consists of fees and reasonable expenses, in accordance with the Licence requirement. These are reviewed on an annual basis by representatives of the shareholder, Capita, as this is deemed appropriate given the nature of the Company. It does not include share options or other performance-related elements. Non-Executive Directors who are employees of Capita do not receive additional remuneration for their roles on the Board.

The Remuneration Committee will also recommend and agree the design of any payment related performance pay schemes for the Company with Capita and jointly approve the total annual payments made under such schemes to staff.

The terms of reference for the Remuneration Committee can be found on the Company's website (www.smartdcc.co.uk/about-dcc/governance/) in compliance with Code provision D.2.1.

Relations with Shareholders

Section E of the Code requires the Company to demonstrate that there has been a satisfactory dialogue maintained with shareholders during the year. The Company has only one shareholder (Capita), and as a result, does not hold Annual General Meetings or undertake shareholder voting. However a Capita representative is present on the Board and consequently and, an ongoing dialogue is maintained with Capita through Board meetings, including by the Non-Executive Directors. More informal communication with Capita is undertaken on an ad-hoc basis when it is required.

Audit Committee Report

The purpose of the Audit Committee (the 'Committee') is to assist the Board in the effective discharge of its responsibilities for financial and regulatory reporting and for internal control and risk management. The Committee acts independently of the Executive management of the Company, and seeks to safeguard the interests of the Company by:

- Monitoring the integrity of the financial statements of the Company (including the Statutory and Regulatory Annual Reports) and reviewing any significant financial reporting judgements contained within them;
- Reviewing the Company's financial controls, internal controls and risk management systems;
- Monitoring and reviewing the effectiveness of the Company's internal assurance activities, reviewing work undertaken by the Capita Group Internal Audit function in respect of the Company and monitoring the requirement for the Company to have its own internal audit function.
- Making recommendations to the Company's Board in relation to the appointment, re-appointment and removal of the Statutory auditor (the 'auditor') and approving the remuneration and terms of engagement of the auditor;
- Reviewing and monitoring the auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements; and
- Reporting to the Board on how it has discharged its responsibilities.

The Committee is chaired by William Rickett (Independent Non-Executive Director) and its other members are Nicolas Bedford (non-independent, Non-Executive member of the Audit Committee who is not a Director) holding relevant finance experience, Philip Male (Independent Non-Executive Director) and Richard McCarthy (non-independent, Non-Executive Director/Chairman of the Board). The Committee considers that, as a whole, it has competence relevant to the sector in which the Company operates.

Committee meetings

The Committee met formally on 28 June 2017 to review the Company's draft Annual Report and accounts, its internal controls and risk management systems and its compliance with its Licence and other regulatory requirements. The Committee also met on 13 December 2016 to review the external audit strategy, and receive an update on risk management/internal control. It also met on 25 April 2017 to review the assurance plan for RY 2017/18, viability reporting in the Annual Report and internal audit provision. Members' attendance at the meetings is set out on page 22. The terms of reference for the Audit Committee can be found on the Company's website (www.smartdcc.co.uk/about-dcc/governance/) in compliance with provision C.3.3 of the Corporate Governance Code.

Meetings continue to be planned around the financial calendar of the Company to undertake the following activities:

Internal Controls and Risk

- Review the adequacy and security of the Company's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters, ensuring that the arrangements allow proportionate and independent investigation of such matters and appropriate follow up action;
- Review and monitor the internal controls that are operated by management to ensure the integrity of information reported to shareholders and other key stakeholders;
- Review the risk management framework to ensure it supports the development of the business;
- Meet with the Head of Risk and Internal Control to discuss key risks within the business and its management; and
- Review the Annual Report from the Compliance Officer which provides an opinion on the Company's compliance with Licence Conditions 9, 10, and 11.

External auditor

- Consider and approve the audit approach and the scope of the audit to be undertaken by the auditor;
- Meet the auditor independently of the Executive Directors;
- Receive the report from the auditor on the audit findings;
- Consider the level of non-audit services being provided by the auditor to ensure that the objectivity and independence of the auditor is safeguarded; and
- Review and approve the management representation letter required by the auditor.

Accounting and financial reporting

- Review the Annual Report and accounts, including the significant accounting policies, and make recommendations to ensure the accounts give a fair, balanced and understandable presentation of the performance of the Company; and
- Review the disclosures on internal controls, risk management and principal risks and uncertainties within the report and accounts.

Significant issues considered by the Audit Committee

The significant issues discussed by the Committee during the year were the existence and accuracy of costs incurred by the Company, the accounting treatment for contractual milestones and stage of completion assessment and the state of the Company's compliance with its Licence and other regulatory requirements. The Committee concluded that there had been no material misstatement of costs, that the accounting treatment applied is appropriate and there had been no material breaches of compliance with the Licence or other regulatory requirements.

As a matter of course, the Committee considers all issues raised by the auditor in its report on audit findings. It also reviews any items that individually breach the audit differences threshold set by the auditor. For any such items it assesses their relative impact on the reported statements and decide whether or not they should be adjusted to ensure the report and accounts give a fair, balanced and understandable presentation of the Company's performance.

The Committee will also consider the following:

- areas of judgement, such as provisions and accruals;
- revenue recognition and deferred revenue;

- cash flow and liquidity; and
- working capital.

The Committee will review disclosures around any such material areas and make enquires of the Finance and Commercial Director and management as appropriate to gain an understanding of the amounts recorded and disclosures made.

Statutory auditor

The Committee provides a forum for reporting by the auditor, and it advises the Board on the appointment, independence and objectivity of the auditor and on the remuneration for statutory audit, regulatory audit, and non-audit work. It also discusses the nature, scope, and timing of such work. The Committee annually performs an independent assessment of the suitability and performance of the auditor, through discussing performance with the internal reporting team in making its recommendation to the Board for their re-appointment. The tenure of the current audit firm is three years. An audit tender has not been undertaken since the appointment of the current audit firm in 2013. The performance of the auditor was reviewed at the meeting on 28 June 2017, when the Committee considered the performance of the auditor to be satisfactory and recommended to the Board that the auditor be re-appointed.

Auditor independence

The Committee is committed to ensuring appropriate independence in its relationship with the auditor and the key safeguards are:

- The Finance and Commercial Director monitors the independence of the auditor as part of the assessment of the auditor's effectiveness and reports to the Committee;
- The Finance and Commercial Director routinely benchmarks the level of the audit fee against other comparable companies to ensure ongoing objectivity in the audit process and reports results to the Committee; and
- The Finance and Commercial Director monitors the level and nature of non-audit fees. Specific assignments are discussed in advance with the auditor and flagged for the approval of the Committee as appropriate. The Committee reviews non-audit fees of this nature and considers implications for the objectivity and independence of the relationship with the auditor.

Risk management and internal control

The Committee is responsible for reviewing the effectiveness of the Company's system of internal control, and providing their view to the Board. The Board has established a clear organisational structure with defined authority levels. The day to day running of the business is delegated to the Managing Director of the Company. The Managing Director meets the Company's operational and financial management teams every week. The Managing Director also reports key financial and operational measures at Capita's monthly operating Board meetings.

The risk management and internal control system was reviewed for effectiveness at the Committee's meetings on 13 December 2016, 25 April 2017 and 28 June 2017. At this last meeting, the Committee also reviewed the Company's reporting obligations in accordance with the Licence and received a report on how these have been met.

The Company does not have an independent internal audit function, but is subject to the internal audit scope and resources of Capita and the Executive also reviews and reports to the Audit Committee on the need for external scrutiny and assurance on the management of key risks. There were no internal audits carried out in RY 2016/17.

William Rickett CB
Chairman of the Audit Committee

6 July 2017

Directors' Report

The Directors present their Annual Report on the affairs of the Company, together with the financial statements and the auditor's report for the year ended 31 March 2017. The corporate governance statement and Audit Committee Report set out on pages 20 to 30 forms part of this report.

An indication of likely future developments in the business of the Company is included in the Strategic report. Information about the use of financial instruments by the Company is given in note 2 of the financial statements.

Directors

The Directors who served throughout the year except as noted were as follows:

Richard McCarthy CBE

Philip Male

William Rickett CB

Stephen Sharp
(resigned 31 January 2017)

Joe Hemming
(appointed 31 January 2017)

Jonathan Simcock
(resigned 28 February 2017)

Angus Flett
(appointed 28 February 2017)

David Brown
(appointed 28 September 2016)

Dividend

The Directors do not recommend the payment of a dividend.

Political contributions

The Company made no political donations or incurred any political expenditure during the year.

Disclosure of information to auditor

Each of the persons who are a Director at the date of approval of this Directors' report confirm that:

- There is no relevant audit information of which the Company's auditor is unaware; and
- Each Director has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's 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.

A resolution for the re-appointment of KPMG LLP as auditor of the Company will be proposed at the next Audit Committee meeting.

On behalf of the Board,

Richard McCarthy CBE
Chairman

6 July 2017
17 Rochester Row, London, SW1P 1QT

Statement of Directors Responsibilities in respect of the Annual Report and the Financial Statements

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 group and parent company financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable law.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; 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 parent company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Directors have decided to prepare voluntarily a Corporate Governance Statement as if the Company were required to comply with the Listing Rules of the Financial Conduct Authority in relation to those matters.

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

We consider the Annual Report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. In addition, we consider that the Strategic Report includes a fair review of the development and performance of the business and the position of the Company, together with the description of the principal risks and uncertainties.

On behalf of the Board,

Richard McCarthy CBE
Chairman

6 July 2017

Background to Smart DCC

We are a unique player in the transformation of the GB energy market. We are delivering a critical platform on behalf of the energy industry that will secure the implementation and roll-out of smart meters, whilst at the same time bringing focus and capability to the future development and improvement of our services.

We are committed to ensuring the benefits of smart metering are realised, and that the investment in our services will provide value for money for consumers and the energy industry.

Smart meters will operate under regulations contained in the SEC, a multiparty contract which sets out the terms for the provision of our services. Any entity that wishes to use our service is required to become a party to the SEC and comply with its provisions.

How do we add value to our stakeholders?
Our aim is to engage with all of our stakeholders to deliver the programme within the required timescales at an economic and efficient cost. This means working closely with industry, the Government and the regulator.

Value for the consumer
We are committed to providing value for the ultimate consumers.

In the long-term, smart metering will provide consumers with transparency of their energy consumption in monetary terms and in real time. This will allow them to save energy and money, as well as remove the requirement for estimated bills or visits from a meter reader. Switching suppliers will also be much easier and faster, allowing consumers to shop around for the best deal.

The services, with appropriate regulatory reform, will provide consumers with more control over how much energy they use and at what times of the day. This change in consumer behaviour will give the operators of the electricity system more flexibility to manage the variations in supply caused by intermittent renewable generation.

Value for Service Users of our services
Energy suppliers
Through the service we provide and their own investments in smart metering systems, energy suppliers can transform their relationship with their customers and save money in the management of their meters.

Network operators
Our service will support network operators as they work towards smart grids which will support a more sustainable energy supply system.

Authorised third parties
Consumers will have the option to allow other organisations to have access to the data from their smart meter to provide them with valuable products and services. For example, energy switching sites could use accurate information on the amount of energy used to advise consumers on the best tariff and energy supplier.

Delivery for Great Britain
In the longer term our services will provide opportunities to access a secure, national data and communications infrastructure designed specifically for an increasingly smarter world that can be used by other industry sectors for the benefit of the whole country.

Independent Auditor's report to the Director General, Ofgem ('the Regulator') and the directors of Smart DCC Limited

We have audited the Regulatory Accounts of Smart DCC Limited ('the company') for the year ended 31 March 2017 which comprise the Statement of Profit or Loss and Other Comprehensive income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes to the Regulatory Accounts. The financial reporting framework that has been applied in their preparation is Condition 30 of the Company's Regulatory Licence and the accounting policies set out therein.

This report is made, on terms that have been agreed, solely to the company and the Regulator in order to meet the requirements of the Regulatory Licence. Our audit work has been undertaken so that we might state to the company and the Regulator those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under the Regulatory Licence to procure such a report and (b) to facilitate the carrying out by the Regulator of its regulatory functions, 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 Regulator, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of the Directors and Auditor

As explained more fully in the Directors' Responsibility Statement set out on page 31, the directors are responsible for the preparation of the Regulatory Accounts.

Our responsibility is to audit and express an opinion on the Regulatory Accounts in accordance with International Standards on Auditing (UK and Ireland), except as stated in the 'Scope of the audit of the Regulatory Accounts' section below and having regard to the guidance contained in ICAEW Technical Release TECH 02/16AAF Reporting to regulators on regulatory accounts. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Regulatory Accounts

An audit involves obtaining evidence about the amounts and disclosures in the Regulatory Accounts sufficient to give reasonable assurance that the Regulatory Accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed and the reasonableness of significant accounting estimates made by the directors.

In addition, we read all the financial and non-financial information in the Regulatory Accounts to identify material inconsistencies with the audited Regulatory Accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent misstatements or inconsistencies we consider the implications for our report.

We have not assessed whether the accounting policies are appropriate to the circumstances of the company where these are laid down by Condition 30 of the Regulatory Licence as set out by the Regulator. Where Condition 30 of the Regulatory Licence does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Regulatory Accounts are consistent with those used in the preparation of the statutory financial statements of the company. Furthermore, as the nature, form and content of Regulatory Accounts are determined by the Regulator, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK and Ireland).

Opinion on Regulatory Accounts

In our opinion the Regulatory Accounts have been properly prepared in accordance with Condition 30 of the Company's Regulatory Licence and the accounting policies set out therein.

Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risk of material misstatement that had the greatest effect on our audit was as follows (unchanged from 2016):

	The risk	Our response
Existence and accuracy of costs incurred and revenue recognition £347.6 million 2016: £301.1 million. Risk vs 2016: ◀▶ Refer to page 27 (Audit Committee Report), Statement of Profit or Loss and Other Comprehensive Income), and note 2 of the financial statements	**Existence and accuracy of costs incurred and revenue recognition** **Accounting application** The Company is required to operate in accordance with the terms of the Smart Meter Communication Licence (the Licence) which permits it to recharge certain costs to Service Users. Service Users are the organisations who will be given permission to interface with the communication hubs and access data available through smart meters. **Processing error** Therefore, the amount of total costs recognised in the accounts for the period and whether they are permitted to be recharged under the terms of the Licence directly determines the amount of revenue recognised and other material balances in the financial statements. As such there is a risk that if costs are not accurately recorded within the financial statements, revenue would also be misstated. **Subjective estimate** Certain costs incurred by the Company are charged by Service Providers, who are companies contracted to provide services to Smart DCC, based on the achievement of milestones. The Company recognises these costs based on its estimate of the stage of completion of each milestone. The Company exercises judgment when making these estimates and therefore there is a risk that they do not represent the actual stage of completion leading to an understatement or overstatement of costs.	**Tests of details** • agreeing the amounts recorded for a sample of costs incurred and identified as chargeable to Service Users, using a statistical method of sampling, to source documentation (for example, invoices and contracts), in order to establish, whether the amounts were accurately recorded; • inspecting the invoices and contracts supporting the sample of costs selected and challenging whether they were consistent in nature with the provision of services under the Licence, based on Smart DCC's charging framework, and therefore could be recharged to service users; • where contractual milestones have been achieved by service providers during the year, we selected a statistical sample of milestone achievements to evaluate if costs had been appropriately recognised. For all items in our statistical sample we inspected the terms and conditions of the relevant contract, payment request of the service provider, and the milestone completion certificated issued by Smart DCC **Assessing transparency** • We considered the appropriateness of the accounting policies and adequacy of disclosures within the financial statements in relation to costs incurred. **Tests of details** • where cost accruals have been made for milestones that are in progress but not yet achieved, assessing the existence and accuracy of a statistical sample of the costs accrued by: i. obtaining the stage of completion estimate prepared by Smart DCC and comparing it to confirmations of progress provided by the Service Providers to Smart DCC, investigating any significant differences; and ii. comparing the total estimated value of the milestone to the contract or impact assessment.

Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £6,750,000 (2016: £6,000,000), determined with reference to a benchmark of revenue, of which it represents 1.9% (2016: 2%). We consider revenue to be more appropriate than a profit-based benchmark given that the company has been set up not to generate a profit.

We report to the audit committee any corrected or uncorrected identified misstatements exceeding £340,000 (2016: £300,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

We applied a lower materiality to administrative expenses as 49% (2016: 55%) of this balance relates to services procured from the parent company. We considered that the users of the financial statements, particularly Service Users, were likely to be concerned that expenses paid to the parent company had not been overstated.

The materiality for administrative expenses was set at £850,000, (2016: £800,000) determined with reference to a benchmark of administrative expenses, of which it represents 2% (2016: 2%). We report to the audit committee any corrected or uncorrected identified misstatements relating to administrative expenses exceeding £43,000 (2016: £40,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the company was undertaken to the materiality levels specified above and was performed at the company's head office in London.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where under ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report including the Regulatory Financial Statements for the year ended 31 March 2017 is:

- Materially inconsistent with the information in the audited financial statements; or
- Apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- Otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the Annual Report including the Regulatory Financial Statements for the year ended 31 March 2017 are fair, balanced and understandable and whether the Annual Report including the Regulatory Financial Statements for the year ended 31 March 2017 appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed.

Other matters

Our opinion on the Regulatory Accounts is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2017 on which we reported on 6 July 2017, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our 'Statutory audit') was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

George Richards
Senior Statutory Auditor

for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

6 July 2017

Financial Statements

Statement of Profit or Loss and Other Comprehensive Income

	Note	Year Ended 31 March 2017	Year Ended 31 March 2016
		£'000	**£'000**
Revenue	3	347,632	301,074
Cost of sales	5	(304,825)	(269,968)
Gross profit		**42,807**	**31,106**
Administrative expenses	6	(42,417)	(30,697)
Operating profit		**390**	**409**
Interest received		-	-
Finance costs		(390)	(409)
Profit before tax		**-**	**-**
Tax	9	-	-
Result for the year		**-**	**-**
Other comprehensive income for the year		**-**	**-**
Total comprehensive income for the year attributable to the owners of the Company		**-**	**-**

Notes on pages 41 to 51 form an integral part of these financial statements.

Statement of Financial Position

	Note	31 March 2017	31 March 2016
		£'000	**£'000**
Non-current assets Unbilled revenues in respect of milestones (>12 months)	10	220,669	205,653
Current assets Trade and other receivables	11	141,898	48,192
Cash and bank balances		43,212	25,351
		185,110	**73,543**
Total assets		**405,779**	**279,196**
Current liabilities			
Trade and other payables	12	142,350	58,548
Deferred revenue		42,760	14,995
		185,110	**73,543**
Non-current liabilities Service Provider payables in respect of milestones (>12 months)	10	220,669	205,653
		405,779	**279,196**
Net assets		-	-
Equity		-	-
Share capital	14	-	-
Retained earnings		-	-
Total equity		**-**	**-**

Notes on pages 41 to 51 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 28 June 2017. They were signed on 6 July 2017 on its behalf by:

Richard McCarthy CBE,
Chairman

Smart DCC Limited Company registered number: 8641679

Statement of Changes in Equity

	Share Capital	Retained Earnings	Total Equity
	£'000	£'000	£'000
Movement from 1 April 2015	-	-	-
Balance at 1 April 2016	-	-	-
Profit for the year	-	-	-
Other comprehensive income for the year	-	-	-
Total comprehensive income for the year	**-**	**-**	**-**
Balance at 31 March 2017	-	-	-
Balance at 31 March 2016	-	-	-

Notes on pages 41 to 51 form an integral part of these financial statements.

Statement of Cash Flows

	Note	Year Ended 31 March 2017	Year Ended 31 March 2016
		£'000	£'000
Net cash flows from operating activities	16	18,251	7,661
Net cash flows used in investing activities		-	-
Net cash flows from financing activities		(390)	(409)
Net increase in cash and cash equivalents		**17,861**	**7,252**
Cash and cash equivalents at beginning of year		25,351	18,099
Cash and cash equivalents at end of year		**43,212**	**25,351**

Cash and cash equivalents at the end of the year are available for use by the Company.

Notes on pages 41 to 51 form an integral part of these financial statements.

Notes to the Financial Statements

1. General Information

Smart DCC Limited is a Company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is 17 Rochester Row, London, SW1P 1QT. The nature of the Company's operations and its principal activities are set out in the Strategic Report on pages 9 to 19, but can be summarised as managing the delivery of services to the Great Britain energy industry that facilitate secure communications between their systems and smart meters.

These financial statements are presented in pounds sterling which is the Company's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

2. Significant Accounting Policies

Basis of accounting

The Company's financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("IFRSs").

The financial statements have been prepared on the historical cost basis. Historical cost is based on the fair value of the consideration given in exchange for goods and services. The significant accounting policies adopted are set out below.

Going concern

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. At the same time as the approval and signing of this Annual Report they have approved a certificate of financial resources, as required by the Licence, which confirms that the Directors have a reasonable expectation that the Company will have sufficient financial resources and financial facilities available to itself to carry on operations for a period of 12 months from the date of the certificate. Accordingly they continue to adopt the going concern basis in preparing the Annual Report and accounts. Further detail is contained in the Strategic report on pages 9 to 19.

Revenue recognition and deferred revenue

Revenue is measured at the fair value of the consideration received or receivable. It represents amounts invoiced to Service Users for services provided by the Company in accordance with the Charging Methodology specified by the SEC. Revenue also includes amounts receivable from Service Users that will be used to pay Service Providers in the future for the value of work they have completed as at the date of the Statement of Financial Position. This includes contractual milestones that had been achieved and an assessment of stage of completion of work against contractual obligations yet to be fully achieved. The maximum amount of revenue that can be recognised is equal to total costs incurred. Any amounts invoiced in excess of costs incurred are recognised as deferred revenue.

With respect to some of the services that Service Users receive Smart DCC is acting as an agent and accounting for the revenue and associated costs accordingly. These services are those where Service Users receive a direct service from the Service Providers and Smart DCC acts as an intermediary to charge Service Users for the cost of the service. Smart DCC does not earn any commission on these services. The amounts owed for the services and the amounts to be recovered from Service Users are recognised in the statement of financial position. No amounts are recognised in the Statement of Profit or Loss.

Charges for communication hubs are paid by Service Users to DCC, who subsequently pay the relevant Communication Service Provider. DCC acts as an agent in this transaction and therefore does not recognise the revenue or cost of sale in regards to these transactions.

Taxation

Tax is recognised in the Statement of Profit or Loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. DCC's operating model is set up so that all costs from Capita match the revenues for the year, which leads to a zero-tax liability.

Recognition of costs for work completed against contracts

Amounts due to Service Providers in respect of work completed against contractual milestones and other contractual obligations are recognised based on the stage of completion of work where this can be reliably estimated. The cost and revenue associated with each milestone or obligation is therefore recognised to the extent that work has been completed. If the stage of completion cannot be reliably estimated the cost and revenue associated with each milestone or obligation is recognised when fully achieved. Finance charges were accounted as part of the cost of sales for the year, as these costs are directly attributable to the revenue and they would not have happened if sales are not made.

Amounts that have been recognised at the date of the Statement of Financial Position, but have not been paid are recognised as a liability; initially at fair value, and then subsequently at amortised cost. Amounts due within 12 months of the date of the Statement of Financial Position are recognised as a current liability. Amounts due after 12 months are recognised as a non-current liability.

Liabilities are recoverable through future charges to Service Users and therefore a corresponding asset is recognised on the Statement of Financial Position.

Financial Instruments

Financial assets and financial liabilities are recognised in the Company's Statement of Financial Position when the Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value.

Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables (including non-current assets), cash and cash equivalents, and trade and other payables (including non-current liabilities).

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, including credit cover from customers, and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Standards issued but not yet adopted

IFRS 15 is a new standard effective for annual reporting periods beginning on or after 1 January 2018 with early adoption permitted; however the Company has not applied this standard in preparing these financial statements.

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue – Barter Transactions Involving Advertising Services.

The Company is continuing to assess the potential impact on its financial statements resulting from the application of IFRS 15 in financial year 2018/19.

3. Revenue

An analysis of the Company's revenue is as follows:

	Year Ended 31 March 2017	Year Ended 31 March 2016
	£'000	**£'000**
Continuing operations		
Charges to Service Users	214,729	111,379
Accrued income	132,903	189,695
	347,632	**301,074**

Accrued income represent amounts due from Service Users that will be used to pay Service Providers in respect of work they have completed towards contractual milestones and other contractual obligations as at the date of the Statement of Financial Position. £132.9m (2016: £189.7m) has been recognised in cost of sales to reflect the payment due to the Service Providers. The amount is composed of payments due in less than one year from the date of the Statement of Financial Position £21.3m (2016: £35.0m) and payments due after one year £111.6m (2016: £154.7m). Amounts due are recoverable over a maximum period of 11 years up until the end of the contract term with our Service Providers.

All revenues relate to the delivery and operation of DCC's smart metering communication service in Great Britain to the energy industry, which represents all of DCC's Service Users.

4. Operating Segments

Segmental revenue and results (Mandatory Business Services – core communication)

All revenue, result, assets and cash flows arise from the provision of Core Communication Services under the Mandatory Business of the Company.

Geographical information (external customers)

The Company's revenue has all arisen from the UK for services provided to UK energy suppliers.

Information about major customers

Included in revenues arising from Mandatory Business Services are revenues of approximately £200.9m, which arose from charges to the SEC parties' nine largest energy suppliers in the UK. No other single customer contributed 10% or more to the Company's revenue.

5. Cost of Sales

	Year Ended 31 March 2017	**Year Ended 31 March 2016**
	£'000	**£'000**
External costs	291,528	262,791
Pass through costs	7,980	1,108
Other External costs	5,265	5,980
Gateway connection	52	89
	304,825	**269,968**

External costs represent amounts paid and payable to the Data Service Provider and Communications Service Providers for the set up and delivery of the smart metering communication service. Pass through costs are costs collected on behalf of the Smart Energy Code administrator (SECCo), and the AltHANCo. Other external costs represent amounts paid and payable to external service providers, such as the SMKI Trusted Service Provider, that are not defined as external costs in the DCC Licence.

6. Administrative Expenses

	Year Ended 31 March 2017	**Year Ended 31 March 2016**
	£'000	**£'000**
Wages and Salaries	23,967	17,705
Professional Fees	4,805	1,538
Corporate Overhead	3,362	2,519
Margin and Gain Share	3,210	2,864
IT Operating Expenses	2,970	2,829
Office Accommodation	1,432	1,067
Other Costs	2,671	2,175
	42,417	**30,697**

7. Auditor's Remuneration

The analysis of the auditor's remuneration is as follows:

	Year Ended 31 March 2017	Year Ended 31 March 2016
	£'000	**£'000**
Fees payable to the Company's auditor for the audit of - The Company's annual accounts	49	48
Total audit fees	**49**	**48**
Fees payable to the Company's auditor for other services to the Company - Other assurance services	25	24
Total non-audit fees	**25**	**24**

Total fees of £74,000 were due to the auditor for the year ended 31 March 2017 (2016: £72,000).

8. Staff Costs

Staff are legally employed by a related party, Capita Business Services Limited (CBSL) for the benefit of the Company. Staff costs incurred by CBSL on behalf of the Company are recharged to the Company on a monthly basis at cost, with an overhead charge added. This includes pension contributions made by CBSL for employees enrolled in the Capita defined benefit pension scheme, the liability for which is included in the financial statements of the ultimate parent undertaking. No costs associated with the administration of the scheme are charged to the Company.

The average monthly number of employees (including Directors) was:

	Year Ended 31 March 2017	Year Ended 31 March 2016
Corporate management	12	6
Industry and regulation	22	13
Finance and business operations	27	22
Commercial	8	5
Design and assurance	88	76
Operations	36	12
Security	7	5
Programme management	48	28
	248	**167**

Their aggregate remuneration (including overhead) comprised:

	Year Ended 31 March 2017	Year Ended 31 March 2016
	£'000	**£'000**
Wages and salaries	26,185	19,387
Severance pay	49	60
Social security costs	1,121	805
Other pension costs	241	169
	27,596	**20,421**

9. Tax

	Year Ended 31 March 2017	Year Ended 31 March 2016
	£'000	**£'000**
Corporation tax:		
Current year tax expense	-	-
Deferred tax expense	-	-
	-	**-**

The Company has nil taxable profit, and hence nil tax at the UK Corporation rate of 19% (2016: 20%). No tax amounts have been recognised directly in equity during the year (2016: nil).

10. Non-Current Assets and Liabilities

Included in both non-current assets and non-current liabilities are amounts of £220.7m, representing amounts due from Service Users and due to Service Providers respectively.

At 31 March 2017, our Service Providers had achieved several contractual milestones and completed work against other contract obligations. Payments against these are due over the term of the contracts with the Service Providers. As the milestones have been achieved and work has been completed the Company has a contractual and constructive obligation for payment, and hence a non-current liability of £220.7m has been recognised, representing amounts payable after 31 March 2018.

These amounts will be recoverable from Service Users and therefore, a corresponding amount of £220.7m has been recognised as a non-current asset.

The milestones are recoverable over a maximum period of 11 years, which is the end of the contract term with Service Providers.

11. Trade and Other Receivables

	Year Ended 31 March 2017	Year Ended 31 March 2016
	£'000	**£'000**
Unbilled revenue in respect of milestones	87,337	37,961
Accrued income in respect of delay payments	29,511	-
Trade receivables due from Service Users	20,164	9,690
VAT recoverable	3,491	-
Trade receivables due from Service Providers	1,041	300
Prepayments	237	241
Trade receivables due from Other Providers	117	-
	141,898	**48,192**

Unbilled revenue of £87.3m is the amount to be recovered in the next year from Service Users in respect of payments due on contracts with Service Providers. The amount due to the Service Providers is recognised in trade payables (see note 12). The Directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.

Trade receivables represent amounts due from Service Users that were invoiced in March, but had not been received at the date of the Statement of Financial Position. They are classified as loans and receivables and are therefore measured at amortised cost. The average credit period taken on sales of service is five days from receipt of invoice. Interest is charged at the base lending rate of the Bank of England on a daily basis if payment is not received by the due date. The due date is the later of five working days following receipt of invoice and eight working days following the end of the month.

Under Section J of the SEC, Service Users have to provide Credit Support in the form of a bank guarantee, a letter of credit, or a cash deposit. The value of Credit Support has to be equal to or greater than the Service Users credit cover requirement, which is calculated on a weekly basis as specified in the SEC. If a user fails to pay their invoice by the due date and a notice has been issued, the Company can claim unpaid amounts plus interest from the Credit Support provided.

12. Trade and Other Payables

	Year Ended 31 March 2017	Year Ended 31 March 2016
	£'000	**£'000**
Milestones due in less than one year	87,337	37,961
Accruals	46,509	7,379
Trade payables due to Service Users	4,227	1,629
Other payables	3,999	2,176
Related party payable	151	9,298
Interest payable	127	105
	142,350	**58,548**

Trade payables due to Service Users comprise of amounts held as cash deposits from Service Users for Credit Support.

Milestones due in less than one year are amounts that are due to be paid in the next year to Service Providers in respect of payments due on contracts for milestones and work completed as at the date of the Statement of Financial Position. These amounts will be recoverable from Service Users and therefore a corresponding amount of £87.3m has been recognised in trade and other receivables (see note 11).

Accruals reflect amounts outstanding for costs which were invoiced, or will be invoiced subsequent to year end.

Other payables represent amounts payable for VAT, plus invoices due to the immediate parent Company in respect of services rendered.

The Directors consider that the carrying amount of trade and other payables is approximately equal to their fair value.

13. Off Balance Sheet Arrangements

At the date of the Statement of Financial Position, the Company had unrecognised, future liabilities of £794.2m (2016: £35.2m). This represents payments that the Company is obliged to make in a number of areas:

i. Payments that will become due to Service Providers on the condition that they meet a number of future contractual milestones. The milestones are spread over the term of the contracts with the Service Providers and none had been achieved at 31 March 2017. See note 2 of the Company's accounting policies in respect of milestones;

ii. The unrecognised amounts of agreed change requests that have been agreed with our Service Providers; and

iii. The contractually committed operational charges to Service Providers that commenced once services went live in November 2016.

14. Share Capital

	Year Ended 31 March 2017	Year Ended 31 March 2016
	£'000	**£'000**
Authorised, issued and fully paid:		
1 ordinary share of £1 each	-	-

The Company has one class of ordinary shares which carry no right to fixed income.

15. Financial Instruments

Categories of financial instruments

	Year Ended 31 March 2017	Year Ended 31 March 2016
	£'000	**£'000**
Financial assets		
Loans and receivables		
Non-current receivables	220,669	205,653
Cash and bank balances	43,212	25,351
Trade and other receivables	141,898	48,192
	405,779	**279,196**
Financial liabilities		
Amortised cost		
Non-current liabilities	220,669	205,653
Trade and other payables	142,350	58,548
Deferred revenue	42,760	14,995
	405,779	**279,196**

The Directors consider that the carrying amount of all financial assets and liabilities as shown in the table above approximately equal to their fair value. The maturities of assets match exactly to those of the liabilities. All assets have been identified as hierarchy level 1.

Non-current liabilities contractual cash flows	Year Ended 31 March 2017	Year Ended 31 March 2016
	£'000	**£'000**
1 year or less	110,013	45,110
1-2 years	96,112	45,678
2-5 years	180,562	70,876
Beyond 5 years	33,521	118,640
Total	**420,208**	**280,304**
Carrying amount	**308,007**	**243,614**

Financial risk management

Capital risk

The Company manages its capital to ensure that it is able to support the business and continue as a going concern. The Company's capital consists of cash, which is managed to ensure there is sufficient operating liquidity at all times. The Company is not subject to any externally imposed capital requirements.

Credit risk

Credit risk is the risk of financial loss to the Company as a result of a counterparty defaulting on its contractual obligations. The Company trades only with recognised, creditworthy third parties. It is a requirement of Section J of the SEC that all Service Users provide Credit Support in the form of a bank guarantee, letter of credit, or a cash deposit. The level of Credit Support required is determined by the following formula:

Service user Value at Risk ("VaR") x Service user Credit Cover factor

The Credit Cover factor is determined on the basis of recognised credit ratings from independent rating agencies, or on the basis of credit assessment scores from independent credit assessment agencies. The requirement is reviewed on a weekly basis by the Company.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. Cash balances are held with Lloyds Bank plc.

No trade receivables were past due as at 31 March 2017 and 2016.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company's policy is to hold cash at a level sufficient for the Company to meet its medium term payment obligations. The Company does not have external financing, and therefore includes a Prudent Estimate (as defined in the DCC Licence) in Charges to allow for timing differences between receipts and payments.

Management monitor the risk of having a shortage of funds using a daily cash management process. This process considers the maturity of both the Company's creditors (e.g. accounts payable, VAT payments) and projected cash receipts from operations.

The Company has access to financial support, if required, through agreements with its Parent Company, worth a total value of £15m.

16. Notes to the Cash Flow Statement

	Year Ended 31 March 2017	Year Ended 31 March 2016
	£'000	**£'000**
Profit for the year Adjust for:	-	-
Finance costs	390	409
Increase in receivables	(93,706)	(41,186)
Increase in payables	111,568	48,438
Finance cost payable	-	-
Net cash from operating activities	**18,251**	**7,661**
Net cash used in financing activities	**(390)**	**(409)**

Receivables and payables are those classified as being current and due for settlement within 12 months of the date of the Statement of Financial Position.

17. Related Party Transactions

During the year the Immediate Parent Company, Capita Business Services Ltd, invoiced the Company £42.1m (2016: £31.9m) (excluding VAT) for administration expenses paid on behalf of the Company. At the date of Statement of Financial Position an amount of £4.0m (2016: £1.7m) was owing to the Immediate Parent Company. This is not secured and will be settled in cash.

Aggregate Directors' Remuneration

The total amounts for Directors' remuneration were as follows:

	Year Ended 31 March 2017	Year Ended 31 March 2016
	£'000	**£'000**
Salaries, fees, bonuses, and benefits in kind	587	475

Included in the amount shown above is £234,110, (2016: £324,000) in respect of qualifying services for the highest paid Director; £234,110 (2016: £316,500) was paid as salary, bonus and benefits and £nil (2016: £7,500) was paid in pension contributions. The Directors of the Company are considered to be the key management personnel.

18. Ultimate Parent Company

The Company is a subsidiary undertaking of Capita Business Services Ltd. The ultimate parent company, which is also the ultimate controlling party, is Capita plc, incorporated in the UK.