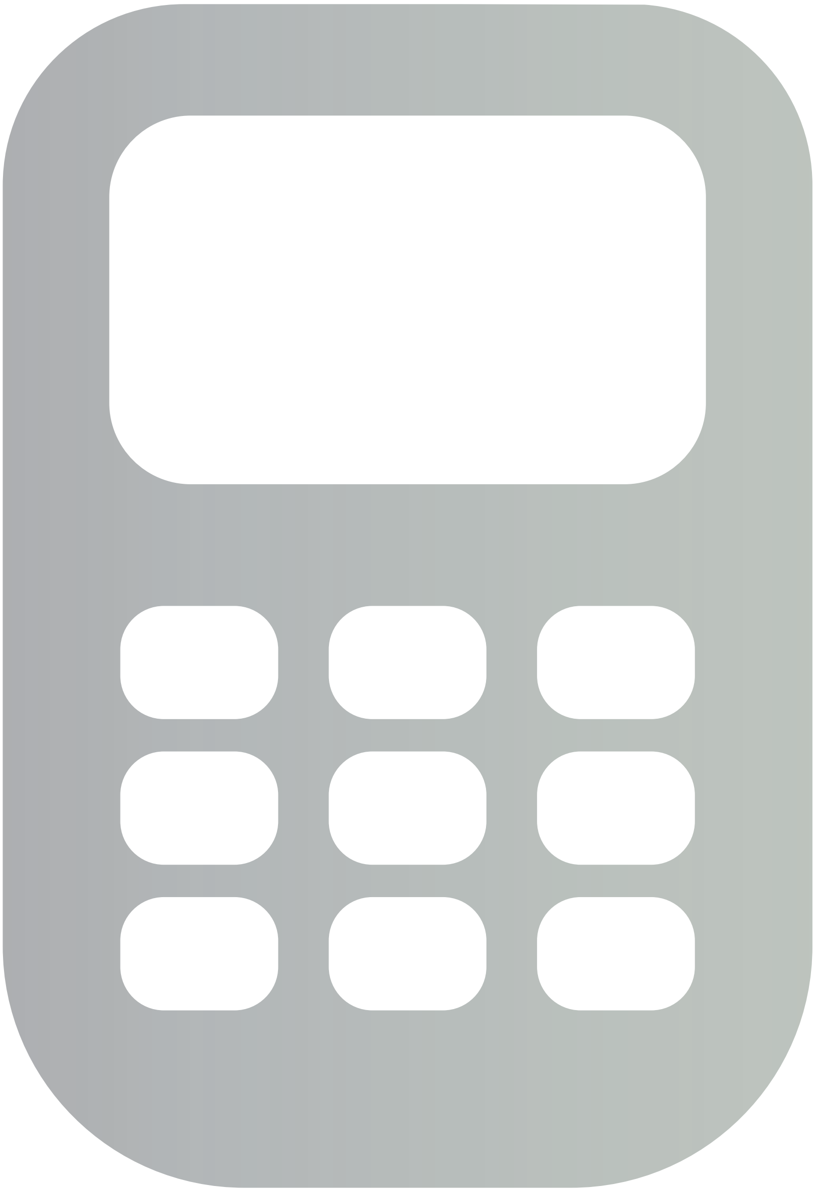
Data Communications Company

Smart DCC Ltd

Annual Report including the Regulatory Financial Statements

Year ended 31 March 2018

Registration number 8641679



Contents

Chairman's Statement

As Smart DCC Ltd (DCC or the Company) enters its sixth year of operation, our progress continues and our achievements grow. I am delighted to present the fifth DCC Annual Report and Financial Statements.

DCC provides the telecommunications network and other services that underpin the rollout of gas and electricity smart meters to every household and small business in Great Britain. Smart meters will provide the accurate, digital data about energy flows that will allow consumers to understand and control their use of energy more effectively and switch supplier more easily. In addition, the DCC network will assist National Grid and the distribution network owners to manage growing amounts of intermittent low carbon electricity generation, as well as new sources of demand such as electric vehicles, and facilitate third parties to use metering data to provide rich 'smart' services to consumers and industry. The secure, nationwide telecommunications platform we are delivering also has great potential for other uses over time, which will reduce unit costs and provide much wider economic benefits.

In his first year as CEO, and with support from a strengthened executive team, Angus Flett has begun DCC's transition to become a transformational delivery partner for the industry and has overseen some significant milestones along the way – not least the successful operation of the new generation smart meters (SMETS2) meters in homes across Great Britain.

There have been some notable achievements in the 2017/18 year:

- Engaging with DCC customers (energy suppliers, network operators and other authorised users, such as third party intermediaries) through regular forums; and our first customer satisfaction survey specific to operational performance resulting in an action plan to deliver the identified improvements

- Delivery of Releases 1.3 and 1.4 for SMETS2

- The finance team has been strengthened through the introduction of a new finance business partnering model which has enabled the function to drive cost improvements which translated into £25 million of cash being returned early to customers

- Ofgem extended, in principle, DCC's Licence obligations to cover the design, build and test phase and early years of operation of the Switching Programme

- First SMETS2 meters installed and live in consumer homes

Progress does not come without challenges. It is critical that we continue to develop our understanding of the future demands of an undeniably complex programme of national scale, significance and importance to so many stakeholders.

In the coming years, we will continue to mature as a business, fulfilling our unique role as the smart metering national infrastructure provider. We will also continue to demonstrate our ability to handle the rapidly scaling demand on our services and in turn, our role in underpinning the Government's plans for a smart, flexible energy system for the nation.

I have every confidence in the ability of DCC, supported by such a highly skilled and dedicated team, to deliver on our commitments going forward. I would like to take this opportunity to thank all DCC staff, contractors and service providers for their considerable efforts over the past 12 months.

Philip Male
Senior Independent Director
28 June 2018

Chief Executive Officer's Statement

This has been my first year of leading DCC, an organisation that is at the heart of intelligent energy management and I am proud of DCC's performance and achievements during this period.

DCC provides the crucial network and services that underpin the rollout of smart meters to every household and small business in Great Britain. Our Annual Report and Financial Statements reflects our good progress over the last year as we delivered major functionality, data network improvements and business change. The data network for SMETS2 meters, is now in live operation and supporting smart meter installations with full functionality. We've recruited very experienced senior managers from the energy, telecoms and IT sectors to ensure our readiness to operate at scale.

In the past year, DCC faced challenges that were addressed by working with our Service Providers and the Government to assess formally the lessons learned from Release 1.2 and incorporate improvements in subsequent releases. Release 1.3 was a difficult but significant step forward and helped improve the efficiency of testing and defect resolution. Release 1.4 was successfully implemented, on time, in November 2017 and included allowed functionality to be independently 'switched on and off' providing greater flexibility and a more robust platform for us going forward.

2018/19 will be a pivotal year for DCC and the Smart Meter Implementation Programme. As the industry moves towards the Government's 2020 deadline to offer a smart meter to every home in Great Britain, we expect the rate of smart meter installations to accelerate to several hundred thousand per week.

Working with Government and our customers, we are also developing new capabilities and robust processes to incorporate onto our platform the millions of first generation smart meters (SMETS1) already installed. This will ensure consumers will still benefit from smart functionality when they switch suppliers – essential to the success of the nationwide programme.

We will continue to strive for a close, transparent and open collaboration with our customers, Government and the regulator, who provide key impetus and investment into the smart metering programme. Having built one of the world's largest platforms of its kind, DCC will look to leverage its scale, security and re-usability to foster innovation and reduce unit costs for our customers (the energy industry) and ultimately consumers. In addition, and building on previous successful cost reduction activity, DCC has stated a voluntary cost reduction target for each of the following 3 years. This is vitally important to our customers and reflects our confidence in the programme.

This ambitious smart meter programme will bring challenges and opportunities and I am confident that DCC is prepared to tackle both and to deliver on our promises. The DCC working mantra is to always keep it simple and to focus on the customer. Our aspiration is to be a thought leader at this time of revolutionary change in the energy and telecoms sectors and deliver a smart energy infrastructure we can all be proud of.

Angus Flett
CEO
28 June 2018

Strategic Report

About DCC

DCC is an experienced and highly skilled delivery body which provides services on behalf of the energy sector and is responsible for delivering and operating the smart meter data and communication service – the platform that underpins the Smart Metering Implementation Programme (SMIP). This secure data network will enable energy suppliers to install smart meters in 30 million homes and small businesses across Great Britain by the end of 2020.

Working in partnership with the energy industry, the Smart Energy Code (SEC) Panel, the Department for Business, Energy and Industrial Strategy (BEIS) and Ofgem (the Regulator), we play a key role in ensuring that consumers will benefit from smart meters and a more flexible energy market. To deliver the smart meter platform, we have built and implemented a brand new, nationwide, highly secure data and communications infrastructure. This connects consumer smart meters to the business systems of our customers (energy suppliers, network operators and other authorised users, such as third party intermediaries). It offers a centralised, consistent service for our customers and avoids the complexity and duplicated costs of energy suppliers each procuring their own communications networks.

The service is critical to the way our customers' businesses operate. The DCC infrastructure allows energy suppliers to carry out crucial functions remotely, such as collecting meter readings and updating tariffs and will allow networks to receive power outage alerts and better demand information.

It will also allow price comparison websites to help consumers find the best deal based on their actual energy consumption, which in turn fosters the Government and Regulator's drive to promote competition and switching in the sector. It will provide the information that will enable DCC customers to develop innovative new services and products for consumers and enable greater flexibility in the energy system.

Alongside the implementation and operation of smart metering services, we therefore have a central role to play in facilitating and enabling competition and innovation throughout the energy sector.

How we are governed

We have a unique position in Great Britain's energy market, because all domestic energy suppliers will be required to use DCC services to communicate with smart meters. Due to our monopoly position, DCC is rigorously regulated and governed. We are regulated by Ofgem and we ensure we are compliant with our Licence. This includes assuring that we spend money in an economic and efficient way through the annual ex-post Price Control process.

BEIS oversees and coordinates the joint industry activity during the implementation phase of the SMIP. We report on our SMIP delivery progress to the energy industry and to BEIS.

We are a party to the SEC, a multi-party agreement that provides the regulatory framework for DCC to provide services to the energy industry. It defines the rights and obligations of DCC, energy suppliers, network operators, and other parties involved in the end-to-end management of smart metering. The SEC Panel governs the Code and is responsible for managing changes to DCC requirements through the SEC modifications process.

DCC is one of many participants in the SMIP. It is crucial that we work with our customers, as well as meter manufacturers, registration data providers and others to enable a successful rollout. We do not have a direct relationship with energy consumers.

Our service providers

DCC delivers services through procuring and contracting with service providers and assuring their delivery, during both implementation and live operations. We procure new service providers in line with the DCC procurement strategy and report on their performance in the annual service report.

We manage a diverse range of service providers that will continue to grow as we introduce new services, such as inter-operability for SMETS1 meters and the Centralised Registration Service (CRS) to support faster, more reliable switching.

The key service providers supporting delivery of the smart meter communication service are as follows:

- CGI - Data services provider (DSP): Provides the data systems and services through which customers communicate with smart meters. This includes processing messages to ensure they are directed to the right meters at the right time
- Arqiva (in the North region) and Telefónica (in the Central and South regions) - Communication services providers (CSP): Provides the communications infrastructure which connects smart meters to DCC systems. This comprises the nationwide Smart Metering Wide Area Network (SM WAN) and the Communications Hubs that establish the Home Area Network in the consumer's premises
- BT: Provides the Smart Metering Key Infrastructure (SMKI) Service, one of the primary mechanisms to ensure the security of communications between customers and smart metering devices such as smart meters and Communications Hubs
- Critical Software: Provides the "parse and correlate" software, which allows customers to check that the conversion of service requests from one format to another has not altered the underlying request
- Capita Business Services: Provides a range of services including the service desk, billing systems, enterprise reporting and cloud hosting

Charging for services

We recover the costs associated with providing DCC services through charges to our customers: energy suppliers, networks and other authorised parties who become DCC customers.
Full details of DCC's charges are set out in the Charging Statement published on our website, www.smartdcc.co.uk. Indicative charges and budgets for future years are updated on a quarterly basis.

Performance Review for 2017/18

Following the delivery of DCC Live, in November 2016, our focus changed from implementing a complex solution to operating the smart meter communication service at scale, as well as delivering multiple programmes.

Last year, we set out three key focus areas for 2017/18:

i. Scaling the live service to support the rollout of smart meters, be responsive to solve any issues and be able to adapt and improve based on experience – to provide the best possible service for our customers

ii. Establishing the enduring model for delivering change to the live service – to help realise the industry transformation made possible by smart meters

iii. Increasing our level of engagement with customers to understand evolving requirements and to increase the level of stakeholder involvement in decisions – to maximise the value of the service we deliver on behalf of industry

This was supported by a set of priorities and milestones for the year.

Planned milestones	Achievements
SMETS2	**SMETS2**
• 95.00% Smart Metering Wide Area Network (SM WAN) coverage in North Region • 97.75% SM WAN coverage in Central and South Regions • Deliver reliable service that scales to meet increasing customer demand • Deliver Dual Band Communications Hub no earlier than H1 2018 • Embed functionality delivered through Release 1.3 • Deliver the first and second releases into the live service • Use early experience to improve the service • Establish an enduring release delivery model that meets the needs of customers	• 95.00% SM WAN coverage achieved in North Region –in line with latest contracted milestones • 97.75% SM WAN coverage achieved in Central and South • Release 1.3 delivered into live in July 2017, completing the core smart meter communication service as prescribed in the SEC • Service now supporting smart meter installations with improved service availability and maturing service desk to support customers through onboarding process • Applied early learning to identify and fix issues in the live service, including improved incident resolution • DBCH hardware prototypes produced, expected to provide HAN coverage for at least 95% properties. On track for delivery in 2018 • Release Management Policy signed off following customer engagement • Environment review underway to understand future demand and assess where capacity issues may present, particularly where activities overlap. A cloud-based solution will be considered to support delivery of future releases • Successfully delivered Release 1.4 into production in November 2017 as planned, providing more functionality to our customers • R2.0 plan approved and initial testing phases completed to schedule
SMETS1	**SMETS1**
• Establish commercial relationships with Service Providers • Development of the SMETS1 Service	• Four contracts awarded for the build and integration of the SMETS1 service and two contracts for the operation of the enduring service • High level design baselined • Feasibility Report on adopting and enrolling SMETS1 meters completed
Planned milestones Supporting Ofgem's Switching Programme	**Planned milestones Supporting Ofgem's Switching Programme**
• Contribute to the design of new switching arrangements, including design proving • Develop procurement plan for CRS capability • Develop and agree with Ofgem the principles and necessary details of price control arrangements for future phases	• Detailed design produced on schedule to meet incentivised milestone date. Design Proving project run in parallel to test completeness of design • Scope of the procurement plan widened to include the programme's commercial strategy plan completed and baselined in March 2018 • Discussions on principles of new regulatory arrangements commenced at the end of 2017/18 and are due to be published for industry consultation in 2018/19
Engaging our customers	**Engaging our customers**
• Increase stakeholder engagement in DCC decision-making • Engage with customers on evolving requirements	• Conducted 14 DCC-led consultations • Responded to customer requirement to receive savings of £25m back as soon as possible by reducing charges in final months of 2017/18 • First Operations customer satisfaction survey run. Action plan in place to deliver on feedback
Providing value for money	**Providing value for money**
• Enhancing partnerships with our Service Providers • Work towards establishing DCC's enduring economic regulation arrangements • Commence refinancing of existing charges to reduce DCC costs • Provide reporting on performance	• Developed our supply chain management function to strengthen our relationships with the Service Providers • Development of principles for enduring economic regulation arrangements are due to begin in 2018/19 • New finance arrangement in place with one CSP. Refinancing arrangements with the other CSP due to complete in early 2018/19 • Reporting against all SEC performance measures in place since Release 1.3 and Service Credits became active in December 2017

Ofgem's Price Control Assessment

Every year Ofgem carries out a price control assessment of 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 assurance to SEC, BEIS, Ofgem and our customers that they are receiving the best value for money.

In July 2017, we submitted our price control report for the 2016/17 regulatory year. Ofgem's assessment resulted in £0.9m of unacceptable costs incurred, which represents less than 1% of the total costs incurred in that year. Ofgem concluded that the final implementation milestones relating to multi-stage live release had not been met by the specific deadlines, reducing our baseline margin by £4.7m.

In accordance with the DCC Licence we are able to make an application for additional margin where there has been a variation in business activities. For the application made in July 2017, we were awarded additional margin of £6.8m for years 2016/17 through to 2018/19 through the baseline margin adjustment mechanism. In addition, we submitted an External Contract Gain Share application linked to cost savings from refinancing activity completed, which was agreed at a value of £3.3m for the years 2017/18 through to 2019/20.

Non-financial key performance indicators

Operational Performance Regime

Ofgem's Operational Performance Regime (OPR) was included as part of our Licence in September 2017. The regime commenced on 1 April 2018, from which point DCC's margin is placed at risk against its performance in relation to five sets of operational metrics over 12 months. The metrics relate to DCC's performance in:

i. Incident resolution – Addressing issues with the DCC systems within agreed targets.

ii. Communications hubs quality and timely delivery – Ensuring that unnecessary delays caused by late delivery or faulty communications hubs are avoided.

iii. Coverage and reliability – Delivery by fundamental services providers of coverage as per contractual milestones and deliver against the target successful first time installs.

iv. Service requests response times – Ensuring that messages between energy consumers and DCC customers are delivered within the target timeframe.

v. Systems availability – Ensuring the reliability of key DCC systems as per target performance.

All margin is at risk under OPR, unless it has been explicitly included under another incentive regime such as that for Release 2.0 (see below). The five measures are equally weighted to have 20% margin against its delivery to target. The margin at risk for each year is included in the Licence as updated by Ofgem based on its annual price control decisions. Each year's margin is at risk against that year's DCC OPR performance. In addition, the margin for 2016/17 and 2017/18 is also at risk. The margin for these two years is divided into three equal parts put at risk against the initial three years of the OPR; namely 2018/19, 2019/20 and 2020/21.

DCC will not know, therefore, how much of its 2016/17 and 2017/18 margin has been retained until Ofgem makes its final price control determination for the 2019/20 period, which is likely to be early in 2021.

Release 2.0 incentive regime

In April 2018, BEIS introduced a milestone-based incentive regime to put margin associated with Release 2.0 at risk. The margin to be put at risk relates to the activities and cost of delivering those activities from April 2017. The value of the margin at risk will be identified through Ofgem's price control process.

BEIS introduced four incentivised milestones which take place between May and December 2018. These are as follows:

i Entry and stability of SBCH UIT – 15% of the Release 2.0 margin

ii. Entry and stability of DBCH UIT – 20% of the Release 2.0 margin

iii. Deliver of initial DBCH volumes – 25% of the Release 2.0 margin

iv. Deliver of full DBCH volumes – 40% of the Release 2.0 margin

DCC's performance against this incentive regime for 2018/19 will be known in early 2020, once Ofgem has made their final decision on the total margin at risk for Release 2.0.

Our financial performance

Overview

We operate on a £nil profit model in which our revenues are exactly equal to our costs. Margin is paid to the shareholder via a monthly invoice. Our charges to DCC's customers (sometimes referred to as Service Users) are structured in such a way that we receive funds 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 customers in the year but have not spent are reflected as deferred revenue in our Statement of Financial Position. These factors dictate that expenditure is the primary driver of our financial performance.

Our customers and other stakeholders gain reassurance over this arrangement through Ofgem's annual Price Control Assessment as noted on page 12, and from our determination to secure value for money for energy consumers.

Costs incurred in the year

In 2017/18, we have recognised costs of £421.4m (2017: £347.6m). Around 80% 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 recent three year period.

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.

During the year the CSPs achieved payment milestones, in relation to which we have recognised £192.1m (2017: £166.9m). 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 charge (within cost of sales) calculated at an effective interest rate. This year we have recognised £18.6m (2017: £14.8m) in financing costs for all milestones achieved to date.

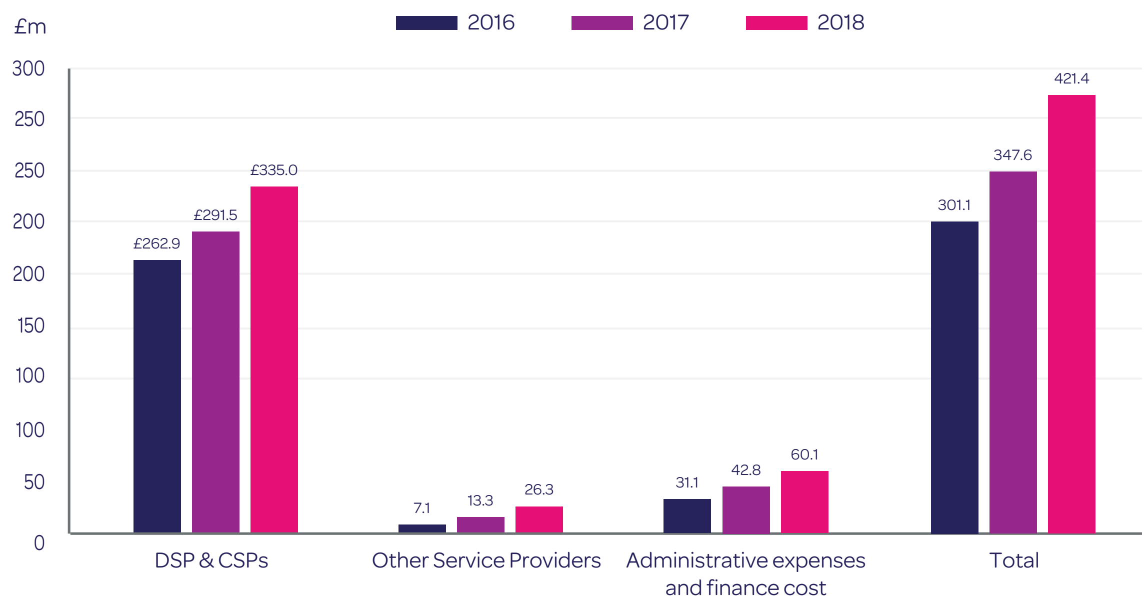


Figure 1 – Costs incurred per year

For milestones yet to be achieved, but where the DSP and the CSPs have been progressing towards achievement, we have accrued £40.0m (2017: £112.8m) as recognition of value of work completed as at the end of the year.

The balance of the total DSP and CSP costs is amounts incurred for impact assessments, projects authorised during the year and operational charges.

As at 31 March 2018, we have a liability of £527.7m (2017: £337.5m) for future payments to be made to the DSP and CSPs for work they have completed and accrued invoices at year end. Of this, £114.4m (2017: £90.4m) is due within 12 months of the year end.

Charges from other Service Providers

These charges relate to critical services required for the SMIP, provided by other key Service Providers. During the year £11.3m was spent with Service Providers for SMETS1 related work. Around £2.2m (2017: £2.9m) was spent in the year on the delivery of the SMKI and the Parse and Correlate services. Together, these two services ensure effective and secure communication between DCC customers and smart metering devices. Service desk running costs amounted to £1.6m (2017: £1.4m).

DCC collected, through its Service Charges, £4.8m (2017: £6.3m) on behalf of the administrator of the SEC, and £4.0m (2017: £1.6m) on behalf of the AltHANCo.

Administration expenses

Administration expenses include all operational costs of the organisation. £33.0m (2017: £27.6m) of our expenditure is staff related costs, which has increased this year as we continue to resource at an appropriate level to manage the operational service, the additional activity arising from the implementation of a multiple release strategy, and the resourcing of the SMETS1 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 (2017: £2.2m) is a fixed amount specified in our Licence, adjusted for the outcome of our price control assessment for the 2016/17 regulatory year. Gain share of £3.3m (2017: £2.9m) was awarded to DCC as its share of the saving from refinancing additional DSP costs. This gain share mechanism is in accordance with the Licence.

Comparison to the 2017/2018 charging statement

Charges to Customers

The majority of charges to DCC's customers 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 customers for the year are sufficient to cover our budgeted costs, and to ensure we have adequate cash for our operational purposes. In the year, we billed our customers £256.4m compared to a charging statement estimate for total national and regional fixed revenue of £254.1m. The £2.3m 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.

Cost adjustments for comparison to charging statement

The charging statement uses different categorisations of costs to the financial statements and only reflects costs due to be invoiced in the relevant regulatory years. In the charging statement, External Costs only include costs relating to the DSP and the CSPs. To enable comparison, £26.3m (2017: £5.3m) of costs from other Service Providers which have been classified as cost of sales in the financial statements are included in Internal Costs in Figure 2. External Costs in the financial statements also include accrued costs of £146.4m relating to milestones recoverable in the future. These have been recognised in the profit and loss account this year but are not due for payment to our Service Providers until after 31 March 2018, so are not included in total External Costs of £188.6m.

Further timing adjustments resulting in a reduction in costs in the profit and loss account of £2.1m have been made to provide comparable Internal Costs and Baseline margin/External Contract Gain Share.

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.

Overall, the costs incurred are £9.1m lower than in the charging statement. This is driven by Pass-Through costs being £5.1m lower than the budgets received from SECCO Ltd and AltHANCo Ltd, and overall lower External Costs than anticipated due to savings from refinancing of costs for the CSPs and lower activity for System Integration than expected. Internal costs are £14.3m higher than estimated, primarily due to costs for SMETS1 being incurred and paid earlier than budgeted.

At the beginning of the year, we had brought forward deferred revenue of £42.8m. In December 2017, we amended the 2017/18 Charging Statement to return £25m back to customers for the 2016/17 correction factor where cost savings had been achieved through refinancing of DSP set up charges.

Taking this into account with the underspend in 2018 and additional funds collected due to additional meters the closing balance of £24.0m of deferred revenue.

At the end of the year we have a closing trading cash position of £39.3m (2017: £39.0m) and a closing credit cover deposit balance of £3.6m (2017: £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.

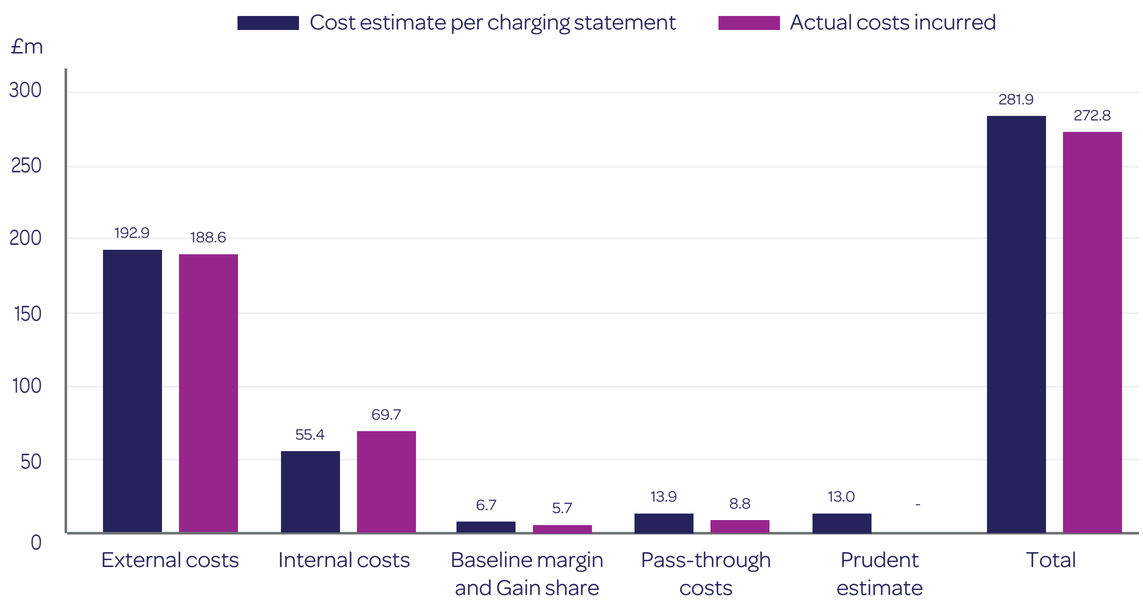


Figure 2: Cost incurred compared to Charging Statement

Financial Key Performance Indicators (KPIs)

During the period, we have focussed on financial KPIs to monitor financial stability. 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 cash flow forecast on a regular basis.

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 customers 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 less milestones due in less than one year, was 0.63 (2017: 0.44). The adjusted cash ratio of 0.84 (2017: 0.63) provides a more appropriate measure of the proportion of cash to liabilities due in full at the end of the year. It reflects liquid assets, cash at bank and trade receivables due from customers, divided by current liabilities excluding milestones due in less than one 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.

Customers 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 customers 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 (2017: 23 days).

Our business strategy

We want to provide our customers with as much certainty as possible about our future. All the plans and budgets described within this Strategic Report reflect activities that we know we will need to undertake in the next four years.

Due to our unique role in the energy sector, our services, capabilities, and the degree of change currently prevalent in the industry, it is probable that we will be asked to take on additional work during this period. Such an event would require us to adjust our plans and in that event we would engage with customers over the impact.

Over the next four years, we will continue to focus on core activities that maximise the success of the smart meter roll out, extending the reach of the DCC network, ensuring all meter types are interoperable and that households can switch energy supplier quickly and effectively. We are delivering a digital energy revolution which will bring innovation benefits, savings and a better experience for our customers and their consumers alike.

It is critical that we excel in our role as a delivery body for the energy industry. Accordingly, as the service matures we are committed to deliver increasing value for money for customers and consumers through improving the efficiency of our activities and the way we work with our customers and stakeholders to ensure we are meeting their requirements.

We recognise that our customers have made a significant investment in DCC's services and capabilities. We will therefore seek to maximise the benefit that DCC can provide to customers and the broader energy industry through developing and enabling new services based on the DCC infrastructure.

Our priorities are therefore to:

i Operate, enhance and continually improve the smart meter communication service and products to support an efficient and effective smart meter roll out

ii. Continuously improve the way we work to operate as a trusted, high quality intelligent delivery partner

iii. Develop and enable new services that help industry, our customers and their consumers benefit from the digital energy revolution

Future developments

Beyond our role delivering the smart meter communication service, we provide ring-fenced resource to support other major industry transformation programmes that form part of the digital energy revolution.

In time, we will explore how and where we can drive cost savings for our customers through re-use of the DCC infrastructure in non-energy markets.

Support Ofgem's Switching Programme

The CRS, which will enable delivery of reliable, next working day switching will become operational in the Regulatory year 2020/21, delivering benefits for the consumer and creating a platform for market innovation.

Supporting Ofgem's half-hourly settlement Programme

Half-hourly settlement (HHS) is an Ofgem led programme aimed at improving the way in which customers are billed for their energy consumption. Currently consumers are billed using estimates of their consumption, based on profiles of average consumers, rather than on actual consumption or export in each half-hour period. HHS will provide suppliers with the true cost of their customers' usage in half-hourly period and incentivise them to take steps to help their customers move their consumption to times of the day when electricity is cheaper to generate.

Flexibility for the future

The Great Britain energy industry is changing rapidly and profoundly. Increasing digitisation and the emergence of new business models are reshaping the energy market. Changing consumer expectations, connected home systems, increased energy awareness and the ability to switch energy supplier automatically all point toward an increasingly dynamic market place.

We recognise that activity to explore these opportunities must not detract from our ability to deliver the live service to the performance levels that our current customers expect. However, we need to ensure that as we develop the DCC infrastructure for the benefit of our customers, our decisions do not inadvertently inhibit our future ability to deliver services for other markets, for example by developing systems with inappropriate performance characteristics or limited flexibility for alternate use.

We will continue to establish DCC as a platform for innovation, enabling our customers and their consumers to benefit from the digital energy revolution.

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 below:

Risk	Assessment of change in risk since inception	Mitigation of risk
Solution Delivery		
The Company is currently in a programme phase of 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 to the live service in July 2017. Release 1.4 followed in November. Customers are currently conducting end to end testing in advance of mass rollout. 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, and DCC is ready to operate at scale. • 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 and has developed its structure and capabilities to deliver this.
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. • Maintain regular briefs with policy makers.
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 four Price Control Assessments and continues to improve its understanding of the regulator's position and requirements.	• Regular reinforcement of economic and efficient requirements by the DCC ExCo and the Independent DCC Board. • Robust change control and benchmarking processes. • Ongoing engagement with regulator to ensure that expectations are aligned.
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. In turn the Regulator has developed its understanding of the processes we have in place to ensure compliance with our Licence. 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

Future Viability

In accordance with provision C.2.2 of the 2016 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 customers. 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 they have conducted a robust assessment of the principal risks facing the Company as set out above in Table 1. 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 2022.

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 financial statements.

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	-	7
Senior management	2	6
Employees	138	252

Information regarding environmental matters, employees, 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.

On behalf of the Board,

Philip Male
Senior Independent Director
28 June 2018

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 2016 (the 'Code') have been applied, and is comparable to the statement a quoted company is required to prepare. The Code can be found at www.frc.org.uk. 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 regards to disclosures within this statement Ofgem has granted consent for exclusion in the following areas:

- 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 Provision	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 DCC Licence conditions.
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.

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 seven Directors. Five of the Directors are Non-Executive Directors. Three 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 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. Joe Hemming, Angus Flett and David Brown are not members of the Audit Committee nor the Remuneration Committee, but are invited to attend. Nicolas Bedford is not a Director, but is a member of the Audit Committee.

Table 2: Attendance at Board and Board Committees

Name	Audit Committee	Remuneration Committee	Board Meetings
Richard McCarthy CBE: Chairman of the Board • Chairman of the Remuneration Committee • Non-Executive Director	2 of 3	2 of 2	11 of 13
Phillip Male: Senior Independent Non-Executive Director	3 of 3	2 of 2	13 of 13
William Rickett CB: Chairman of the Audit Committee • Independent Non-Executive Director	3 of 3	2 of 2	12 of 13
Mark Mathieson (Appointed 22 March 2018): Independent Non-Executive Director	N/A	N/A	1 of 1
Joe Hemming: Non-Executive Director	N/A	N/A	11 of 13
Angus Flett: Executive Director	N/A	N/A	12 of 13
David Brown: Executive Director	N/A	N/A	13 of 13
Nicholas Bedford	2 of 3	N/A	N/A

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 Committee. 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 Committee 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 Link Group, 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 Capita employment contract. Capita also 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, Mark Mathieson was appointed to the Board in accordance with Capita policy as an 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. During the year, the Chairman also held 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.

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

An executive summary and results of the Board Evaluation Questionnaire will be circulated to all Directors in July 2018 which, amongst other matters, includes sections on the performance of the Chairman, the Board and its committees and individual Director's self-evaluation. As a result of the evaluation, the Board will identify additional areas of focus for future training and Board meeting agenda.

Accountability

Financial and Business Reporting

The Directors are responsible for the preparation of the Annual Report and financial statements 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 2022. 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 27 November 2017 and 22 March 2018 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 ('KPMG'), 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 three 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 26.

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 29 May 2018, 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 2018.

Remuneration

The Remuneration Committee consists of Richard McCarthy (Chairman) and the three 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 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.

Philip Male
Senior Independent Director
28 June 2018

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), Mark Mathieson (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 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:

Committee Meeting Date	Review
26 June 2017	• Company's draft Annual Report and accounts • KPMG Year end Audit Paper • Internal controls and risk management systems • Compliance with its Licence and other regulatory requirements
27 November 2017	• Interim risk and internal control update • Finance transformation update • KPMG audit planning paper • IFRS 15 implementation considerations
22 March 2018	• Full year risk and internal control update • Risk management and structure • Audit and compliance structure • IFRS 15 implementation • Viability statement update • Finance transformation update

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 financial statements, 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 financial statements.

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. The audit fees have been disclosed in note 8 of the financial statements. 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 2018, 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 DCC 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 DCC CEO who meets the Company's operational and financial management teams every week and also reports key financial and operational measures at Capita's monthly performance review meetings.

The risk management and internal control system was reviewed for effectiveness at the Committee's meetings on 26 June 2017, 27 November 2017 and 22 March 2018. 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.

During the year the Company decided to establish an Internal Audit function given the growing scale and complexity of its business and the transition from delivering a project to managing a business. The Company is also 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. During the year, Capita Group Internal Audit conducted an internal audit of DCC. The focus of the audit was on key controls in operation over financial performance reporting, readiness to meet Operational Performance Reporting (OPR) targets, reporting against Smart Energy Code (SEC) performance measures, supplier management and management of supplier cost changes. In November 2017, DCC appointed PwC to review supplier compliance with contractual requirements to provide reports on their financial soundness.

William Rickett CB
Chairman of the Audit Committee
28 June 2018

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 2018. The Corporate Governance Statement and Audit Committee Report set out on pages 20 to 28 forms part of this report.

Directors

The Directors who served throughout the year were as follows:

David Brown
Angus Flett
Joe Hemming
Philip Male
Mark Mathieson (appointed 22 March 2018)
Richard McCarthy CBE
William Rickett CB

Dividends

The Directors do not recommend the payment of a dividend (2017: £nil).
Political contributions
The Company made no political donations or incurred any political expenditure during the year.

Events after the reporting period

Events subsequent to the statement of financial position date are disclosed in note 19.

Financial risk management

Financial risk management is included in the Strategic report.

Future developments

Future developments are included in the Strategic report.

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.

Auditor

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

Disabled persons

It is the Company's policy to give full consideration to suitable applications for employment of disabled persons and to ensure that any reasonable adjustments are made to either the workplace or job content to accommodate a person's disabilities. Employees with a disability are eligible to participate in career development opportunities available to all employees and will be supported to do so. Opportunities also exist for employees of the Company who become disabled to continue in their employment with reasonable adjustments being made or to be retrained for other positions in the Company.

Employee involvement

DCC has a real focus on supporting talent and development within the Company. DCC's approach to employee development ensures that individuals are offered continual challenges in the roles, supported through learning opportunities and personal development. The Company offers employees a comprehensive range of key business and management skills and personal development programmes through our internal training partners, as well as externally recognised universities and learning partners. At the same time, we provide business-specific training for all employees relevant to their role. Employees are kept updated on matters of concern as well as on financial and economic factors that affect the performance of the Company with bi-weekly e-mail communications. When decisions are to be made that impact the interest of the employee, discussions are held followed by a general e-mail communication. In order to encourage the alignment of personal and Company objectives, DCC operates a bonus structure that incorporates the achievement of corporate objectives and personal objectives.

On behalf of the Board,

Philip Male
Senior Independent Director
28 June 2018

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

The Directors are responsible for preparing the Annual Report and financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the Company financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (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 Company and of its profit or loss for that period. In preparing the Company's financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable, relevant and reliable;
- State whether they have been prepared in accordance with IFRSs as adopted by the EU;
- Assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- Use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006.

They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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 and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority in relation to those matters.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

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 financial statements, 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.

On behalf of the Board

Philip Male
Senior Independent Director
28 June 2018

Independent auditor's report to the Director General, Gas and Electricity Markets Authority ('The Regulator') and the Directors of Smart DCC Limited

Opinion

We have audited the Regulatory Financial Statements of Smart DCC Limited (the Company) for the year ended 31 March 2018 which comprise the Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and the related notes to the Regulatory Financial Statements. 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.

In our opinion the Regulatory Financial Statements have been properly prepared, in all material respects, in accordance with Condition 30 of the Regulatory Licence and the accounting policies set out therein.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), including ISA (UK) 800, and the terms of our engagement letter dated 25 April 2016 and having regard to the guidance contained in ICAEW Technical Release Tech 02/16 AAF 'Reporting to Regulators on Regulatory Accounts' issued by the Institute of Chartered Accountants in England & Wales. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Emphasis of matter - special purpose basis of preparation

We draw attention to note 3a to the Regulatory Financial Statements, which describes their basis of preparation. As explained in that note, the Regulatory Financial Statements have been prepared to assist the Company in complying with Condition 30 of the Company's Regulatory Licence.

The nature, form and content of Regulatory Financial Statements are determined by the Regulator. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the Regulator's purposes. Accordingly we make no such assessment. The Regulatory Financial Statements are separate from the statutory financial statements of the Company and have not been prepared under the basis of International Financial Reporting Standards as adopted by the European Union (IFRS). Financial information other than that prepared on the basis of IFRS does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in statutory financial statements prepared in accordance with the Companies Act 2006. As a result, the Regulatory Financial Statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the Regulatory Financial Statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the Regulatory Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above on the Regulatory Financial Statements the risk of material misstatement that had the greatest effect on our audit was as follows (unchanged from year ended 31 March 2017):

	The risk	Our response
Costs incurred and revenue recognition	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 (customers). Customers are the organisations who will be given permission to interface with the communication hubs and access data available through smart meters.	Our procedures included Test of controls • We have tested a control over purchase orders and invoices matching, and tested whether a sample of purchase orders and invoices during the year were authorised in line with Smart DCC's Delegated Authority Matrix.
£421.4 million 2017: £347.6 million (costs incurred is the aggregate of costs of sales, administrative expenses and finance costs, with revenue as per the Statement of Profit or Loss and Other Comprehensive Income) Risk vs 2017: ◄► *Refer to page 26 (Audit Committee Report), Statement of Profit or Loss and Other Comprehensive Income), and note 2 of the Regulatory Financial Statements*	Accounting application The amount of total costs recognised in the Regulatory Financial Statements for the period and whether they are permitted to be recharged under the terms of the Licence directly determines the amount of revenue recognised in the Regulatory Financial Statements. As such there is a risk that if costs are not accurately recorded within the Regulatory Financial Statements, revenue would also be misstated. 2017/18 Costs Certain costs incurred by the Company are recognised upon the achievement of a contractually agreed milestone. There is a risk that milestones have not been achieved during the current year and costs are not recognised accurately. 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 • Agreed the amounts recorded for a sample of costs incurred and identified as chargeable to customers, using a statistical method of sampling, to source documentation (for example, invoices and contracts), in order to establish, whether the amounts were accurately recorded; and • Inspected the invoices and contracts supporting the sample of costs selected and challenged 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 customers. Tests of details • 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. Tests of details • Where contractual milestones had not been achieved as at 31 March 2018 we assessed the reasonableness of the estimate of costs incurred for milestones that are in progress but not yet achieved for a statistical sample, 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 Regulatory Financial Statements as a whole was set at £8,400,000 (2017: £6,750,000), determined with reference to a benchmark of revenue of £421,429,000 (2017: £347,632,000), of which it represents 2% (2017: 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 £420,000 (2017: £340,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

We applied a lower materiality to administrative expenses as 44% (2017: 49%) of this balance relates to services procured from the parent company, Capita Business Services Limited. We considered that the users of the Regulatory Financial Statements were likely to be concerned that expenses paid to the parent company had not been overstated.

The materiality for administrative expenses was set at £1,500,000 (2017: £850,000), determined with reference to a benchmark of administrative expenses of £59,760,000 (2017: £42,417,000), of which it represents 2.5% (2017: 2%).

We report to the Audit Committee any corrected or uncorrected identified misstatements relating to administrative expenses exceeding £75,000 (2017: £43,000), 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.

We have nothing to report on going concern

We are required to report to you if we have anything material to add or draw attention to in relation to the directors' statement in note 3 to the Regulatory Financial Statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Company's use of that basis for a period of at least twelve months from the date of approval of the Regulatory Financial Statements. We have nothing to report in these respects.

We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the Regulatory Financial Statements. Our opinion on the Regulatory Financial Statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our Regulatory Financial Statements audit work, the information therein is materially misstated or inconsistent with the Regulatory Financial Statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and Directors' report

Based solely on our work on the other information:

- We have not identified material misstatements in the strategic report and the Directors' report;
- In our opinion the information given in those reports for the financial year is consistent with the Regulatory Financial Statements; and
- In our opinion those reports have been prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our Regulatory Financial Statements audit, we have nothing material to add or draw attention to in relation to:

- The Directors' confirmation within the Directors' statement of longer-term viability (page 19) that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency and liquidity;

- The Principal Risks and uncertainties disclosures describing these risks and explaining how they are being managed and mitigated; and

- The Directors' explanation in the statement of longer-term viability of how they have assessed the prospects of the Company, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they 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 of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Corporate governance disclosures

We are required to report to you if:

- We have identified material inconsistencies between the knowledge we acquired during our Regulatory Financial Statements audit and the Directors' statement that they consider that the annual report and Regulatory Financial Statements 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; or

- The section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 31, the Directors are responsible for: the preparation of the Regulatory Financial Statements in accordance with the Condition 30 of the Regulatory Licence and the accounting policies set out therein; such internal control as they determine is necessary to enable the preparation of Regulatory Financial Statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the Regulatory Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Regulatory Financial Statements.

As part of an audit in accordance with ISAs (UK), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Regulatory Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the Regulatory Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during the audit.

- Assess the reasonableness of significant accounting estimates and related disclosures made by the Directors.

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 Company's Regulatory Licence. Where Condition 30 of the Company's 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 Financial Statements are consistent with those used in the preparation of the statutory financial statements of the Company.

The purpose of our audit work and to whom we owe our responsibilities

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 Company's 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.

Our opinion on the Regulatory Financial Statements is separate from our opinion on the statutory financial statements of the Company. Our audit report in relation to the statutory financial statements of the Company (our "statutory" audit) was made solely to the Company 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 those matters which we required to state to them in a statutory auditor's report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the Company's members, as a body, for our statutory audit work, for any statutory audit work, for our statutory audit report, or for the opinions we have formed in respect of that statutory audit.

George Richards
for and on behalf of KPMG LLP
Chartered Accountants
15 Canada Square
London
E14 5GL

28 June 2018

Statement of Profit or Loss and Other Comprehensive Income For the Year Ended 31 March 2018

	Note	2018	2017
		£'000	**£'000**
Revenue	4	421,429	347,632
Cost of sales	6	(361,302)	(304,825)
Gross profit		**60,127**	**42,807**
Administrative expenses	7	(59,760)	(42,417)
Operating profit		**367**	**390**
Interest received		-	-
Finance costs		(367)	(390)
Profit before tax		**-**	**-**
Tax		-	-
Result for the year		**-**	**-**
Other comprehensive income for the year		**-**	**-**
Total comprehensive income for the year attributable to the owners of the Company		**-**	**-**

The notes on pages 41 to 52 form an integral part of these financial statements.

Statement of Financial Position

	Note	2018	2017
		£'000	**£'000**
Assets			
Non-current assets			
Unbilled milestone revenue due in more than one year	11	413,306	220,669
Total non-current assets		**413,306**	**220,669**
Current assets			
Trade and other receivables	12	136,972	141,898
Cash and bank balances	16	42,856	43,212
Total current assets		**179,828**	**185,110**
Total assets		**593,134**	**405,779**
Liabilities			
Current liabilities			
Trade and other payables	13	155,854	142,350
Deferred revenue		23,974	42,760
Total current liabilities		**179,828**	**185,110**
Non-current liabilities			
Milestones due in more than one year	11	413,306	220,669
Total non-current liabilities		**413,306**	**220,669**
Total liabilities		**593,134**	**405,779**
Total net assets		**-**	**-**
Equity			
Share capital	15	-	-
Retained earnings		-	-
Total equity		**-**	**-**

The financial statements on pages 38 to 52 were approved and authorised for issue by the Board of Directors on 28 June 2018 and signed on its behalf by:

Philip Male
Senior Independent Director
Smart DCC Limited

Company registered number: 8641679

The notes on pages 41 to 52 from an integral part of the financial statements.

Statement of Changes in Equity

	Share Capital	Retained Earnings	Total Equity
	£'000	**£'000**	**£'000**
At 1 April 2016	-	-	-
Profit for the year	-	-	-
Other comprehensive income for the year	-	-	-
At 31 March 2017 and 1 April 2017	**-**	**-**	**-**
Profit for the year	-	-	-
Other comprehensive income for the year	-	-	-
At 31 March 2018	**-**	**-**	**-**

The notes on pages 41 to 52 from an integral part of the financial statements.

Statement of Cash Flows

	Note	2018 £'000	2017 £'000
Net cash flows from operating activities	18	11	18,251
Net cash flows from investing activities		-	-
Net cash flows from financing activities	18	(367)	(390)
Net decrease in cash and cash equivalents		(356)	17,861
Cash and cash equivalents at beginning of year		43,212	25,351
Cash and cash equivalents at end of year	16	**42,856**	**43,212**

The notes on pages 41 to 52 form an integral part of the financial statements.

Notes to the Financial Statements

1. General Information

Smart DCC Limited is a Company incorporated in England and Wales 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. Adoption of new and revised standards

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 has carried out an assessment of the potential impact on its financial statements resulting from the application of IFRS 15 in financial year 2018/19. The outcome of this review has not identified any changes in revenue recognition for prior or existing revenues, however the presentation of financing charges in the Statement of Profit and Loss will be disclosed as separate line items, and there is not expected to be any changes to this position before the end of financial year 2018/19.

3. 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 (IFRS).

The Regulatory financial statements (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 financial statements.

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 customers for services provided by the Company in accordance with the Charging Methodology specified by the SEC. Revenue also includes amounts receivable from customers 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 customers receive Smart DCC is acting as an agent and accounting for the proceeds and associated costs accordingly. These services are those where customers receive a direct service from the Service Providers and Smart DCC acts as an intermediary to charge customers 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 customers are recognised in the Statement of Financial Position. No amounts are recognised in the Statement of Profit or Loss.

Charges for communications hubs are paid by customers 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 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 arisen 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 customers 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.

- 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.

- 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.

4. Revenue

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

	2018	**2017**
	£'000	**£'000**
Continuing operations		
Charges to customers	273,186	214,729
Accrued income	148,243	132,903
	421,429	**347,632**

Accrued income represents amounts due from DCC customers 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. £148.2m (2017: £132.9m) 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 £25.5m (2017: £21.3m) and payments due after one year £122.7m (2017: £111.6m). 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 customers.

5. 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 Great Britain for services provided to British energy suppliers.

Information about major customers
Included in revenues arising from Mandatory Business Services are revenues of approximately £197.0m (2017: £200.9m), which arose from charges to the SEC parties' nine largest energy suppliers in Great Britain. No other single customer contributed 10% or more to the Company's revenue.

6. Cost of sales

	2018	2107
	£'000	£'000
External costs	335,038	291,528
Pass through costs	8,805	7,980
Other external costs	17,459	5,317
	361,302	**304,825**

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.

7. Administrative Expenses

	2018	2017
	£'000	£'000
Staff costs – see note 9	30,127	25,256
Professional Fees	7,052	4,805
Corporate Overhead	4,635	3,362
Margin and Gain Share	6,109	3,210
IT Operating Expenses	6,699	2,970
Office Accommodation	2,292	1,432
Recruitment costs	1,569	833
Travel and subsistence	1,044	357
Other Costs	233	192
	59,760	**42,417**

8. Auditor's remuneration

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

	2018	2017
	£'000	£'000
Fees payable to the Company's auditor for the audit of the annual accounts	59	49
Total audit fees	**59**	**49**
Fees payable to the Company's auditor for other services to the Company: - Other assurance services	26	25
Total non-audit fees	**26**	**25**

Total fees of £85,000 were due to the auditor for the year ended 31 March 2018 (2017: £74,000).

9. 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:

	2018	2017
Corporate management	7	12
Industry and regulation	30	22
Finance and business operations	33	27
Commercial	18	8
Design and assurance	111	88
Operations	44	36
Security	12	7
Programme management	65	48
	320	**248**

Their aggregate remuneration (including overhead) comprised:

	2018	2017
	£'000	£'000
Wages and salaries	29,865	26,185
Severance pay	313	49
Social security costs	2,383	1,121
Other pension costs	428	241
	32,989	**27,596**

10. Tax

	2018	2017
	£'000	£'000
Current tax	-	-
Deferred tax	-	-
	-	**-**

The Company has £nil taxable profit, and hence £nil tax at the UK Corporation rate of 19% (2017: 19%). No tax amounts have been recognised directly in equity during the year (2017: £nil).

11. Non-current assets and liabilities

Included in both non-current assets and non-current liabilities are amounts of £413.3m (2017: £220.7m), representing amounts due from customers and due to Service Providers respectively.

At 31 March 2018, 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, hence a non-current liability of £413.3m (2017: £220.7m) has been recognised, representing amounts payable after 31 March 2019.

These amounts will be recoverable from DCC customers and therefore, a corresponding amount of £413.3m (2017: £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.

12. Trade and other receivables

	2018	2017
	£'000	£'000
Unbilled milestone revenue due in less than one year	111,455	87,337
Accrued income in respect of delay payments	-	29,511
Trade receivables due from customers	15,470	20,164
VAT recoverable	6,271	3,491
Related party receivable	569	-
Trade receivables due from Service Providers	120	1,041
Prepayments	3,001	237
Trade receivables from Other Providers	86	117
	136,972	**141,898**

Unbilled milestone revenue of £111.5m (2017: £87.3m) is the amount to be recovered in the next year from customers in respect of payments due on contracts with Service Providers. The amount due to the Service Providers is recognised in trade and other payables (see note 13). The Directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.

Trade receivables due from customers represent amounts 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 due date is the later of five working days following receipt of invoice and eight working days following the end of the month. 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.

Under Section J of the SEC, customers 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 must be equal to or greater than the customers 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.

13. Trade and other payables

	2018	2017
	£'000	**£'000**
Milestones due in less than one year	111,455	87,337
Accruals	33,696	46,509
Trade payables due to customers	3,564	4,227
Related party payable	5,092	3,999
Trade payables due to Service Providers	1,867	151
Interest payable	180	127
	155,854	**142,350**

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 customers and therefore a corresponding amount of £111.5m (2017: £87.3m) has been recognised in trade and other receivables (see note 12).

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

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

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

14. Off balance sheet arrangements

At the date of the Statement of Financial Position, the Company had unrecognised, future liabilities of £788.8m (2017: £794.2m). 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 2018. See note 3 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.

15. Share capital

	2018	2017
	£'000	£'000
Authorised, issued and fully paid:		
1 ordinary share of £1 each	-	-

16. Cash and bank balances

	2018	2017
	£'000	£'000
Cash at bank	39,292	38,985
Credit cover deposits from customers	3,564	4,227
	42,856	**43,212**

Cash at bank reflects the amount available for use by the Company.

17. Financial instruments

Categories of financial instruments:

	2018	2017
	£'000	£'000
Financial assets		
Loans and receivables		
Unbilled milestone revenue due in more than one year	413,306	220,669
Trade and other receivables	136,972	141,898
Cash and bank balances	42,856	43,212
	593,134	**405,779**
Financial liabilities		
Amortised cost		
Milestones due in more than one year	413,306	220,669
Trade and other payables	155,854	142,350
Deferred revenue	23,974	42,760
	593,134	**405,779**

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.

Contractual cash flows of milestones achieved

	2018	2017
	£'000	£'000
Contractual cash flows		
1 year or less	127,060	110,013
1 to 2 years	107,630	96,112
2 to 5 years	281,529	180,562
Beyond 5 years	58,935	33,521
Total	**575,154**	**420,208**
Milestones due in more than one year	413,306	220,669
Milestones due in less than one year	111,455	87,337
Carrying amount	**524,761**	**308,006**

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 customers 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:

Customer Value at Risk (VaR) x Customer 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 2018.

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.

18. Cash flow statement

	2018	2017
	£'000	£'000
Profit for the year	-	-
Adjust for:		
Finance costs	367	390
Decrease / (increase) in Trade and other receivables	4,926	(93,706)
Increase in Trade and other payables	13,504	83,802
(Decrease) / increase in Deferred revenue	(18,786)	27,765
Finance cost payable	-	-
Net cash from operating activities	**11**	**18,251**
Net cash from investing activities	**-**	**-**
Net cash used in financing activities	**(367)**	**(390)**

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.

19. Events after balance sheet date

There were no significant events subsequent to the reporting date.

20. Related party transactions

i. Parent and ultimate controlling party

The Company is a subsidiary undertaking of Capita Business Services Ltd. The ultimate parent company is Capita plc (Group), incorporated in the UK. On 23 September 2013, the Secretary of State for the Department for Energy and Climate Change granted Smart DCC Ltd (DCC), a wholly-owned subsidiary of the Group, a licence to establish and manage the smart metering communications infrastructure, governed by the Smart Energy Code. Each year the Group reassess whether it has control over DCC as required under IFRS 10. The Group's ability to control the relevant activities of DCC is restricted by DCC's operating Licence. The power that the Group has over DCC's relevant activities by virtue of owning it is limited given the restrictions in the Licence. That power is held by the Board of DCC where the Group has minority representation in compliance with the Licence. The Group has therefore not consolidated DCC within its Group accounts.

ii. Key Management Personnel

The total amounts for Directors' remuneration were as follows:

	2018	2017
	£'000	£'000
Salaries, fees, bonuses, and benefits in kind	736	587

Included in the amount shown above is £403,979 (2017: £234,110) in respect of qualifying services for the highest paid Director which was all paid as salary, bonus and benefits. There was £nil (2017: £nil) paid in pension contributions. The Directors of the Company are considered to be the key management personnel.

iii. Balances and transactions with other group undertakings

	2018	2017
	£'000	£'000
Amounts included in operating profits	57,572	42,100
Amounts owed to related parties	5,092	3,999
Amounts owed from related parties	569	-

The transactions with related parties are concluded on an arm's length basis.