

Registration number: 06858121

# Ovo Electricity Ltd

Annual Report and Financial Statements

for the Year Ended 31 December 2017



## Ovo Electricity Ltd

### Contents

Company Information	1
Strategic Report	2
Directors' Report	3 to 5
Independent Auditor's Report	6 to 8
Income Statement	9
Statement of Financial Position	10
Statement of Changes in Equity	11
Statement of Cash Flows	12
Notes to the Financial Statements	13 to 22

## **Ovo Electricity Ltd**

### **Company Information**

**Directors** Stephen Fitzpatrick  
Vincent Casey  
Niall Wass  
Christopher Houghton  
Stephen Murphy

**Company secretary** Vincent Casey

**Registered office** 1 Rivergate  
Temple Quay  
Bristol  
United Kingdom  
BS1 6ED

**Independent Auditors** PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
2 Glass Wharf  
Bristol  
BS2 0FR

## Ovo Electricity Ltd

### Strategic Report for the Year Ended 31 December 2017

The directors present their strategic report for the year ended 31 December 2017,

#### **Fair review of the business**

Ovo Electricity Ltd holds the electricity supply licence for the Ovo group of companies. Electricity is procured on the wholesale markets and is sold to other companies within the Ovo group of companies. The results for the year and the financial position are shown in the following financial statements.

Given the simple nature of the Company's business and the fact that the Company is not managed separately from the other companies in the Ovo group, the directors are of the opinion that analysis using KPIs specific to the company is not necessary or appropriate. The Ovo group management's review of the KPIs are detailed within the Ovo Group Ltd financial statements. These financial statements are available upon request from the registered office shown in note 1.

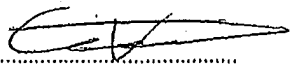
The Company's future developments and commitments to employees are detailed within the Directors' Report.

#### **Principal risks and uncertainties**

Given the straightforward nature of the Company's activities, all procurements of wholesale electricity are sold to Ovo Energy Ltd. Management do not perceive that there are any principal risks or uncertainties within Ovo Electricity Ltd financial statements, other than those disclosed in the accounts of Ovo Group Ltd.

Ovo group manages its cash resources to ensure it has sufficient funds to meet all expected demands as they fall due.

Approved by the Board on 28 June 2018 and signed on its behalf by:



Vincent Casey  
Company secretary and director

## **Ovo Electricity Ltd**

### **Directors' Report for the Year Ended 31 December 2017**

The directors present their report and the audited financial statements for the year ended 31 December 2017.

#### **Directors' of the company**

The directors of the company who were in office during the year and up to the date of signing the financial statements were:

Stephen Fitzpatrick

Niall Wass

Christopher Houghton

Stephen Murphy

Jonathan Owen (resigned 25 January 2018)

Sarah Calcott (resigned 20 March 2017)

The following director was appointed after the year end:

Vincent Casey - Company secretary and director (appointed 8 June 2018)

#### **Dividends**

The Directors do not propose a dividend for the year ended 31 December 2017 (2016: none proposed).

#### **Financial instruments**

The financial risk management objectives and policies of the Company and the assessment of the Company's exposure to market risk, commodity price risk, credit risk, liquidity risk and capital risk is discussed in note 11 of these financial statements.

#### **Employment of disabled persons**

One of the Company's core values is treating people fairly, giving equal opportunities to all employees and applicants. The Company ensures all employees get the same chances for training, development and career progression depending on their performance, including any disabled employees. If an employee becomes disabled whilst in employment, the Company will make every effort to give the employee suitable responsibilities with reasonable adjustments in their current role, in line with the Equality Act 2010. Where this isn't possible, the Company will try to find the employee another role within Ovo and provide additional training (as necessary).

#### **Employee involvement**

The Company actively encourages employee involvement throughout the organisation. The company holds regular company wide briefings where the latest information is shared, including financial and economic factors that affect the performance of the company. Employee performance and development is reviewed on a quarterly basis and ensured it is in line with the overall company's objectives. The Company's employee forum and social committee is chaired by its employees for its employees.

#### **Future developments**

The directors do not consider that Ovo Electricity Ltd will be used for any other purpose than set out in the Business Review up to the point of closure.

#### **Research and development**

The Company undertook no research or development during the year.

## Ovo Electricity Ltd

### Directors' Report for the Year Ended 31 December 2017 (continued)

#### Going concern

The financial statements have been prepared on a going concern basis.

The Company meets its day-to-day working capital requirements through intercompany loans with Ovo Energy Ltd. The Company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Company should be able to operate within the level of its current facilities. The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore, continues to adopt the going concern basis in preparing its financial statements.

#### Directors' liabilities

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force.

#### Statement of Directors' Responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation. Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. In the case of each director in office at the date the Directors' Report is approved:

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

Ovo Electricity Ltd

Directors' Report for the Year Ended 31 December 2017 (continued)

The financial statements on pages 9 to 22 were approved by the Board of Directors on 28 June 2018 and signed on its behalf by:



Vincent Casey  
Company secretary and director

## **Ovo Electricity Ltd**

### **Independent Auditor's Report to the Members of Ovo Electricity Ltd**

#### **Opinion**

In our opinion, Ovo Electricity Ltd's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2017; the income statement, the statement of cash flows, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Independence**

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

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

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

#### **Reporting on other information**

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

## Ovo Electricity Ltd

### Independent Auditor's Report to the Members of Ovo Electricity Ltd (continued)

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

#### *Strategic Report and Directors' Report*

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

#### **Responsibilities for the financial statements and the audit**

##### *Responsibilities of the directors for the financial statements*

As explained more fully in the Statement of Directors' Responsibilities set out on page 4, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

##### *Auditors' responsibilities for the audit of the financial statements*

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

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

##### *Use of this report*

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## Ovo Electricity Ltd

### Independent Auditor's Report to the Members of Ovo Electricity Ltd (continued)

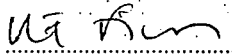
#### Other required reporting

##### *Companies Act 2006 exception reporting*

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.



Katharine Finn (Senior Statutory Auditor)

For and on behalf of PricewaterhouseCoopers LLP, Statutory Auditor

2 Glass Wharf  
Bristol  
BS2 0FR

28 June 2018

# Ovo Electricity Ltd

## Income Statement for the Year Ended 31 December 2017

	Note	2017 £ 000	2016 £ 000
Revenue	3	132,321	121,647
Cost of sales		<u>(129,090)</u>	<u>(118,437)</u>
Gross profit		3,231	3,210
Administrative expenses		<u>(284)</u>	<u>(280)</u>
Operating profit		<u>2,947</u>	<u>2,930</u>
Profit before tax		2,947	2,930
Income tax receipt/(expense)	6	<u>-</u>	<u>-</u>
Profit for the year		<u><u>2,947</u></u>	<u><u>2,930</u></u>

The above results were derived from continuing operations.

There is no other comprehensive income other than the profit for the year (2016: nil).

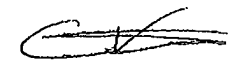
# Ovo Electricity Ltd

(Registration number: 06858121)

## Statement of Financial Position as at 31 December 2017

		31 December 2017 £ 000	31 December 2016 £ 000
	Note		
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	7	25	25
<b>Current assets</b>			
Trade and other receivables	8	10,555	7,608
<b>Total assets</b>		10,580	7,633
<b>Current liabilities</b>			
Income tax liability		(1)	(1)
<b>Net assets</b>		10,579	7,632
<b>Equity</b>			
Share capital	9	-	-
Retained earnings		10,579	7,632
<b>Total equity</b>		10,579	7,632

The financial statements on pages 9 to 22 were approved by the Board on 28 June 2018 and signed on its behalf by:



Vincent Casey  
Company secretary and director

The notes on pages 13 to 22 form an integral part of these financial statements.

# Ovo Electricity Ltd

## Statement of Changes in Equity for the Year Ended 31 December 2017

	Retained earnings £ 000	Total £ 000
At 1 January 2016	4,702	4,702
Profit for the year	2,930	2,930
At 31 December 2016	7,632	7,632
	Retained earnings £ 000	Total £ 000
At 1 January 2017	7,632	7,632
Profit for the year	2,947	2,947
At 31 December 2017	10,579	10,579

# Ovo Electricity Ltd

## Statement of Cash Flows for the Year Ended 31 December 2017

	Note	2017 £ 000	2016 £ 000
<b>Cash flows from operating activities</b>			
Profit for the year		2,947	2,930
Working capital adjustments			
Increase in trade and other receivables	8	<u>(2,947)</u>	<u>(2,930)</u>
Net cash flow from operating activities		-	-
Cash and cash equivalents at 1 January		<u>-</u>	<u>-</u>
Cash and cash equivalents at 31 December		<u><u>-</u></u>	<u><u>-</u></u>

The notes on pages 13 to 22 form an integral part of these financial statements.

## **Ovo Electricity Ltd**

### **Notes to the Financial Statements for the Year Ended 31 December 2017**

#### **1 General information**

The company is a private company limited by share capital, incorporated and domiciled in United Kingdom.

The address of its registered office is:

1 Rivergate  
Temple Quay  
Bristol  
United Kingdom  
BS1 6ED

These financial statements were authorised for issue by the Board on 28 June 2018.

#### **2 Accounting policies**

##### **Summary of significant accounting policies and key accounting estimates**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

##### **Basis of preparation**

The Company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss. The financial statements have been prepared on a going concern basis.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in 'Pounds Sterling' (£), which is the Company's functional and the Company's presentation currency.

##### **Changes in accounting policy**

None of the standards, interpretations and amendments effective for the first time from 1 January 2017 have had a material effect on the financial statements.

## Ovo Electricity Ltd

### Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

#### 2 Accounting policies (continued)

##### New standards, interpretations and amendments not yet effective

The following newly issued but not yet effective standards, interpretations and amendments, which have not been applied in these financial statements, will or may have an effect on the company's financial statements in future:

##### *IFRS 9*

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost; fair value through other comprehensive income; and fair value through profit or loss.

The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income, not recycling. An expected credit losses model replaces the incurred loss impairment model used in IAS 39. For financial liabilities, there are no changes to classification and measurement, except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss.

IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright-line hedge effectiveness tests. To qualify for hedge accounting, it requires an economic relationship between the hedged item and hedging instrument, and for the 'hedged ratio' to be the same as the one that management actually uses for risk management purposes. Contemporaneous documentation is still required, but it is different from that currently prepared under IAS 39. There is an accounting policy choice to continue to account for all hedges under IAS 39. IFRS 9 is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted.

The group is working towards the implementation of IFRS 9 on 1 January 2018. Based on a high level review it anticipates that the classification and measurement basis for its financial assets and liabilities will be largely unchanged by adoption of IFRS 9, and expects to take the accounting policy choice to continue to account for all hedges under IAS 39. The main impact of adopting IFRS 9 is likely to arise from the implementation of the expected loss model. Currently the impact on accumulated losses / profit for future periods is not expected to be material.

## **Ovo Electricity Ltd**

### **Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)**

#### **2 Accounting policies (continued)**

##### **IFRS 15**

IFRS 15, 'Revenue from contracts with customers', deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. Variable consideration is included in the transaction price if it is highly probable that there will be no significant reversal of the cumulative revenue recognised when the uncertainty is resolved.

The standard replaces IAS 18, 'Revenue', and IAS 11, 'Construction contracts', and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018, and earlier application is permitted.

The group is working towards the implementation of IFRS 15 on 1 January 2018 and has carried out a high level review of existing contractual arrangements as part of this process. The directors currently anticipate there will be no material impact for the supply of Electricity revenue stream.

##### **Revenue recognition**

Revenue arises from the supply of electricity and related services as a result of a recharge to the immediate parent entity, Ovo Energy Ltd, as these costs are incurred.

All revenue arose within the United Kingdom.

##### **Finance income and costs policy**

Financing expense comprises interest payable on loans and is recognised in profit or loss using the effective interest method. Financing income comprises interest receivable on funds invested and on loans to group undertakings.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

##### **Tax**

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

##### **Intangible assets**

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

Industry accreditation has an indefinite life, is not subject to amortisation and is tested for impairment at each balance sheet date.

## Ovo Electricity Ltd

### Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

#### 2 Accounting policies (continued)

##### Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for the impairment of trade receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables.

##### Derivatives and hedging

The Company uses commodity purchase contracts to hedge its exposures to fluctuations in gas and electricity commodity prices. When commodity purchase contracts have been entered into as part of the Company's normal business activity, the Company classifies them as 'own use' contracts and outside the scope of IAS 39. This is achieved when:

- A physical delivery takes place under all such contracts;
- The volumes purchased or sold under the contracts corresponds to the Company's operating requirements; and
- The contracts are not considered as written options as defined by the standard.

Commodity purchase contracts not qualifying as 'own use' which also meet the definition of a derivative are within the scope of IAS 39 as derivative financial instruments. This includes both financial and non-financial contracts.

Derivatives and other financial instruments are measured at fair value on the contract date and are re-measured to fair value at subsequent reporting dates. Changes in the fair value of derivatives and other financial instruments are recognised in the income statement as they arise.

##### Critical estimates and judgements

Given the simple nature of the company's operations, the directors do not consider there to be any key estimates or judgements.

#### 3 Revenue

The analysis of the company's revenue for the year from continuing operations is as follows:

	2017	2016
	£ 000	£ 000
Sale of electricity	132,321	121,647

#### 4 Staff costs

The company had no direct employees or salary cost in the year. There were six Directors in the year. Directors' remuneration and salary is recognised in Ovo Group Ltd. The Directors' emoluments for the year ended 31 December 2017 were £1,286,000 (2016: £1,019,000). The highest paid Director's emoluments totalled £409,000 (2016 - £341,000).

Some salary costs were recharged from Ovo Energy Ltd for time spent by its employees working for the Company. The recharged costs were £284,000 (2016: £280,000).

## Ovo Electricity Ltd

### Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

#### 5 Auditors' remuneration

Fees for audit (£5,000) and taxation services (£1,000) are borne by Ovo Energy Ltd.

#### 6 Income tax

The tax on profit before tax for the year is lower than the standard rate of corporation tax in the UK (2016 - lower than the standard rate of corporation tax in the UK) of 19.25% (2016 - 20%).

The differences are reconciled below:

	2017 £ 000	2016 £ 000
Profit before tax	2,947	2,930
Corporation tax at standard rate	567	586
Group loss relief received without payment	(567)	(586)
Total tax charge/(credit)	-	-

The main rate of UK corporation tax for the year to 31 March 2017 was 20%, reducing to 19% in the year to 31 March 2018.

At Summer Budget 2015, the government announced legislation setting the Corporation Tax main rate at 19% for the years starting the 1 April 2017, 2018 and 2019 and at 18% for the year starting 1 April 2020. At Budget 2016, the government announced a further reduction to the Corporation Tax main rate for the year starting 1 April 2020, setting the rate at 17%.

#### 7 Intangible assets

	Other intangible assets £ 000	Total £ 000
Cost or valuation		
At 1 January 2016	25	25
At 31 December 2016	25	25
Carrying amount		
At 31 December 2017	25	25
At 1 January 2016	25	25

## Ovo Electricity Ltd

### Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

#### 7 Intangible assets (continued)

Industry accreditation is regarded by management to have an indefinite life as there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Company and circumstances continue to support the assessment that the useful life is indefinite. Industry accreditation is required for the Company to operate in the electricity industry.

There was no indication of impairment of industry accreditation during the year. The carrying amounts of industry accreditation was reviewed at the reporting date and management determined that there were no indicators of impairment. The annual test for impairment was undertaken using discounted cash flow forecasts.

#### 8 Trade and other receivables

	31 December 2017 £ 000	31 December 2016 £ 000
Receivables from related parties	<u>10,555</u>	<u>7,608</u>

The fair value of those trade and other receivables classified as financial instrument loans and receivables are disclosed in note 11 "Financial instruments".

The company's exposure to credit and market risks, including impairments and allowances for credit losses, relating to trade and other receivables is disclosed in note 12 "Financial risk management and impairment of financial assets".

#### 9 Share capital

##### Allotted, called up and fully paid shares

	31 December 2017 No.	31 December 2017 £	31 December 2016 No.	31 December 2016 £
Ordinary share capital of £0.01 each	<u>10,000</u>	<u>100.00</u>	<u>10,000</u>	<u>100.00</u>

#### 10 Contingent liabilities

Ofgem has launched an investigation into OVO's estimation of customers' energy usage during winter 2016-17 and the general accuracy of its annual consumption figures in customers' annual statements. This investigation was launched in February 2018 and Ofgem has led OVO to believe that it may take over a year to complete. OVO has recently completed the first round of information requests and is waiting to hear further from Ofgem. OVO anticipates that if it is found to be at fault then the remedy will most likely be a financial penalty. OVO does not anticipate this investigation impacting its ability to supply energy or grow its customer base in any way.

## Ovo Electricity Ltd

### Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

#### 11 Financial instruments

##### Financial assets

##### Loans and receivables

	Carrying value		Fair value	
	31 December 2017 £ 000	31 December 2016 £ 000	31 December 2017 £ 000	31 December 2016 £ 000
Cash and cash equivalents	-	-	-	-
Trade and other receivables	10,555	7,608	10,555	7,608 <sup>1</sup>
	<u>10,555</u>	<u>7,608</u>	<u>10,555</u>	<u>7,608</u>

##### *Valuation methods and assumptions*

##### Loans and receivables:

The fair value of loans and receivable is based on the expectation of recovery of balances. The carrying value of all trade and other receivables are denominated in UK Pound Sterling. The receivable in the current prior year reside with related parties within the Ovo Group, there have been no historic defaults and the balance is not past due or impaired.

#### 12 Financial risk management and impairment of financial assets

The Company's activities expose it to a variety of financial risks: market risk (predominantly from commodity price risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of commodity price markets and seeks to minimise potential adverse effects on the Company's financial performance.

Risk management is carried out by the Risk management committee, under policies approved by the Board.

## Ovo Electricity Ltd

### Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

#### 12 Financial risk management and impairment of financial assets (continued)

##### Credit risk and impairment

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and from security deposits and prepayments to suppliers and distributors.

The carrying amount of financial assets represents the maximum credit exposure. Therefore, the maximum exposure to credit risk at the balance sheet date was £10,555,000 (31 December 2016: £7,608,000) being the total of the carrying amount of financial assets, excluding equity investments, which include trade receivables and accrued income, derivative financial assets and cash. All the receivables are with parties in the UK.

The allowance account for trade receivables is used to record impairment losses unless the Company is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrecoverable are written off against the trade receivables directly. There were no transactions written off in the year. The Company provides for impairment losses based on estimated irrecoverable amounts determined by reference to specific circumstances and the experience of management of debtor default in the energy industry.

##### Analysis of items past due or impaired

##### Loans and receivables

	Carrying value of items neither past due nor impaired £ 000	Carrying value of items past due but not impaired £ 000	Carrying value of items past due and/or impaired £ 000	Pre impairment value £ 000	Impairment recognised to date £ 000
2017					
Loans and receivables	10,555	-	-	-	-
	Carrying value of items neither past due nor impaired £ 000	Carrying value of items past due but not impaired £ 000	Carrying value of items past due and/or impaired £ 000	Pre impairment value £ 000	Impairment recognised to date £ 000
2016					
Loans and receivables	7,608	-	-	-	-

The credit quality of financial assets that are neither due or impaired can be assessed by reference to historical information about counterparty default rates. Financial assets relate to intercompany receivables and the derivatives from existing suppliers/related parties with no defaults in the past. No financial assets are past due but not impaired.

##### Market risk

Commodity risk is the exposure that the company has to price movements in the wholesale electricity markets.

## Ovo Electricity Ltd

### Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

#### 12 Financial risk management and impairment of financial assets (continued)

##### Commodity price risk

The risk is primarily that market prices for commodities will fluctuate between the time that tariffs are set and the time at which the corresponding procurement cost is fixed; this may result in lower than expected margins or unprofitable sales. The Company is also exposed to volumetric risk in the form of uncertain consumption profiles arising from a range of factors which include weather, economic climate and changes in energy consumption patterns.

The Company's exposure to commodity risk is managed through the use of derivative financial instruments. The Company does not use derivatives and other financial instruments for speculative purposes.

Derivatives are measured at fair value on the contract date and are re-measured to fair value at subsequent reporting dates. Changes in the fair value of derivatives and other financial instruments are recognised in the income statement as they arise. Unrealised net losses on open contracts at the year-end were £nil (2016: £nil).

The Ovo group manages this risk by entering into forward contracts for a variety of periods. Energy procurement contracts are entered into and continue to be held for the purpose of the receipt of a non-financial item which is in accordance with the Company's expected purchase and sale requirements and are therefore out of scope of IAS 39. Energy contracts that are not financial instruments under IAS 39 are accounted for as executory contracts and changes in fair value do not immediately impact profit or equity, and as such, are not exposed to commodity price risk as defined by IFRS 7. So whilst the risk associated with energy procurement contracts outside the scope of IAS 39 is monitored for internal risk management purposes, only those energy contracts within the scope of IAS 39 are within the scope of the IFRS 7 disclosure requirements.

##### Sensitivity analysis

The Company expects to have no net exposure to commodity risk as it will pass price risk onto Ovo Energy Ltd by recharging all electricity sold at a fixed margin.

##### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

Liquidity risk is managed by Ovo group companies as the Company has no liquid resources of its own. As such no sensitivity analysis is disclosed within the Company financial statements. Refer to Note 13 for information regarding the parent entity financial statements.

The Ovo group management team uses short and long-term cash flow forecasts to manage liquidity risk. Forecasts are supplemented by sensitivity analysis which is used to assess funding adequacy for at least a 12 month period.

##### Capital risk management

##### Capital components

Capital risk is managed to ensure the Ovo group continues as a going concern and grows in a sustainable manner. The Company and Ovo group have no borrowings from third parties, should debt be introduced into the capital structure in the future then gearing would be managed and monitored.

## **Ovo Electricity Ltd**

### **Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)**

#### **13 Related party transactions**

##### **Key management personnel**

The company had no direct employees or salary cost in the year. There were five Directors in the year. Director's remuneration and salary is recognised in Ovo Group Ltd. The Company Directors are considered to be the only key management personnel, their emoluments are disclosed in Note 4.

##### **Summary of transactions with parent**

During the year the Company traded with Ovo Energy Ltd (parent) and made sales of electricity to them totalling £132,321,000 (2016 - £121,647,000). The company also received management services from Ovo Energy Ltd of £284,000 (2016 - £279,000). As at 31 December 2017, the total balance due from Ovo Energy Ltd was £10,555,000 (2016 - £7,608,000).

#### **14 Parent and ultimate parent undertaking**

The smallest consolidated statements that incorporate Ovo Electricity Ltd are those of Ovo Group Ltd, which are available upon request from the registered office shown in Note 1.

The largest consolidated statements that incorporate Ovo Electricity Ltd are those of Imagination Industries Limited, which are available upon request from the registered office shown in Note 1.

The company's immediate parent is Ovo Energy Ltd.

The ultimate parent is Imagination Industries Limited.. These financial statements are available upon request from the registered office showing in note 1.

The ultimate controlling party is Stephen Fitzpatrick.