Registration number: 06890468

Imagination Industries Ltd

Annual Report and Consolidated Financial Statements

for the Year Ended 31 December 2015

Imagination Industries Ltd

Contents

Imagination Industries Ltd

Company Information

Directors	Stephen Fitzpatrick Sophie Fitzpatrick
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

Imagination Industries Ltd

Strategic Report for the Year Ended 31 December 2015

The directors present their strategic report for the year ended 31 December 2015.

Building a smart & sustainable business
The UK energy system is on the cusp of seismic change. With the introduction of smart meters and advances in renewable technologies, the UK is progressing towards a new age of efficient processes and decentralised, clean power generation. Combined with technological innovations this change will bring increasing complexity to supplying energy.

OVO is at the forefront of that change, bringing energy into the 21st century by building a smart and sustainable business that is well placed to meet the challenges and pace of technological development and complexity.

A smart business means using smart meters and technology to design innovative new products and deliver a digitally seamless customer experience.

A sustainable business means offering customers fair pricing which reflects exceptional quality products and service, and supporting renewable power sources.

By combining the two approaches, OVO is focussed on attracting customers who value a holistic offering - encompassing not only price but quality and brand ethics. We believe these customers will stay with OVO for longer, thus delivering sustainable, long term value.

OVO is building a smart and sustainable business that is Better for Everyone..

Smart meters. Smart products. Smart trading.
OVO uses the latest technology to create digitally seamless customer experiences, which empower consumers to increasingly self-serve and enable OVO to create operational efficiencies.

In September 2016, over 74% of OVO's customers manage their account online using My OVO, its web-based platform, or the OVO app which is available on smartphones, tablets and the Apple Watch. On My OVO, customers can do everything from submitting meter readings and changing their direct debit to renewing their contract. The app can be used to access account information and top up pay-as-you-go (PAYG) accounts live.

Highest penetration in the market
In 2015 OVO's app accounted for 6% of downloads in the retail energy market, which was three times' OVO's market share (source: Report by Pan European Utilities UBS Lab, "What is the killer app in UK Energy? And can smartphone apps make money?" dated 20 June 2016).

Smart meters
Smart meters provide real-time gas and electricity usage data, removing the need for customers to submit meter readings.

OVO has been leading the way in the Government's smart meter rollout since December 2013 when it installed its first smart meter. In September 2016, over a quarter of OVO's customers have a smart meter, with meters having been installed in over 190k of OVO customers' homes. In 2015 alone OVO installed smart meters in over 80k of our customers' homes, equating to over 200 meters installed on average per day.

OVO is now preparing for the introduction of the second generation of smart meters and 'go live' of the Data Communication Company - a data and communications network that will make smart meters fully interoperable between energy suppliers and network operators.

OVO has developed its own smart meter booking platform which provides a centralised, live view of engineer availability and bookings across all of OVO's installation partners and Field Force - OVO's in-house installation team. The platform can be accessed by both customers and our installation partners, which makes the booking process more efficient for everyone. OVO's Field Force, which brings the OVO experience into the home, regularly outperforms daily installation targets and has achieved an outstanding average NPS +91 score since launch. NPS - or Net Promoter Score - is calculated based on responses to a single question: How likely would you recommend our company/product/service to a friend or colleague? The scoring for this answer is based on a 0 to 10 scale.

Smart products
With smart meters comes smart data and smart technology, which OVO is using to create new innovative products to further enhance customer experience.

In 2015 OVO launched PAYG+ - the market's first truly integrated, smart prepayment platform which allows prepay customers to manage their energy via an app, from topping up credit to monitoring their usage. This replaces the inconvenient, traditional prepayment methods of top-up keys and cards.

OVO also launched OVO Live - a platform fully designed and developed in-house which allows smart meter customers to monitor their energy usage live. The OVO Live platform receives data every six seconds, providing up to 5 million meter readings every year for individual customers. This provides customers with a truly interactive tool that allows them to engage with and manage their energy usage in an unprecedented way. Receiving automated meter readings at this volume also enables OVO to increase efficiency and accuracy in billing customers.

Smart trading
OVO's trading team has developed a number of tools to purchase commodities and reduce trading risks efficiently and effectively. This helps them manage the 3.3TWh of electricity and 8.6TWh of gas purchased every year (annualised figure as at 30 June 2016).

One such tool is OVO's demand forecasting model, a combination of regression and machine learning algorithms which analyses historic data on usage and weather to calculate OVO's share of Elexon's standard demand profile to a high degree of accuracy. This tool is critical to avoiding volatile and potentially expensive 'cash out' penalties, and therefore minimising OVO's wholesale costs.

This year Ovo outperformed the Big 6 suppliers for the first time and is consistently more accurate than other independent suppliers in its demand forecasting.

State-of-the-art demand forecasting isn't just important for saving costs today - it sets OVO up for the future energy system of tomorrow. Mass penetration of smart meters will bring a huge step change in the quantity of data that will become available to suppliers.

For the first time suppliers will have accurate live data of actual usage, creating the potential for developing a direct link between the cost of supplying electricity to a customer and how and when they actually use it.

Sustainable growth. Sustainable future.

Fair pricing for exceptional customer experience
OVO's approach to pricing is not to simply offer the cheapest tariffs in the market. Doing so may attract new customers quickly, but below-cost pricing is not sustainable in the long term and attracts customers who are driven purely by price.

A typical approach to pricing involves offering deeply discounted tariffs exclusively to new customers - often at or below cost. Discounts are subsidised by significantly higher tariffs paid by existing customers - usually legacy customers or customers whose fixed term tariffs have long expired who are on 'default' tariffs.

In the Competition and Markets Authority's recent investigation into the energy market, it found that 70% of the Big Six's customers are paying default tariffs, such tariffs are excessively priced and the detriment caused by this excessive pricing amounts to £1.4 billion each year (source: Competition and Markets Authority's Final Report dated 24 June 2016: page 45, paragraph 194)

OVO believes that this pricing practice simply isn't fair to customers. It is dependent on keeping a healthy stock of customers sufficiently disengaged and paying over-priced default, variable tariffs.

Instead, OVO believes in fair pricing, where tariffs are competitive and reflect wholesale and supply costs, whilst maintaining exceptional value for quality products and service.

How OVO's pricing is different
The gap between OVO's fixed and variable tariffs is one of the lowest in the market: 57% of OVO's credit customers are on its most competitive tariff (Better (All Online) fixed 12 months), in contrast to the Big Six, 70% of whose customers on average are on the most expensive default tariffs. (source: Competition and Markets Authority's Final Report dated 24 June 2016: page 6, paragraph 24)

Reflecting the quality of OVO's customer service, OVO's NPS score is typically the highest among retail energy suppliers (source: Survey conducted by Brainjuicer on behalf of OVO Energy during August 2016: based on sample size of 567).

Sustainable future
OVO is committed to making renewable electricity available to all customers and reducing our impact on the environment.

In 2015 OVO was the first top 10 UK energy supplier to remove coal from its fuel mix: This reduced OVO's carbon intensity by 34% (compared against its 2014 fuel mix).

OVO's Greener tariff offers 100% renewable power and is one of cheapest in the market. All of OVO's other tariffs have as standard at least 33% renewable electricity.

OVO is making the UK greener: In partnership with The Conservation Volunteers, OVO launched its "I Dig Trees" initiative in 2015, planting 157,000+ trees and improving over 2,000 green spaces across the UK.

What's coming next

The rise of renewables will continue
How we make and consume energy is evolving rapidly as new technologies respond to rising demand for sustainable, low-carbon energy sources. At the beginning of this century, over 90% of electricity in the UK was generated by traditional coal, gas and nuclear power plants - with renewable generation making up less than 1% of installed capacity.

Fast forward to 2015: whilst large-scale coal, gas and nuclear generation still provides two-thirds of our electricity requirements, renewable generation now represents a quarter of total generation. The rise of renewable power can be attributed to a number of factors. Costs have fallen dramatically, particularly for onshore wind and solar PV, as these industries benefit from economies of scale, technologically-led savings and government subsidies which have stimulated growth.

Renewable generation helps us deliver on climate change goals, but it also alters the dynamics of the electricity system radically, moving from a "centralised" model to a "de-centralised" one. De-centralised electricity systems, often known as distributed generation, represent a step change from the industrial model on which the Big Six have built their businesses. Distributed generation encompasses small-scale generation facilities, located at or near where the power will be consumed. 23% of installed generation capacity is now connected to either the lower-voltage distribution networks or directly to domestic, commercial and industrial buildings (source: National Grid Future Energy Scenarios 2016).

Storage is an under-appreciated game-changer
Accompanying the rise of renewables, we see great potential for energy storage to transform how and when we consume power. One of the key problems with renewables is that the power produced by it will always be intermittent. Storage, essentially large-scale battery technology, overcomes this issue by allowing us to "recharge" whenever renewable power is plentiful and cheap, and then "deplete" when renewable power is in short supply.

Until recently, energy storage has been expensive. However, thanks largely to a global expansion of lithium-ion battery production capacity for electric vehicle application, battery costs have fallen dramatically in recent years - decreasing by 35% in 2015 alone - and are expected to continue to fall (source: http://www.bloomberg.com/features/2016-ev-oil-crisis/).

Future homes may therefore become increasingly self-sufficient, making and consuming their own electricity. We believe that domestic energy storage is set to change the electricity market more quickly than many realise.

OVO occupies a unique position in the market, where it offers both fair variable prices and exceptional service: By offering digital self-serve tools, innovative new products and award-winning service, OVO sets out to attract and retain customers who value such quality in service and experience, are happy to pay a fair price for it, and are therefore less likely to switch away to suppliers offering cheaper prices. OVO was the first energy supplier to be awarded Which? Recommended Supplier status (2015 & 2016) and continues to be top rated in Which? customer satisfaction survey.

Sustainable future
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How OVO is different

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Electric vehicles - a potential long-term driver of electric demand
Despite recent lower fuel prices, electric vehicle (EV) uptake is on the rise. It is estimated that EVs will add 8%, to global annual electricity demand by 2040 (source: Bloomberg, New Energy Finance - Electric Vehicles 22 August 2016). As with renewables, governments will at first need to incentivise the growth of ownership, but the benefit of this will be continued progress toward meeting long-term decarbonisation goals.

For the electricity system, the implications of EVs are substantial. Although personally owned and a consumer product, EVs have storage potential, which can aid with the complex task of balancing electricity demand and supply - becoming a component of our electricity grid.

Demand management provides an area of near-term opportunity
We also anticipate significant developments in demand management in the coming years. With live data available from smart meters, customers' consumption could soon be priced based on the time of day energy is actually used. This level of accuracy will reward customers who are able to reduce their consumption during peak periods when demand, and therefore wholesale costs, are at their highest.

What's next?
Everyone will need to adapt to the rapid rate of change in the UK energy system and find ways to meet the challenges of an electricity system under transformation. OVO's vision for the future involves harnessing new technologies and finding truly innovative ways to control and optimise both supply and demand, to the benefit of all our stakeholders.

OVO'S FINANCIALS

Financial Overview

Growth
2015 was a year of significant growth. The number of customers rose from 408k to 569k, representing a 38% increase from 2014. Revenue growth was correspondingly high at £513m, compared to £317m in 2014, representing a 61% increase. The significantly higher rate of growth in revenue compared to customer numbers reflects the impact of timing in acquiring customers. Due to seasonality effects the full benefit of revenue from customers acquired in Winter 2014, when the UK experienced mild weather, was not reflected until 2015.

Growth in customer numbers remained strong in the first half of 2016 reaching 681k, an annualised growth rate of 43%.

Profitability
Profits before tax and net acquisition costs* (PBT&NAC) have improved significantly from losses of £22.2m in 2014 to £6.1m in 2015. Losses in previous years reflect the significant investment costs that were required to achieve the rapid rate of growth in the business. The underlying shift to profitability in 2016 is driven by an increase in average customer tenure from 334 days in 2014 to 486 days in 2015.

*Net Customer Acquisition costs represent acquisition costs related solely to growing OVO's net customer base.

A Smart and Sustainable business
OVO has invested heavily in technology to deliver digital tools which increasingly enable customers to self-serve and therefore creates operational efficiencies. This investment has resulted in year-on-year reductions in administration costs as a percentage of revenue, from 18.2% in 2014 to 16.4% in 2015.

One specific area of focus for OVO is the rollout of smart meters. During the course of 2015 over 145k gas and electricity smart meters were installed into OVO customers' homes, and a further 107k were installed in the first half of 2016. This means that OVO now has the highest proportion of its customer base installed with smart meters out of the top 10 suppliers. OVO's investment in smart meters has enabled the successful rollout of PAYG+ and OVO Live, and underpins OVO's future development of innovative smart-enabled products and services.

Working capital management
Optimising OVO's working capital cycle has been key to offering competitive tariffs.

OVO has a substantial trading and credit facility arrangement with Shell which enables it to efficiently manage sizeable commodity transactions. Working capital has been further supported in H1 2016 by the recently completed sale of OVO's smart meter asset business (see below), which has resulted in the current ratio increasing from 0.53 as at the end of 2015 to 0.80 at 30 June 2016.

Management of customer payments
Customer payments are an important component of OVO's working capital cycle and OVO takes a unique approach in this area. New customers on standard credit tariffs pay one month's direct debit ("DD") payment upfront. The upfront payment is recognised in OVO's accounts as deferred income and unwinds (i.e. becomes recognised) as revenue as customers use energy. In return for making payment upfront, customers receive the OVO Interest Reward which pays 3% interest on credit balances throughout the year. This feature is highly valued by our customers.

While a customer's DD amount reflects a flat monthly payment profile, their credit balance will fluctuate significantly during the year as energy usage is highly seasonal. OVO carefully monitors credit balances during the year to ensure that DD amounts are appropriately set to cover a customer's anticipated usage. During 2016 OVO refunded approximately £11m in surplus credit to 30k customers whose credit balances exceeded their likely usage during the warmer months. Customers can also change their DD amount and/or request a refund of surplus credit via My OVO, the online platform, which puts customers in total control of their account balance in an operationally efficient way.

Sale of Smart Meter Assets Limited - February 2016

In February 2016, OVO completed a transaction with Brookfield Utilities UK (Brookfield) to dispose of its subsidiary Smart Meter Assets Limited, an entity which owned circa 200,000 installed smart meters, and a future pipeline of smart meters which is expected to total 700,000 by the end of 2017. OVO retains responsibility for the procurement and installation of smart meters and, whilst a customer is supplied by OVO, continues to pay rent in respect of the meters. All debt was repaid as part of the transaction, reducing OVO's leverage to nil.

In respect of meters installed prior to 31 December 2015, the transaction generated a capital gain of £24m, recognised in our Profit Before Tax results for the H1 2016 period. As OVO continues to sell its pipeline of installed smart meters the transaction will continue to generate incremental profit.

Key Financial and Performance Indicators

The group's key financial and other performance indicators during the year were as follows:

	Unit	2015	2014
Customer numbers	No.	569,000	408,000
Cash	£'000	64,165	31,262
Ovo Annualised gross profit margin (before unrealised derivative gains/losses)	%	10	10
PBT&NAC	£'000	(6,141)	(22,158)

Reconciliation to statutory results	**2015**	**2014**
	£'000	**£'000**
PBT&NAC	**(6,141)**	**(22,158)**
Net Acquisition Costs	(11,493)	(15,729)
(Loss) / Profit Before Tax	**(17,634)**	**(37,887)**

Principal risks and uncertainties

The principal risks and uncertainties impacting the Group relate to the wholesale price of gas and electricity, price pressure from competitors and bad debt risk. The Group aims to manage risk by securing gas and electricity under forward contracts and by placing customers on fixed price contracts. By collecting monthly Direct Debits from our customers, the Group plans to keep bad debts to a minimum, however, this is an area to which close attention is being paid with the current national economic climate likely to cause household budgets to become more stretched in the coming months.

By securing gas and electricity under forward contracts the Group is required to place margin calls when the mark to market value of the contracts moves adversely. The Group has largely transitioned to new supply arrangements which do not incorporate margin calls but instead require a fixed deposit. Margin calls with other suppliers are made out of working capital in the form of cash deposits. The 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 30 September 2016 and signed on its behalf by:

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Stephen Fitzpatrick
Director

Imagination Industries Ltd

Directors Report for the Year Ended 31 December 2015

The directors present their report and the consolidated financial statements for the year ended 31 December 2015.

Directors of the group
The directors who held office during the year were as follows:

Stephen Fitzpatrick

Sophie Fitzpatrick

Dividends
The directors do not propose a dividend for the year ended 31 December 2015 (2014: non proposed).

Financial instruments
Financial risk management objectives and policies and the exposure of the group to price risk, credit risk, market risk and liquidity risk is discussed in Note 26 of the accounts.

Charitable donations
During the year the group made charitable donations of £1,023,000 (31 December 2014: £604,000). Individual donations were:

	£
Cool Earth	584,000
The Ovo Charitable Foundation Limited	439,000

Employment of disabled persons
One of the Group's core values is treating people fairly, giving equal opportunities to all employees and applicants. The Group 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 Group 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 Group will try to find the employee another role within OVO and provide additional training (as necessary).

Employee involvement
The Group is actively encouraging employee involvement throughout the organisation. The Group holds regular company wide briefings where the latest information is shared, including financial and economic factors that affect the performance of the Group. Employee performance and development is reviewed on a quarterly basis and ensured it is in line with the overall Group's objectives. The Group's employee forum and social committee is chaired by its employees for its employees. The Group also introduced a new share scheme for employees in the year. More detail is disclosed in note 20.

Research and development
The Group continues to develop its IT infrastructure, investing £6.2m in software development and licences for the year to 31 December 2015 (31 December 2014: £5.8m). The Group did not engage in research during the year (31 December 2014: nil).

Going concern
Whilst the Group made a loss in the year ended 31 December 2015, and has net liabilities, the financial statements have been prepared on a going concern basis as the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Further details are in note 2 of the 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. The Company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its directors.

Imagination Industries Ltd

Directors Report for the Year Ended 31 December 2015 (continued)

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have 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 these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial reporting Standards ("IFRSs") as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial accounts; 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 group's and the company's transactions and disclose with reasonable accuracy at any time the financial position of the group and the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Disclosure of information to the auditor

Each director has taken 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 auditor is aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware.

Approved by the Board on 30 September 2016 and signed on its behalf by:

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Stephen Fitzpatrick
Director

Imagination Industries Ltd

Independent auditor's report to the members of Imagination Industries Ltd (formerly Ovo Group Ltd)

Report on the financial statements

Our opinion

In our opinion:

- Imagination Industries Ltd's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2015 and of the group's loss and the group's and the company's cash flows for the year then ended;
- the group and company's financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report, comprise:

- the Consolidated Statement of Financial Position and Company Statement of Financial Position as at 31 December 2015;
- the Consolidated Income Statement for the year then ended;
- the Consolidated Statement of Cash Flows and Company Statement of Cash Flows for the year then ended;
- the Consolidated Statement of Changes in Equity and Company Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union and, as regards the company financial statements, as applied in accordance with the provisions of the Companies Act 2006, and applicable law.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006we 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
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Independent auditor's report to the members of Imagination Industries Ltd (formerly Ovo Group Ltd) (continued)

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors
As explained more fully in the Statement of directors' responsibilities set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

Scope of the audit of the financial statements
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's and the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

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

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John Maitland (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol

30 September 2015

Imagination Industries Ltd

Consolidated Income Statement for the Year Ended 31 December 2015

	Note	2015 £ 000	2014 £ 000
Revenue	3	512,967	317,445
Cost of sales		(457,094)	(293,662)
Gross profit		55,873	23,783
Administration expenses		(84,315)	(57,782)
Other (losses) / gains		11,919	(464)
Operating loss		(16,523)	(34,463)
Finance income		11	125
Finance costs		(1,122)	(3,549)
Net finance (cost)/income	6	(1,111)	(3,424)
Loss before tax		(17,634)	(37,887)
Taxation	10	3,379	7,414
Loss for the year		(14,255)	(30,473)
(Loss)/profit attributable to:			
Owners of the company		(3,655)	(25,791)
Non-controlling interests		(10,600)	(4,682)
		(14,255)	(30,473)

The above results were derived from continuing operations.
There are no items of other comprehensive income within the current or prior period.

Imagination Industries Ltd

(Registration number: 06890468)
Consolidated Statement of Financial Position as at 31 December 2015

	Note	2015 £ 000	2014 £ 000
Assets			
Non-current assets			
Property, plant and equipment	11	30,538	17,409
Intangible assets	12	8,591	5,798
Deferred tax assets	10	12,427	9,049
		51,556	32,256
Current assets			
Inventories	14	78	1,102
Trade and other receivables	15	44,777	32,242
Cash and cash equivalents	16	64,165	31,262
		109,020	64,606
Total assets		160,576	96,862
Current liabilities			
Trade and other payables	17	(73,364)	(45,858)
Loans and borrowings	19	(1,243)	(433)
Derivative financial instruments		-	(2,553)
Deferred income		(88,087)	(81,830)
Provisions	23	(373)	(219)
		(163,067)	(130,893)
Non-current liabilities			
Loans and borrowings	19	(24,602)	(5,737)
Total liabilities		(187,669)	(136,630)
Net Liabilities		(27,093)	(39,768)
Equity			
Share premium		32,703	66
Retained earnings		(43,378)	(34,016)
Equity attributable to owners of the company		(10,675)	(33,950)
Non-controlling interests		(16,418)	(5,818)
Total equity		(27,093)	(39,768)

Approved by the Board on 30 September 2016 and signed on its behalf by:

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Stephen Fitzpatrick

Director

The notes on pages 20 to 50 form an integral part of these financial statements.

Imagination Industries Ltd

(Registration number: 06890468)
Company Statement of Financial Position as at 31 December 2015

	Note	2015 £ 000	2014 £ 000
Assets			
Non-current assets			
Property, plant and equipment	11	84	-
Intangible assets	12	2,000	2,000
Investments in subsidiaries, joint ventures and associates	13	2,100	2,008
Deferred tax assets	10	(290)	61
		3,894	4,069
Current assets			
Trade and other receivables	15	12,617	443
Income tax asset		350	-
Cash and cash equivalents	16	12,863	874
		25,830	1,317
Total assets		29,724	5,386
Current liabilities			
Trade and other payables	17	(2,601)	(54)
Non-current liabilities			
Loans and borrowings	19	(10,000)	-
Total liabilities		(12,601)	(54)
Net liabilities		17,123	5,332
Equity			
Share premium		4,048	16
Retained earnings		13,075	5,316
Total equity		17,123	5,332

Approved by the Board on 30 September 2016 and signed on its behalf by:

....

Stephen Fitzpatrick

Director

The notes on pages 20 to 50 form an integral part of these financial statements.

Imagination Industries Ltd

Consolidated Statement of Changes in Equity for the Year Ended 31 December 2015

	Share premium £ 000	Retained earnings £ 000	Total £ 000	Non-controlling interests £ 000	Total equity £ 000
At 1 January 2014	50	(8,257)	(8,207)	(1,136)	(9,343)
Loss for the year	-	(25,791)	(25,791)	(4,682)	(30,473)
New share capital subscribed	16	-	16	-	16
Share based payment transactions	-	32	32	-	32
At 31 December 2014	66	(34,016)	(33,950)	(5,818)	(39,768)

	Share premium £ 000	Retained earnings £ 000	Total £ 000	Non-controlling interests £ 000	Total equity £ 000
At 1 January 2015	66	(34,016)	(33,950)	(5,818)	(39,768)
Loss for the year	-	(3,655)	(3,655)	(10,600)	(14,255)
New share capital subscribed	32,637	-	32,637	-	32,637
Purchase of own share capital	-	(6,045)	(6,045)	-	(6,045)
Share based payment transactions	-	338	338	-	338
At 31 December 2015	32,703	(43,378)	(10,675)	(16,418)	(27,093)

Imagination Industries Ltd

Company Statement of Changes in Equity for the Year Ended 31 December 2015

	Share premium £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2014	-	(610)	(610)
Profit for the year	-	6,037	6,037
New share capital subscribed	16	-	16
Share based payment transactions	-	(111)	(111)
At 31 December 2014	16	5,316	5,332

	Share premium £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2015	16	5,316	5,332
Profit for the year	-	13,604	13,604
New share capital subscribed	4,032	-	4,032
Purchase of own share capital	-	(5,845)	(5,845)
At 31 December 2015	4,048	13,075	17,123

The notes on pages 20 to 50 form an integral part of these financial statements.

Imagination Industries Ltd

Consolidated Statement of Cash Flows for the Year Ended 31 December 2015

	Note	2015 £ 000	2014 £ 000
Cash flows from operating activities			
Loss for the year		(14,255)	(30,473)
Adjustments to cash flows from non-cash items			
Depreciation and amortisation	5	7,616	2,704
Financial instrument net gains (losses) through profit and loss		(2,553)	2,449
Loss on disposal of property plant and equipment	4	81	175
Loss on disposal of intangible assets	4	-	289
Profit from disposals of investments	4	(12,000)	-
Foreign exchange loss	5	5	-
Finance income	6	(11)	(125)
Finance costs	6	1,122	3,549
Share based payment transactions		338	149
Income tax expense	10	(3,379)	(7,414)
		(23,036)	(28,697)
Working capital adjustments			
Decrease/(increase) in inventories	14	1,024	(1,102)
Increase in trade and other receivables	15	(12,535)	(15,110)
Increase in trade and other payables	17	27,506	31,320
Increase/(decrease) in provisions	23	154	(6)
Increase in deferred income		6,257	57,417
Net cash flow generated from operating activities		(630)	43,822
Cash flows used in investing activities			
Interest received	6	11	125
Acquisitions of property plant and equipment		(17,286)	(17,782)
Proceeds from sale of property plant and equipment		(81)	1
Acquisition of intangible assets	12	(6,252)	(5,817)
Net cash flows from investing activities		(23,608)	(23,473)
Cash flows used in financing activities			
Interest paid	6	(1,122)	(3,549)
Proceeds from issue of ordinary shares, net of issue costs		40,634	-
Payments for purchase of own shares		(6,045)	(101)
Proceeds from finance leases		9,674	6,170
Proceeds from sale of shares		4,000	-
Proceeds from borrowing		10,000	8,000
Repayment of borrowing		-	(8,000)
Net cash flows from financing activities		57,141	2,520
Net increase in cash and cash equivalents		32,903	22,869
Cash and cash equivalents at 1 January		31,262	8,393
Cash and cash equivalents at 31 December		64,165	31,262

The notes on pages 20 to 50 form an integral part of these financial statements.

Imagination Industries Ltd

Company Statement of Cash Flows for the Year Ended 31 December 2015

	Note	2015 £ 000	2014 £ 000
Cash flows from operating activities			
Profit for the year		13,604	6,037
Adjustments to cash flows from non-cash items			
Depreciation and amortisation	5	10	-
Profit from disposals of investments	4	(11,892)	(4,588)
Finance income	6	124	-
Finance costs	6	92	-
Share based payment transactions		-	6
Income tax expense	10	351	-
		2,289	1,455
Working capital adjustments			
Increase in trade and other receivables	15	(12,174)	(3,026)
Increase/(decrease) in trade and other payables	17	2,547	(36)
Cash generated from operations		(7,338)	(1,607)
Income taxes paid	10	(350)	-
Net cash flow from operating activities		(7,688)	(1,607)
Cash flows from investing activities			
Interest received	6	(124)	-
Acquisition of subsidiaries	13	(200)	(6)
Proceeds from sale of subsidiaries		12,000	4,588
Acquisitions of property plant and equipment		(94)	-
Acquisition of intangible assets	12	-	(2,000)
Net cash flows from investing activities		11,582	2,582
Cash flows from financing activities			
Interest paid	6	(92)	-
Proceeds from issue of ordinary shares, net of issue costs		4,000	-
Payments for purchase of own shares		(5,813)	(101)
Net cash flows from financing activities		(1,905)	(101)
Net increase in cash and cash equivalents		1,989	874
Cash and cash equivalents at 1 January		874	-
Cash and cash equivalents at 31 December		2,863	874

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
United Kingdom

These financial statements were authorised for issue by the Board on 30 September 2016.

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 Group's 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 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 group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed at the end of this note.

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 Group's functional and the Group's presentation currency.

Going concern
Whilst the Group made a loss for the year ended 31 December 2015, and has net liabilities, the financial statements have been prepared on a going concern basis.

The Group meets its day-to-day working capital requirements through its cash reserves and the Shell facility.

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current facilities. The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore, continues to adopt the going concern basis in preparing its financial statements.

Basis of consolidation
The group financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 31 December 2015.

No income statement is presented for the company as permitted by section 408 of the Companies Act 2006. The Company made a profit after tax for the financial year of £14,202,000 (2014 - profit of £6,037,000).

2 Accounting policies (continued)

A subsidiary is an entity controlled by the company. Control is achieved where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the group.

The purchase method of accounting is used to account for business combinations that result in the acquisition of subsidiaries by the group. The cost of a business combination is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the business combination. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Any excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised is recorded as goodwill.

Inter-company transactions, balances and unrealised gains on transactions between the company and its subsidiaries, which are related parties, are eliminated in full.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group. Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling shareholder's share of changes in equity since the date of the combination. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Revenue recognition

Revenue arises from the supply of gas and electricity and related services as these costs are incurred; amounts are derived from provision of goods and services that fall within the ordinary activities of the Group. Revenue is recognised net of value added tax (VAT) and climate change levy (CCL).

Revenue from the supply of gas and electricity is a function of end user consumption (according to industry settlement data) and tariff rates (specified by contract terms) net of suppliers that are not billable. Revenue is recognised net of sales discounts.

Accrued revenue, representing gas and electricity supplied since the last billing date, is recognised in the balance sheet and is netted off against deferred income to the extent it can be matched against specific customer payments.

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.

Foreign currency transactions and balances

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the respective functional currency of the entity at the rates prevailing on the reporting period date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the initial transaction dates.

Non-monetary items measured in terms of historical cost in a foreign currency are not retranslated.

2 Accounting policies (continued)

Tax

The tax expense for the period comprises current tax 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.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Property, plant and equipment

Property, plant and equipment is stated in the statement of financial position at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of property, plant and equipment includes directly attributable incremental costs incurred in their acquisition and installation.

Depreciation

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction over their estimated useful lives, as follows:

Asset class	**Depreciation method and rate**
Leasehold property	Period of the lease
Fixtures, fittings and office equipment	3 years straight line
IT hardware equipment	3 years straight line
Meter assets	10 years straight line
Motor vehicles	3 years straight line

2 Accounting policies (continued)

Intangible assets
a) Trademarks and licenses

Separately acquired trademarks and licenses are shown at historical cost. Trademarks and licenses have a finite useful life and are carried at cost less accumulated amortisation.

b) Computer software and licenses

Acquired computer software and licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Amortisation
Amortisation is provided on intangible assets so as to write off the cost, less any estimated residual value, over their expected useful economic life as follows:

Asset class	Amortisation method and rate
IT software and internally developed software costs	3 years straight line
Other intangible assets	3 years straight line

Investments
Investments in subsidiaries are carried at cost, less any impairment.

Unrealised holding gains and losses other than impairments are recognised in other comprehensive income. On maturity or disposal, net gains and losses previously deferred in accumulated other comprehensive income are recognised in income.

Interest income on debt securities, where applicable, is recognised in income using the effective interest method. Dividends on equity securities are recognised in income when receivable.

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

2 Accounting policies (continued)

Trade receivables
Trade receivables are amounts due from customers for goods 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 fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Inventories
Under the provisions of the Utilities Act 2000, all electricity suppliers are required to procure a set percentage of their supplies from accredited renewable electricity generators. This obligation can be fulfilled by the purchase and surrender of Renewables Obligation Certificates (ROCs) originally issued to generators, or, by making payment to Ofgem who then recycle the payments to purchasers of ROCs. In addition to the regulatory requirements, the Group surrenders additional ROCs to demonstrate its environmental credentials transparently. The accounting policy distinguishes between the cost of the Group's obligations within the regulatory regime and the tactical disposition towards purchasing and holding ROCs. The cost obligation is recognised as it arises and is charged to the income statement for the year to which the charge relates as a reduction in gross margin. Gains or losses on disposal of ROCs are included in the income statement as and when they crystallize. The stock of ROCs carried forward is valued at the lower of cost and estimated net realisable value. Cost is based on the first-in first-out principle.

Trade payables
Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

Borrowings
All borrowings are initially recorded at the amount of proceeds received, net of transaction costs. Borrowings are subsequently carried at amortised cost, with the difference between the proceeds, net of transaction costs, and the amount due on redemption being recognised as a charge to the income statement over the period of the relevant borrowing.

Interest expense is recognised on the basis of the effective interest method and is included in finance costs.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Provisions
Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that the group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

2 Accounting policies (continued)

Leases

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee.

Assets held under finance leases are recognised as non-current assets of the company at the lower of their fair value at the date of commencement of the lease and the present value of the minimum lease payments. These assets are depreciated on a straight-line basis over the shorter of the useful life of the asset and the lease term. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance costs in the income statement and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Defined contribution pension obligation

A defined contribution plan is a pension plan under which fixed contributions are paid into a separate entity and the Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans contributions are paid publicly or privately administered pension insurance plans on a mandatory or contractual basis. The contributions are recognised as employee benefit expense when they are due. If contribution payments exceed the contribution due for service, the excess is recognised as an asset.

Employee benefits

The Group operates a flexible benefit scheme for qualifying employees whereby in addition to their salary, those employees are invited to select certain benefits with a value of up to 4% of their base pay. All costs related to the scheme are expensed in the income statement in the years which services are rendered by employees. One of the available benefits is payment to a defined contribution pension plan. This is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. The Group has enrolled in the automatic pension scheme since November 2013.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

2 Accounting policies (continued)

Share based payments

Imagination Industries Ltd and Ovo Group Ltd operate a number of equity-settled, share based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of Imagination Industries Ltd and Ovo Group Ltd. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions.

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore, the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

At the end of each reporting period, Imagination Industries Ltd and Ovo Group Ltd revises their estimates of the number of options that are expected to vest based on the non-market vesting conditions. They recognise the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When the options are exercised, Imagination Industries Ltd or Ovo Group Ltd issue new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

The grant by Imagination Industries Ltd and Ovo Group Ltd of options over their equity instruments to the employees of subsidiary undertakings in the Group (such as to employees of Ovo Energy Ltd) is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

The social security contributions payable in connection with the grant of the share options is considered an integral part of the grant itself, and the charge will be treated as a cash-settled transaction.

2 Accounting policies (continued)

Financial assets

Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet.

Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date; the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'Cost of sales' in the period in which they arise.

2 **Accounting policies (continued)**

Impairment

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

Derivatives and hedging

The Group 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 Group's normal business activity, the Group 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 Group'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.

2 Accounting policies (continued)

Changes in accounting policy

None of the standards, interpretations and amendments effective for the first time from 1 January 2015 have had a material effect on the financial statements.

None of the standards, interpretations and amendments which are effective for periods beginning after 1 January 2015 and which have not been adopted early, are expected to have a material effect on the financial statements.

Critical Estimates and Judgements

The key estimates and judgements made by the director in the preparation of the financial statements are in respect of revenue recognition, impairment of trade receivables and recognition of deferred tax assets.

Revenue recognition - gas revenues measurement change in accounting estimate

The nature of the energy industry in the UK in which the Group operates is such that the Group' s revenue recognition is subject to a degree of estimation. Revenue for the supply of electricity and gas was previously recognised on a top down basis using customer tariff rates and industry settlement data (specific to the Group) net of estimated supplies that are not billable. The industry settlement data is the estimated quantity the industry operator deems the individual suppliers, including the Group, to have supplied.

Revenue recognition - energy supplied but not yet measured and billed

The quantities of the energy supplied to OVO customers but not yet measured and billed are calculated at the reporting date based on consumption statistics and selling price estimates. Determination of the unbilled proportion of sales revenues at the year end is sensitive to the assumptions used to prepare these statistics and estimates.

Impairment of trade receivables

Impairments against trade receivables are recognised where the loss is probable. The Directors have based their assessment of the level of impairment on collection rates experienced by the Group to date. The estimates and assumptions used to determine the level of provision will continue to be reviewed periodically and could lead to changes in the impairment provision methodology which would impact the income statement in future years.

Deferred tax assets

Deferred tax assets are only recognised when it is considered more likely than not that the Group will make future taxable profits against which the deferred tax asset can be utilised. Having assessed the level profits made by the Group since the year end and forecasts of revenue and costs for the coming years, the directors believe it is probable that the Group will generate sustainable profits and therefore a deferred tax asset has been recognised.

3 Revenue

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

	2015 £ 000	2014 £ 000
Sale of gas and electricity	512,967	317,445

4 Other gains and losses

The analysis of the group's other gains and losses for the year is as follows:

	2015 £ 000	2014 £ 000
(Loss)/gain on disposal of property, plant and equipment	(81)	(175)
Loss on disposal of intangible assets	-	(289)
Gain (loss) from disposals of investments	12,000	-
	11,919	(464)

5 Operating profit

Arrived at after charging/(crediting)

	2015 £ 000	2014 £ 000
Depreciation expense	4,157	975
Amortisation expense	3,459	1,729
Foreign exchange gains	5	-
Operating lease expense - property	1,223	1,071

6 Finance income and costs

	2015 £ 000	2014 £ 000
Finance income		
Interest income on bank deposits	11	125
Finance costs		
Interest on bank overdrafts and borrowings	(1,122)	(3,549)
Net finance costs	(1,111)	(3,424)

7 Staff costs

The aggregate payroll costs (including directors' remuneration) were as follows:

	2015 £ 000	2014 £ 000
Wages and salaries	29,021	17,584
Social security costs	2,558	1,625
Pension costs, defined contribution scheme	440	267
Share-based payment expenses	338	149
Other employee expense	271	200
	32,628	19,825

The average number of persons employed by the group (including directors) during the year, analysed by category was as follows:

	2015 No.	2014 No.
Administration and support	238	117
Sales, marketing and distribution	756	358
	994	475

8 Directors' remuneration

There were two directors during the year (31 December 2014: Two). Directors' remuneration for the year was £144,000 (2014: £124,000).

9 Auditors' remuneration

	2015 £ 000	2014 £ 000
Audit of the financial statements of all group companies	102	85

Other fees to auditors

	2015 £ 000	2014 £ 000
Audit-related assurance services	12	11
Taxation compliance services	36	25
All other tax advisory services	-	12
	48	48

10 Income tax

Tax charged/(credited) in the income statement

	2015 £ 000	2014 £ 000
Deferred taxation		
Arising from origination and reversal of temporary differences	(3,379)	(7,414)

The tax on profit before tax for the year is higher than the standard rate of corporation tax in the UK (2014 - higher than the standard rate of corporation tax in the UK) of 20.25% (2014 - 21.5%).

The differences are reconciled below:

	2015 £ 000	2014 £ 000
Loss before tax	(17,634)	(37,887)
Corporation tax at standard rate	(3,571)	(8,146)
Effect of expense not deductible in determining taxable profit (tax loss)	(1,372)	165
UK deferred tax expense (credit) relating to changes in tax rates or laws	1,464	635
Increase (decrease) in UK and foreign current tax from unrecognised temporary difference from a prior period	(22)	(68)
Total tax credit	(3,501)	(7,414)

The main rate of UK corporation tax for the year to 31 March 2015 was 21% reducing to 20% for the year ending 31 March 2016.

In addition to the changes in corporation tax disclosed above, further changes were announced in the Chancellor's Budget on 8 July 2015. These include reductions to the main rate to 19% from 1 April 2017 and to 18% from 1 April 2020. These changes were substantively enacted on 26 October 2015 and their effects are included in these financial statements, The deferred tax balance has been presented in accordance with these enacted rates.

10 Income tax (continued)

Deferred tax

Group

Deferred tax assets and liabilities

2015	Asset £ 000	Liability £ 000	Net deferred tax £ 000
Accelerated tax depreciation	-	(545)	(545)
Tax losses carry-forwards	12,949	-	12,949
Derivatives	-	-	-
Pension benefit obligations	23	-	23
	12,972	(545)	12,427

2014	Asset £ 000	Liability £ 000	Net deferred tax £ 000
Accelerated tax depreciation	-	(237)	(237)
Tax losses carry-forwards	8,758	-	8,758
Derivatives	511	-	511
Pension benefit obligations	17	-	17
	9,286	-	9,049

Deferred tax movement during the year:

	At 1 January 2015 £ 000	Recognised in income £ 000	At 31 December 2015 £ 000
Accelerated tax depreciation	(237)	(308)	(545)
Tax losses carry-forwards	8,758	4,191	12,949
Derivatives	511	(511)	-
Pension benefit obligations	17	6	23
Net tax assets/(liabilities)	9,049	3,378	12,427

Deferred tax movement during the prior year:

	At 1 January 2014 £ 000	Recognised in income £ 000	At 31 December 2014 £ 000
Accelerated tax depreciation	19	(256)	(237)
Tax losses carry-forwards	1,595	7,163	8,758
Derivatives	21	490	511
Pension benefit obligations	-	17	17
Net tax assets/(liabilities)	1,635	7,414	9,049

Company

The Company held no deferred tax asset of liability as at 31 December 2014 (2013: £nil).

11 Property, plant and equipment

Group

	Leasehold property £ 000	Fixtures, fittings and office equipment £ 000	Motor vehicles £ 000	Meter assets £ 000	Total £ 000
Cost or valuation					
At 1 January 2014	527	1,066	-	-	1,593
Additions	4,140	1,196	-	12,446	17,782
Disposals	(380)	(470)	-	-	(850)
At 31 December 2014	4,287	1,792	-	12,446	18,525
Additions	1,004	766	94	15,422	17,286
At 31 December 2015	5,291	2,558	94	27,868	35,811
Depreciation					
At 1 January 2014	284	531	-	-	815
Charge for year	397	432	-	146	975
Eliminated on disposal	(343)	(331)	-	-	(674)
At 31 December 2014	338	632	-	146	1,116
Charge for the year	1,626	798	10	1,723	4,157
At 31 December 2015	1,964	1,430	10	1,869	5,273
Carrying amount					
At 31 December 2015	3,327	1,128	84	25,999	30,538
At 31 December 2014	3,949	1,160	-	12,300	17,409
At 1 January 2014	243	535	-	-	778

Assets held under finance leases and hire purchase contracts

The net carrying amount of property, plant and equipment includes the following amounts in respect of assets held under finance leases and hire purchase contracts:

	2015 £ 000	2014 £ 000
Meter Assets	15,302	6,024

11 Property, plant and equipment (continued)

Company

	Motor vehicles £ 000	Total £ 000
Cost or valuation		
Additions	94	94
At 31 December 2015	94	94
Depreciation		
Charge for the year	10	10
At 31 December 2015	10	10
Carrying amount		
At 31 December 2015	84	84

12 Intangible assets

Group

	Internally generated software development costs £ 000	Other intangible assets £ 000	Total £ 000
Cost or valuation			
At 1 January 2014	3,009	646	3,655
Additions	5,815	2	5,817
Disposals	(612)	-	(612)
At 31 December 2014	8,212	648	8,860
Additions	6,162	90	6,252
At 31 December 2015	14,374	738	15,112
Amortisation			
At 1 January 2014	1,646	10	1,656
Amortisation charge	1,628	101	1,729
Amortisation eliminated on disposals	(323)	-	(323)
At 31 December 2014	2,951	111	3,062
Amortisation charge	3,405	54	3,459
At 31 December 2015	6,356	165	6,521
Carrying amount			
At 31 December 2015	8,018	573	8,591
At 31 December 2014	5,261	537	5,798
At 1 January 2014	1,363	636	1,999

The amortisation charge of £3,459,000 (31 December 2014: £1,729,000) is recognised in administrative expenses.

Trademarks and industry accreditation, inlcuded within other intangibles, are 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 Group and circumstances continue to support the assessment that the useful life is indefinite. Trademarks relate to the brand of the Ovo group of companies and are expected to be valid for the life of the companies, which operate in an industry with stable market demand. Industry accreditation is required for the Group to operate in the electricity and gas supply industry.

There was no indication of impairment of the trademarks or industry accreditation, held within Other intangible assets, during the year. The carrying amount of the trademarks and industry accreditation were 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.

12 Intangible assets (continued)

Company

	Brand £ 000	Total £ 000
Cost or valuation		
Additions	2,000	2,000
At 1 January 2015	2,000	2,000
At 31 December 2015	2,000	2,000
Carrying amount		
At 31 December 2015	2,000	2,000

13 Investments

Group subsidiaries

Details of the group subsidiaries as at 31 December 2015 are as follows (*indicates direct investment of the company):

Name of subsidiary	Principal activity	Country of incorporation and principal place of business	Proportion of ownership interest and voting rights held by the group 2015	2014
Ovo Group Ltd*	Management entity	UK	84.51%	84.51%
Ovo Energy Ltd	Sale of electricity and gas to customers in the UK	UK	84.51%	84.51%
Ovo Electricity Ltd	Procurement and sale of UK electricity	UK	84.51%	84.51%
Ovo Gas Ltd	Supply of gas and UK related services	UK	84.51%	84.51%
ONI Energy Ltd	Dormant	UK	84.51%	84.51%
ONI Electricity Ltd	Dormant	UK	84.51%	84.51%
ONI Gas Ltd	Dormant	UK	84.51%	84.51%
Imagination Industries Incubator Ltd (formerly Mylo App Ltd)*	Dormant	UK	100%	100%
Smart Meter Assets 1 Ltd	Asset company for smart meter business	UK	84.51%	84.51%
In Home Technology Limited	Management entity for smart meter business	UK	84.51%	84.51%
Ovo Services Ltd (formerly Ovo Energy for Business Limited)	Dormant	UK	84.51%	84.51%
Ovo Telecom Limited	Dissolved on 29 December 2015	UK	84.51%	84.51%
Ovo Technology Ltd (formerly Ovo Energy Trading Limited)	Dormant	UK	84.51%	84.51%

13 Investments (continued)

Summary of the company investments

	2015 £ 000	2014 £ 000
Investments in subsidiaries	2,100	2,008

Subsidiaries

	£ 000
Cost or valuation	
At 1 January 2014	2,002
Additions	6
At 31 December 2014	2,008
Additions	200
Disposals	(108)
At 31 December 2015	2,100
Carrying amount	
At 31 December 2015	2,100
At 1 January 2014	2,002

On 17 April 2015, the Company and Stephen Fitzpatrick entered into an agreement to sell a proportion of the shares held in Ovo Group Ltd to Mayfair Olympic Holdco Ltd.

The Company sold 4.6% of its issued shares in Ovo Group Ltd for a consideration of £12m, Stephen Fitzpatrick sold 3% of his issued shares in Ovo Group Ltd. Upon completion of the sale the A shares purchased by Mayfair were converted into Preference Shares at the same par value.

The Company still retains a controlling interest in Ovo Group Ltd.

In 2015, the Company recorded an investment for the equity settled value of share based payments paid to Ovo Energy Ltd employees.

14 Inventories

	Group		Company
	2015 £ 000	2014 £ 000	2015 £ 000
Finished goods and goods for resale	78	-	-
Renewable Obligation Certificates	-	1,102	-
	78	1,102	-

The cost of R.O.Cs recognised as an expense in the year amounted to £25,291,000 (2014 - £16,018,000). This is included within cost of sales.

15 Trade and other receivables

	Group		Company	
	2015	2014	2015	2014
	£ 000	£ 000	£ 000	£ 000
Trade receivables and accrued income	36,289	25,436	-	-
Provision for impairment of trade receivables and accrued income	(11,886)	(7,573)	-	-
Net trade receivables and accrued income	24,403	17,863	-	-
Loans to related parties	11,488	-	12,416	432
Prepayments	1,762	641	-	-
Other receivables	7,124	13,738	201	11
Total current trade and other receivables	44,777	32,242	12,617	443

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

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

16 Cash and cash equivalents

	Group		Company	
	2015	2014	2015	2014
	£ 000	£ 000	£ 000	£ 000
Cash at bank	64,165	31,262	12,863	874
Bank overdrafts	-	-	(10,000)	-
Cash and cash equivalents in statement of cash flows	64,165	31,262	2,863	874

17 Trade and other payables

	Group		Company	
	2015	2014	2015	2014
	£ 000	£ 000	£ 000	£ 000
Trade payables	33,706	12,740	9	33
Accrued expenses	39,330	32,773	92	21
Social security and other taxes	219	141	-	-
Other payables	109	204	2,500	-
	73,364	45,858	2,601	54

The fair value of the trade and other payables classified as financial instruments are disclosed in the financial instruments note.

17 Trade and other payables (continued)

The group's exposure to market and liquidity risks, including maturity analysis, related to trade and other payables is disclosed in note "Financial risk management and impairment of financial assets - company".

18 Share capital

Allotted, called up and fully paid shares

	2015 No.	2015 £	2014 No.	2014 £
Ordinary share capital of £0.0001 each	950,000	95	950,000	95

19 Loans and borrowings

	Group 2015 £ 000	Group 2014 £ 000	Company 2015 £ 000	Company 2014 £ 000
Non-current loans and borrowings				
Finance leases	24,602	5,737	-	-
Bank borrowings	-	-	10,000	-
	24,602	5,737	10,000	-

	Group 2015 £ 000	Group 2014 £ 000	Company 2015 £ 000	Company 2014 £ 000
Current loans and borrowings				
Finance leases	1,243	433	-	-

The loans and borrowings classified as financial instruments are disclosed in the financial instruments note.

The group's exposure to market and liquidity risk; including maturity analysis, in respect of loans and borrowings is disclosed in note "Financial risk management and impairment of financial assets - company".

20 Obligations under leases and hire purchase contracts

Group

Finance leases

The Group entered into a master finance lease agreement in the prior year, for the purchase of smart meters. The facility is drawn down upon as meters are installed and accredited.

2015	Minimum lease payments £ 000	Present value £ 000
Within one year	1,243	1,243
In two to five years	6,042	6,042
In over five years	8,560	8,560
	15,845	15,845

The present values of future finance lease payments are analysed as follows:

	2015 £ 000	2014 £ 000
Current liabilities	1,243	433
Non-current liabilities	14,602	5,737
	15,845	6,170

Operating leases

The Group leases two office premises in Bristol and London under non-cancellable operating lease agreements.

Lease rentals are included in the income statement.

The total future value of minimum lease payments is as follows:

	2015 £ 000	2014 £ 000
Within one year	924	924
In two to five years	1,381	2,305
	2,305	3,229

The amount of non-cancellable operating lease payments recognised as an expense during the year was £1,070,000 (2014 - £1,070,000).

21 Fair value measurement

The following tables provide the fair value measurement hierarchy of the group's assets and liabilities.

Liabilities measured at fair value
2014

	Date of valuation	Level 2 £ 000	Total £ 000
Derivatives	31 December 2014	2,553	2,553

The Group held derivatives of power and gas commodity as at 31 December 2015

The fair value of derivatives (power and gas commodity) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data (such as forward commodity curves) where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

22 Pension and other schemes

Defined contribution pension scheme

The group operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the group to the scheme and amounted to £440,000 (2014 - £267,000).

23 Other provisions

Group

	Dilapidation provision £ 000	Total £ 000
At 1 January 2015	219	219
Increase (decrease) in existing provisions	154	154
At 31 December 2015	373	373
Current liabilities	373	373

The dilapidation provision relates to the Group's current premises.

24 Financial instruments

Group

Financial assets
Loans and receivables

	Carrying value		Fair value	
	2015	2014	2015	2014
	£ 000	£ 000	£ 000	£ 000
Cash and cash equivalents	64,165	31,262	64,165	31,262
Trade and other receivables	43,315	31,601	43,315	31,601
	107,480	62,863	107,480	62,863

Valuation methods and assumptions

The fair value of loans and receivables 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 individually impaired receivables mainly relate to customers from whom it is unlikely that full payment will ever be received.

24 Financial instruments (continued)

Financial liabilities

Derivative financial liabilities at fair value through profit and loss held for trading

	Carrying value		Fair value	
	2015	2014	2015	2014
	£ 000	£ 000	£ 000	£ 000
Power and gas commodity	-	2,553	-	2,553

Valuation methods and assumptions

The fair value of power and gas commodity financial instruments (level 2) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data (such as forward commodity curves) where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Financial liabilities at amortised cost

	Carrying value		Fair value	
	2015	2014	2015	2014
	£ 000	£ 000	£ 000	£ 000
Trade and other payables	73,364	45,717	73,364	45,717
Finance leases	15,845	6,170	15,845	6,170
	89,209	51,887	89,209	51,887

Valuation methods and assumptions

The fair value of trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet ate if the effect is material. Due to their short maturities, the fair value of the trade and other payables approximates to their book value.
The finance lease was entered into close to the balance sheet date and therefore book value approximates fair value.

Company

Financial assets
Loans and receivables

	Carrying value		Fair value	
	2015	2014	2015	2014
	£ 000	£ 000	£ 000	£ 000
Cash and cash equivalents	12,863	874	12,863	874
Trade and other receivables	12,617	443	12,617	443
	25,480	1,317	25,480	1,317

Valuation methods and assumptions

The fair value of loans and receivables is based on the expectation of recovery of balances. The receivable resides with related parties in the Ovo group, there have been no historic defaults and the balance is not past due or impaired.
The fair value of loans and receivable is based on the expectation of recovery of balances. The individually impaired receivables mainly relate to customers from whom it is unlikely that full payment will ever be received.

24 Financial instruments (continued)

Financial liabilities

Financial liabilities at amortised cost

	Carrying value 2015 £ 000	Carrying value 2014 £ 000	Fair value 2015 £ 000	Fair value 2014 £ 000
Trade and other payables	2,601	54	2,601	54
Borrowings	-	-	-	-
	2,601	54	2,601	54

Valuation methods and assumptions

The fair value of trade and other payables is estimated as the present value of the future ash flows, discounted at the market rate of interest at the balance sheet date if the effect is material. Due to their short maturities, the fair value of trade and other payables approximates to their book value.

25 Financial risk management and impairment of financial assets

Group

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

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

Credit risk and impairment

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

The carrying amount of financial assets represents the maximum credit exposure. Therefore, maximum exposure to credit risk at the balance sheet date was £107,480,000 (31 December 2014: £62,863,000) being the total 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 of trade receivables is used to record impairment losses unless the Group 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 Group 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.

25 Financial risk management and impairment of financial assets (continued)

Past due and impaired financial assets

Allowances for impairment by credit losses

2015	Loans and receivables £ 000
At start of year	7,573
Additional impairment for credit losses	4,313
At end of year	11,886

2014	Loans and receivables £ 000
At start of year	2,952
Additional impairment for credit losses	4,621
At end of year	7,573

Analysis of items past due or impaired
Loans and receivables

2015	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
Loans and receivables	14,589	9,774	11,886	36,249	11,886

2014	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
Loans and receivables	13,659	4,204	7,573	25,976	7,573

The individually impaired receivables mainly relate to customers from whom it is unlikely that full payment will be received.

25 Financial risk management and impairment of financial assets (continued)

Market risk
Commodity price risk

Commodity risk is the exposure that the Group has to price movements in the wholesale gas and electricity markets. 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 Group 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 Group's exposure to commodity risk is managed through the use of derivative financial instruments. The Group does not use derivatives or 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 fair value of derivatives and other financial instruments are recognised in the income statements as they arise. Unrealised net losses on open contracts at the year end were nil (2014: £2,553,000).

The Group manages commodity 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 Group'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.

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

The Group 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.

The biggest threat to the Group's liquidity would arise from unusually cold weather or other factors causing customer volumes to be much higher than anticipated. This could place a strain on the Group's working capital as payments due to supplier invoices could become due before customer collection levels could be adjusted.

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

Maturity analysis

2015	Within 1 year £ 000	After 1 year £ 000	Total £ 000
Trade and other payables	73,364	-	73,364
Bank borrowings	1,243	24,602	25,845
	74,607	24,602	99,209

2014	Within 1 year £ 000	After 1 year £ 000	Total £ 000
Trade and other payables	45,858	-	45,858
Bank borrowings	433	5,737	6,170
	46,291	5,737	52,028

25 Financial risk management and impairment of financial assets (continued)

Capital risk management

Capital management

Capital risk is managed to ensure the Group continues as a going concern and grows in a sustainable manner.
The Group maintains a consolidated financial model to monitor the development of the Group's capital structure, which has the ability to model various scenarios and sensitivities. Key outputs from this model are regularly presented the Board.

Company

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 Director and his Group management team.

The Company manages commodity 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.

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 £25,480,000 (31 December 2014: £1,317,000) 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.

Liquidity risk

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

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.

The biggest threat to the Company's liquidity is the potential for it to have to place margin calls against forward contracts for electricity and gas purchases. Such payments could be required if the wholesale market price of gas and electricity fell below the price of the forward contract. A new gas supplier arrangement requires a fixed cash deposit without the need for additional margin calls against market movements. Margin calls with other suppliers are made out of working capital in the form of cash deposits. The Group manages its cash resources to ensure it has sufficient funds to meet all expected demands as they fall due.
The other key threat to liquidity would arise from unusually cold weather or other factors causing customer volumes to be much higher than anticipated. This could place a strain on the Company's working capital as payments due to supplier invoices could become due before customer collection levels could be adjusted.

25 Financial risk management and impairment of financial assets (continued)

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.

26 Related party transactions

Key management personnel

Key management includes directors and members of the Group management team. The compensation paid or payable to key management for employee services to the Ovo group is shown below.

Key management compensation

	2015 £ 000	2014 £ 000
Salaries and other short term employee benefits	2,801	2,285

Summary of transactions with key management

The directors of the Company directly control 100% of the voting shares of the Company.

Summary of transactions with subsidiaries

During the year the Company traded with Ovo Energy Ltd, and received £2,525,000 (2014: £1,480,000) of brand royalty income.

Ovo Energy Ltd surrendered tax losses to the Company at the year end totalling a discounted amount payable to Ovo Energy Ltd of £350,000 (2014: £nil).

As at 31 December 2015 the Company was owed £926,000 (2014: £nil) by Ovo Energy Ltd.

Summary of transactions with other related parties

During the year the Company provided loan funds to Manor Grand Prix Racing Limited (a Company owned by Stephen Fitzpatrick the ultimate owner of Imagination Industries Limited) to the value of £9,086,000 (2014: £nil) and to Just Racing Limited (the parent of Manor Grand Prix Racing Limited) to the value of £1,927,000 (2014: £nil). The loans are repayable on demand and incur interest at a rate of 7% per annum. The interest receivable by the Company in the year was £475,000 (2014: £Nil).

The balance owed to the Company by Just Racing Limited and its subsidiary Manor Grand Prix Racing Limited at the year end was £11,489,000 (2014: £Nil).

In addition, Stephen Fitzpatrick paid costs amounting to £2,500,000 on behalf of Imagination Industries Ltd during the year. The amount was outstanding at the balance sheet date, but was repaid in full post year end.

27 Parent and ultimate parent undertaking

The ultimate controlling party is Stephen Fitzpatrick.

28 Non adjusting events after the financial period

Sale of subsidiary - Smart Meter Assets 1 Limited

In February 2016, OVO completed a transaction with Brookfield Utilities UK (Brookfield) to dispose of its subsidiary Smart Meter Assets 1 Limited, an entity which owned circa 200,000 installed smart meters, and a future pipeline of smart meters which is expected to total 700,000 by the end of 2017. OVO retains responsibility for the procurement and installation of smart meters and, whilst a customer is supplied by OVO, continues to pay rent in respect of the meters. All debt was repaid as part of the transaction, reducing OVO's leverage to nil.

In respect of meters installed prior to 31 December 2015, the transaction generated a capital gain of £24m, recognised in our Profit Before Tax results for the H1 2016 period. As OVO continues to sell its pipeline of installed smart meters the transaction will continue to generate incremental profit.

Manor Racing Limited

Stephen Fitzpatrick, Director and ultimate controller of Imagination Industries Ltd, also has a controlling interest in Manor Grand Prix Racing Limited. Post year end the company provided loans to Manor Grand Prix Racing Limited to the value of £5.1m, these loans are interest bearing at 7% and are repayable on demand.