Registration number: 06890468

Imagination Industries Ltd

Annual Report and Consolidated Financial Statements

for the Year Ended 31 December 2019

Imagination Industries Ltd

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Imagination Industries Ltd

Company Information

Directors	Stephen Fitzpatrick Vincent Casey
Registered office	140-142 Kensington Church Street London United Kingdom W8 4BN
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 2019

The directors present their strategic report for the year end 31 December 2019.

Strategic Report

Business Overview
The Imagination Industries Group comprises the OVO Group and other non-energy related investments. Non-energy related investments include Vertical Aerospace which is pioneering the future of low carbon travel and Just 3 Things which is building software tools to aid businesses align and engage teams. The OVO Group makes up 100% of the revenue of the Imagination Industries Group, and 97% of the Imagination Industries Group's Total assets.

The OVO Group collection of companies has a single vision: to power human progress with clean affordable energy for everyone. Guided by Plan Zero, we are transforming our business in order to move faster to create a world without carbon. We commit to achieving net zero carbon emissions across our own operations by 2030. And we will mobilise our customers to form a zero carbon community, helping them halve their total lifestyle carbon emissions and eliminate their household emissions completely by 2030. We will enable them all to be active participants in a newer, more resilient, flexible and intelligent grid and to play their part in transitioning to a zero carbon world.

OVO grew out of the belief that there was a better way to sell energy. We started with the ambition to make energy cheaper, greener and simpler and with the commitment to make every decision as if the customer was in the room. With this focus on transparency and fairness, we challenged the status quo and set the standard for new entrants to the market.

OVO has consistently ranked among the UK's most loved energy brands, even at a time when public trust in the industry has been historically low. The energy market is going through profound change with companies of all sizes struggling to adapt. Increased competition, digitisation, the growth of big data, and changing consumer demands are eroding traditional business models. The past few years have seen OVO develop from a top-rated energy retailer into a group of companies delivering innovative energy services underpinned by smart technology.

2019 Trading Update

Retail
Energy customer numbers have seen some decline as a result of increased price competition and record levels of switching in the retail supply market. However, the competitive environment has softened significantly over the course of the winter. The principal strategy for the year was focused on customer retention and optimising SMART meter installs, as well as launching Plan Zero, our plan to drive progress to net zero carbon living. In addition, we were recognised for the fourth time in five years by USwitch as Supplier of the Year. The group plans to continue investing through system capability and enhancing the operating model to support a larger customer base in the future.

Smart Homes
At OVO we were quick to see the potential of smart energy services. We championed the smart meter rollout, with approximately 50% of our customers at the end of 2019 having a smart meter. Smart meters are a step on the path to an intelligent and sustainable energy network that will free us from our dependence on fossil fuels. They enable the adoption of game-changing technologies that will transform the way we live and consume energy. We will provide our customers with an effortless transition to smart homes, offering the installation, management and maintenance of smart energy solutions including electric vehicle charge points, smart boilers, smart thermostats and in-home batteries.

Kaluza
Kaluza, our intelligent energy technology company, has developed a next-generation energy retail platform, focused on allowing energy companies to deliver a digital experience to end customers as well as providing smart home technology services. Following the migration of the OVO Energy customer base onto the Kaluza platform, the company will proceed with the migration of the SSE customer base.

Home Services

During the year, the company grew the 'home services' policy book from 159,753 to 175,607 policies, with 15,854 net policy additions in the period, a growth of 10%. The principal strategy for the year was centred around business growth, namely policy growth. In order to support this strategy, Corgi Homeplan focused on wider marketing channels including digital and affiliates channels which proved successful.

Mitsubishi Corporation Investment

In February 2019, OVO Group Ltd received investment from Mitsubishi Corporation for a 20% stake.

Our business model, long-term vision for the energy sector and culture align well with our new global partner. Their investment is enabling us to expand into new markets across Europe and Asia Pacific, accelerate the development of our intelligent energy technologies company, Kaluza, and put us at the forefront of the global, tech-enabled transition to a zero-carbon energy system.

Acquisition of Economy Energy

In January 2019, Ofgem appointed OVO Energy Limited, a wholly owned subsidiary of OVO Finance Limited, to take over Economy Energy's 360,000 customer connections. With over two thirds of Economy Energy's customer base on prepayment meters, OVO Energy Limited was well equipped to seamlessly transition them onto Boost, OVO's prepayment brand, tailored specifically for pay-as-you-go customers. We have worked hard to seamlessly transition these customers onto our own platforms whilst maintaining market leading customer service.

Key Financial and Performance Indicators

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

	Unit	2019	2018
Customer numbers	No.	1,377,000	1,302,000
Cash	£'000	32,349	84,934
Annualised gross profit margin	%	10	9
PBT&NAC	£'000	(82,576)	(30,710)

*PBT&NAC is defined as (Loss)/Profit before Tax before Net Acquisition Costs, representing those costs resulting from growing OVO's customer base.

The Company's net assets at 31 December 2019 were £28,864,000 (2018: 9,160,000). The Company recognised a profit of £19,704,000 in the year (2018: loss of £4,878,000)

Reconciliation to Statutory Results	**2019**	**2018***
	£'000	**£'000**
PBT&NAC	**(82,576)**	**(40,446)**
Net Acquisition Costs	(31,486)	(12,516)
(Loss)/Profit Before Tax	**(114,062)**	**(52,962)**

*Refer to Note 17 for details of prior period restatement resulting from the finalisation of acquisition accounting.

The Group made a loss for the year ending 31 December 2019 and has net liabilities.

Subsequent events since the end of the reporting period

Acquisition of SSE Retail

On 15 January 2020, OVO Energy Limited, a subsidiary of OVO Finance Limited, completed the transformational acquisition of SSE plc's GB domestic retail business (SSE Energy services). As at 31 December 2019, all material conditions of the acquisition had been satisfied, including regulatory clearance from both the Financial Conduct Authority (31 October 2019) and the Competition and Markets Authority (10 December 2019). The acquisition formally completed on the 15 January 2020.

Our investment in scalable operating platforms, smart data capabilities and innovative technology combined with SSE's excellence at scale makes the two businesses a great fit. SSE won uSwitch's Large Supplier of the Year 2019 and recently came top of the Citizens Advice Bureau's energy supplier rankings. We are both committed to increasing access to sustainable energy. Combining the best of both our businesses will enable us to bring OVO's energy technology to millions more customers to provide a market leading customer experience.

Completing this acquisition means that OVO Energy Limited now serves approximately 15% of the market; making OVO Energy Limited the UK's third largest energy provider.

COVID-19

Throughout the pandemic, our priority has been to ensure the safety of our people whilst continuing to support all of our customers, particularly those that are vulnerable. Our investment in technology and shared platforms has ensured a high level of connectivity which means we are able to move to remote operations with minimal disruption.

However, unfortunately COVID-19 will impact our commercial performance in 2020, due to some key sales channels within the business experiencing significant interruption as a result of the lockdown. The most notable of these is the impact on our ability to continue the roll-out of smart meters to customers.

As a result of COVID-19, we anticipate the need to recognise additional bad debt charges in 2020 as the economic consequences of the pandemic materialise with our customers. This will be recognised in accordance with IFRS9, however there has been no financial impact on these financial statements.

Principal risks and uncertainties

The principal risks and uncertainties impacting the Group relate to the wholesale price of gas and electricity and bad debt risk.

The Group manages commodity price risk by securing gas and electricity under forward contracts and by supplying the majority of customers on fixed price contracts.

The Group mitigates bad debt risk by asking credit customers to pay by direct debit a month in advance of usage, which also ensures OVO has the purchasing power to offer more competitive tariffs. For non-redit customers, prepayment and smart meters are installed or a security deposit is taken to avoid bad debt risk.

The Group manages cashflow and liquidity risk through a combination of short and long range forecasting tools. This enables cash to be managed responsibily through our capital allocation process.

Sustainability

Plan Zero
OVO launched its first sustainability strategy, Plan Zero, in September 2019. Plan Zero defines OVO's purpose to drive progress to zero carbon living.

Through Plan Zero, we commit to:
• Net zero carbon emissions from our operations and from the energy we sell to our customers by 2030, by achieving absolute emissions reductions of 50% compared to a 2018 baseline in line with science-based targets for Scopes 1, 2 and 3 as a minimum and using greenhouse gas removals and/or carbon offsets for the remainder.
• Increase the proportion of EVs in the fleet to 70% by the end of 2020 and to 100% by 2025.
• Mobilise our customers to form a zero carbon community, helping them halve their total lifestyle carbon emissions and reduce their household energy emissions to net zero by 2030.
• Optimise 5 million homes to be active participants in a more resilient, flexible and intelligent energy grid and to play their part in transitioning to a zero carbon world.
• Advocate for a just transition to a zero carbon world that does not leave the poorest behind. We will work together with government, regulators, businesses and other organisations to ensure we are creating a fair new energy system where everyone in society shares in the benefits of our collective progress.

These commitments were made based on a sustainability materiality assessment that identified and prioritised topics that are most important to OVO and its community. This involved tracking trends, engaging with internal and external stakeholders and mapping our strategy against external global standards such as the UN Sustainable Development Goals. For more information about Plan Zero, please see our website: www.ovo.com/planzero

Streamlined Energy and Carbon Reporting Framework Regulations

OVO is subject to the Streamlined Energy and Carbon Reporting Framework Regulations (SECR). We therefore report our 2018 and 2019 energy consumption and greenhouse gas emissions figures relating to gas, electricity and transport as well as an intensity ratio, and information relating to our energy efficiency action. In 2019 our Scope 1 and Scope 2 operational emissions were 1,598 tCO_2e (Market-based) and 1,985 tCO_2e (Location-based). The greatest contributor to our Scope 1 and Scope 2 emissions is our fleet of engineering vehicles, followed by the electricity and gas used to power our buildings. Our intensity ratio (our Scope 1 and 2 emissions relative to revenue) is 1.2 tCO_2e/£m (Market-based) and 1.4 tCO_2e/£m (Location-based).

Energy consumption figures - OVO Group

Area	Category	Sub-category	Units	2018 consumption		2019 consumption	
				UK	Group*	UK	Group*
Gas and diesel	Stationary combustion	Natural gas	kWh	1,678,201	1,678,201	1,552,828	1,566,478
		Diesel (100% mineral diesel)	Litres	-	-	9,813	9,830
Transport	Fleet vehicle fuel combustion	Small sized van (Diesel)	Litres	220,781	220,781	189,844	189,844
		Small sized van (Petrol)	Litres	83,969	83,969	225,205	225,205
		Small sized van (Battery electric vehicle)	Miles	71,721	71,721	301,207	301,207
Electricity	Electricity	Purchased electricity	kWh	2,539,932	2,553,841	2,470,832	2,505,882
District heating and cooling	District heating and cooling	District heating and cooling	kWh	-	3,059	-	5,741

Area	Category	Sub-category	Unit	2018 CO2 Emissions UK	2018 CO2 Emissions Group*	2019 CO2 Emissions UK	2019 CO2 Emissions Group*
Scope 1 emissions	Stationary combustion	Natural gas	Tonnes CO2e	308	309	285	288
		Diesel (100% mineral diesel)	Tonnes CO2e	-	-	26	26
	Fugitive emissions	R410A	Tonnes CO2e	44	44	-	-
		R407c	Tonnes CO2e	-	-	4	4
	Combustion of fuel for transport purposes	Average van (Diesel)	Tonnes CO2e	580	580	492	492
		Average van (Petrol)	Tonnes CO2e	185	185	497	497
	Total Scope 1		Tonnes CO2e	**1,117**	**1,118**	**1,305**	**1,309^**
Scope 2 emissions	Electricity	Purchased electricity (Location-based)	Tonnes CO2e	719	725	629	646
		Purchased electricity (Market-based)	Tonnes CO2e	600	608	240	260
		Average van (Battery electric vehicle)	Tonnes CO2e	6	6	27	27
	District heating and cooling	District heating and cooling (Location-based)	Tonnes CO2e	-	2	-	3
		District heating and cooling (Market-based)	Tonnes CO2e	-	2	-	3
	Total Scope 2 emissions (Location-based)		Tonnes CO2e	725	733	656	676
	Total Scope 2 emissions (Market-based)		Tonnes CO2	606	615	267	290
Total Scope 1 and Scope 2 emissions	Total Scope 1 and Scope 2 emissions (Location-based)		Tonnes CO2	**1,842**	**1,850**	**1,961**	**1,985^**
	Total Scope 1 and Scope 2 emissions (Market-based)		Tonnes CO2e	**1,723**	**1,733**	**1,572**	**1,598^**
	Total Scope 1 and Scope 2 emissions intensity relative to revenue (tCO2e/£m) (Location-based)		Tonnes CO2e/£m	**1.8**	**1.8**	**1**	**1**
	Total Scope 1 and Scope 2 emissions intensity relative to revenue (tCO2e/£m) (Market-based)		Tonnes CO2e/£m	**1.7**	**1.7**	**1.1**	**1.1**

^Data included in PwC's limited assurance engagement. See www.ovo.com/2019-pwc-assurance-report for more details.

*Group inclusive of UK and International

Targets
We have set ambitious carbon reduction targets, including achieving net zero carbon emissions across our Scopes 1, 2 and 3 emissions by 2030, underpinned by science-based targets aligned to 1.5°C.

Performance
There has been an 8% reduction in overall Scope 1 and Scope 2 market-based carbon emissions and a 7% increase in overall Scope 1 and Scope 2 location-based carbon emissions between 2018 and 2019. There has been a reduction in carbon emissions intensity relative to revenue by 30% (market-based) and 19% (location-based) between 2018 and 2019, meaning that we are starting to decouple carbon emissions from growth.

Energy efficiency and carbon emissions reduction action In 2019, we implemented a number of energy and carbon reduction initiatives across our operations and value chain.

Embedding Plan Zero
We are currently embedding Plan Zero within OVO through a substantial organisational change programme. For example, we have set up governance structures to ensure accountability, a new data software system to track progress, and we are incorporating Plan Zero into our culture through our Values, our employee engagement and ensuring every employee touchpoint refers to our purpose.

Energy efficiency and carbon emissions reduction action
In 2019, we implemented a number of energy and carbon reduction initiatives across our operations and value chain.

(i) Fleet:
We have started implementing a plan to improve the environmental impact of our fleet of engineering vehicles. As part of this, our plan is to replace where possible, all existing petrol and diesel vehicles with electric vehicles. We've hit 30% of EVs in the OVO Energy fleet and our focus is now getting to our Plan Zero target of 70% by the end of 2020. We are also introducing measures to improve the energy productivity of the fleet such as trialling fuel-efficient driving, e-learning, enhanced telematics reporting and improved route planning.

In 2018 we had an average of 160 vehicles on our fleet compared with 300 in 2019. This increase has had a significant impact on our fleet emissions which have increased by 32% between 2018 and 2019. With the initiatives above, we are hoping to see our fleet emissions level out during 2020.

(ii) Buildings:
In 2019, we completed energy audits on our buildings to identify energy efficiency and reduction opportunities. We have started rolling out a number of measures to improve energy efficiency in our buildings, such as installing LED lighting, optimising building energy management systems and engaging employees to waste less energy. Energy use at our Bristol Rivergate head office decreased by 28% between 2018 and 2019 as a result of these measures.

Sustainability and wellbeing considerations were central to the fit out and refurbishment of our new office space in London. The building has achieved BREEAM Excellent and SKA Gold and we are waiting for the certifications to come through'. It also has 56 solar panels producing 15.12 kWp to power the building. Additionally all appliances installed are A-rated energy efficient and all materials used have gained sustainability certifications - such as workstations and tables being FSC certified. In addition, all offices where OVO has operational control have been moved to 100% renewable electricity tariffs.

These measures have resulted in a 40% reduction in OVO's Scope 1 and Scope 2 market-based emissions and a 10% reduction in location-based emissions from buildings.

(iii) Value chain:
In 2019, we worked with the Carbon Trust to perform a preliminary evaluation of the 15 categories of OVO's Scope 3 footprint in order to understand our indirect emissions. This confirmed that the carbon footprint of the energy we supply to our customers (Scope 3 categories: Fuel and energy-related activities and Use of sold products) is by far the most material source of Scope 3 emissions. Our Scope 3 footprint and science-based target is based on the supply of gas and electricity to customers.

Through our membership model, we are developing products and services to reduce the carbon footprint of the energy we sell. For example, customers can use OVO's Carbon Tracker energy and carbon emissions data insights tool to measure their carbon footprint and get recommended actions on how to reduce it. In addition, we launched OVO Beyond in September 2019. OVO Beyond is a membership upgrade which provides 100% renewable electricity and 100% carbon neutral gas, as well as personalised energy insights on home energy use through smart meter data. A key aim of this new product is to encourage customers to become a stakeholder in their own carbon footprint, leading to a collective effort in tackling climate change. In October 2019 we reduced the carbon intensity of our electricity fuel mix by increasing the minimum proportion of renewable electricity for our standard tariff from 33% to 50% across all OVO Energy brands.

Reporting methodology
Our reporting approach is aligned with the GHG Reporting Protocol - Corporate Standard. The Basis of Preparation document outlining the reporting methodology in detail can be found here:
www.ovo.com/basis-of-preparation/.

Assurance
PwC has conducted public limited assurance over our Scope 1 and Scope 2 carbon emissions data in accordance with ISAE 3000 (Revised).

See PwC's Assurance Statement here: www.ovo.com/sustainability-assurance-report/.

Section 172 Statement
Stakeholders are at the heart of our strategy and business model. Engaging with them helps us to understand their evolving needs and informs our strategic decision-making.

In light of our purpose and our strategy to create a world without carbon and create long term-value for customers, our Directors take steps to understand the needs and priorities of each stakeholder group and do so via a number of mediums, including by direct engagement or via committees and forums. The relevance of each stakeholder may change depending on the matter at hand. In line with requirements of the UK Companies Act 2006, we provide a high-level summary of how our Directors engaged with our stakeholders and had regard to their interests when setting OVO's strategy and taking decisions concerning the business in 2019.

<u>Our customers</u>

OVO has a history of championing the interests of customers. We provide easy and intuitive solutions so that whether our customers are on the phone with our award winning call centre or using our app or our website, they know that we will go the extra mile and provide the necessary support.

We engage with our customers via multiple touchpoints as well as delivering support in the management of their energy and the resolution of issues via a number of channels.

We consistently and proactively communicate with all of our customers throughout their life cycle with the OVO brand in the channel of their choice. Operational communications and regular billing information are delivered by email or post on a monthly basis. All customers can access their OVO account via an app or desktop service at any point and are able to understand their usage and manage their account at any time they need. For those customers who wish to receive them, we deliver marketing communications about new products and services that our existing customers may be able to benefit from.

As a business we spend significant time ensuring we understand our current and prospective customers, what they require from their energy provider and how we can improve the experience and products that we offer. Our product and marketing teams regularly research propositional development and brand messaging to ensure everything we create is done with the customer in mind. We consistently track NPS, Trustpilot and brand health and use the data gleaned to continuously build and improve our offering. Regular customer reports are produced for management and are regularly shared with Directors and the Board. Our Board also receives direct updates from each of OVO's customer facing businesses and monitors customer performance, NPS and feedback.

Brand marketing focuses on how OVO Energy and its unique proposition are able to support our customers' journey to Zero Carbon Living. The communications we provide are designed to mobilise a community around our Plan Zero objective to drive progress to zero carbon living and to support all of our customers in reducing their individual carbon footprint by 50% by 2030.

Post year end, at the start of the Coronavirus lockdown, we quickly communicated with customers to let them know we're here to help those who needed us, and uploaded FAQs to our website to ensure our information was clear, concise and prompt. Our customers and wider charitable partners told us that some customers were worried about paying their bills during lockdown and so we responded by setting up the OVO Coronavirus Hardship Scheme, making £50 million available to support those who had been impacted and were worried about their ability to pay.

Our people

Without talented and committed employees, we could never deliver on our ambitions. Our people are the creators of our culture and act as our ambassadors. We aspire to create the UK's best place to work in order for our people to better serve our customers and partner with them on their journey to zero carbon living.

We have already put in place strong foundations to help ensure everyone who joins OVO feels like they belong.
This includes:
• An Inclusion and Diversity team, which includes senior management, who champion different areas and ensure principles of inclusion and diversity are embedded across the business
• Making a public pledge to increase the number of women in traditionally underrepresented roles
• Normalising the conversation around, and increasing awareness of mental health in the workplace through the Time to Change pledge
• Tracking and reporting diversity data of both applicants and existing employees to identify challenge areas.

Our quarterly employee survey gives employees at all levels the chance to share views with line managers, colleagues and leadership. In 2019, we had an average 82% response rate and management support was called out as a key strength. We also engage regularly with our people through a number of employee forums, company wide town halls and smaller village halls. All of the data and learnings we receive is shared with the OVO Group Board, and our Chief People Officer attends OVO Group Board meetings in order to communicate and report on employee feedback.

Our planet

The climate crisis is one of the greatest challenges we face and awareness of the environmental impact of human activity on the planet is growing. Key concerns include air pollution, climate change and the destruction of nature and biodiversity. We're seeing growing movements for change around the world, as well as a real desire for businesses to limit their impact on the planet and take bold action on climate. The OVO Group Board and our Directors have responsibility for key environmental issues: our CEO works with the Energy Transitions Committee for example and various Directors lead on key workstreams to deliver Plan Zero and ensure that we have strong and mutually beneficial relationships with our partners.

Government and Regulators

OVO has dedicated teams who engage regularly with the UK Government and regulators to communicate our business strategy and support the development of policies, either directly or through our trade associations. Our CEO engages directly with policy makers and the regulator around OVO's strategic priorities and is kept informed of priority consultations and regulatory changes. In 2019 we engaged on a number of strategically important issues to help inform and support the policy development on climate change, the decarbonisation of heat and transport and customer protection. Through this engagement, we aim to positively contribute to the global drive to tackle climate change and to support the UK Government's net-zero by 2050 targets. The OVO Group Board receives regular updates from representations from our Risk and Compliance Committee.

Suppliers

Building trusted partnerships with our suppliers is important in enabling us to provide the best products at the best prices for our customers. In 2019, as a first step to engage suppliers on Plan Zero, OVO implemented a Supplier Code of Conduct setting out the standards, principles and values to which OVO expects its suppliers to adhere. OVO has asked all existing key suppliers to provide written confirmation that they will adhere with the Supplier Code of Conduct. Going forward, the Supplier Code of Conduct will be built into supplier contract templates, meaning that all new suppliers will be required to adhere with it.

In the future, OVO will be looking at ways to engage further with suppliers to promote sustainability and responsible business practices, by including sustainability assessments as part of the procurement process and ensuring sustainability criteria forms a minimum part of weighted assessment scoring when new suppliers are being selected.

Our communities

The OVO Charitable Foundation ("OVO Foundation") was created in 2014 with the mission of ensuring all children and young people have equitable access to a sustainable future.

OVO Foundation builds sustainable communities around the world by increasing energy access and tackling youth homelessness. It also focuses on educating children on sustainability and climate change issues to inspire and empower them to take action. OVO Foundation invests in projects that address a real and genuine need, can demonstrate measurable and meaningful impact, and provide a high return on investment. It is also committed to funding projects that have potential to bring about long-term systemic change and can be scaled wherever possible.

Key achievements for the Foundation include:
• Turning 10 derelict properties into 30 safe and affordable homes and working with 100s of young homeless people to break the cycle of homelessness
• Providing funding to electrify 300+ schools and health clinics in rural Kenya to improve the lives of 100,000s of people and leapfrogging the grid to avoid polluting fossil fuels
• Investing £500,000 in local charities and spending 1,000s of volunteering hours to help create sustainable communities

OVO Charitable Foundation is funded partly from customer donations, and partly from the OVO business: at the end of 2019, 65,896 customers donated to OVO Foundation each month.

Board and company engagement with our stakeholders during strategic moments

The OVO Group Board recognises that having robust governance structures in place is vital to decision-making. The OVO Group Board spends a lot of time listening to and understanding the views of its key stakeholders. When discussing matters at Board meetings these views form an integral part of its decision-making.

The OVO Group Board is responsible for approving the company's strategic plan and evaluates proposed acquisitions in the context of that plan. The OVO Group Board, (which includes members from our external shareholders), discussed and approved the acquisition of SSE Energy Services.

During the development of Plan Zero (Nov 2018 - May 2019) OVO engaged a vast number of stakeholders in a detailed materiality assessment.
We held 1-2-1 in-depth sessions with Directors, senior leaders and relevant stakeholders across OVO as well as held 12 group sessions. We also sent out a questionnaire to all Directors to ensure they fed into the development of the strategy that received a 100% response rate.
We asked all of our employees to complete a survey, and received a 50% response rate.
We sent out surveys to our customers to seek their feedback on our aims and objectives.
Plan Zero was discussed and approved by the OVO Group Board, and our CEO was significantly involved in its development.

Since the launch of Plan Zero, we have committed to reporting quarterly to the OVO Group Board - with a summary of each Plan Zero SteerCo. The OVO Group Board is committed to building trusted partnerships with our suppliers, which are crucial to delivering many of our Plan Zero commitments. Through these partnerships, we deliver value and quality to our customers.

All matters which under OVO's governance arrangements are reserved for decision by the Directors are presented at OVO Group Board meetings. Directors are briefed on any potential impacts and risks for our customers, our people and other stakeholders including the community and environment and how they are to be managed.

Approved by the Board on 22 December 2020 and signed on its behalf by:

....
Vincent Casey
Director

Imagination Industries Ltd

Directors' Report for the Year Ended 31 December 2019

The directors present their report and the audited consolidated financial statements for the year ended 31 December 2019.

Principal activity

The principal activity of the Group is a retail energy provider whilst investing in new technologies that support the decarbonisation of energy. For more information, refer to the Strategic Report.

Directors' of the group

The directors, who held office during the year and up to the date of signing in financial statements, were as follows:

Stephen Fitzpatrick

Vincent Casey

Dividends

The directors do not propose a dividend for the year ended 31 December 2019 (31 December 2018: no dividends proposed).

Financial instruments

Financial risk management objectives and policies have been established making use of financial instruments for the purpose of managing the exposure of the company to price risk, credit risk, liquidity risk and cash flow risk is discussed in note 29 28 of the financial statements.

Political donations

During the year the company made political donations of £196,000. Individual donations to EU political parties were:

	£
Conservative Party	196,000

Charitable donations

During the year the company made charitable donations of £597,000. Individual donations were:

	£
The OVO Charitable Foundation	572,000
Dramatic Need	25,000

Stakeholder engagement

Details of the group's actions taken during the financial year with regards to stakholder engagement can be found within the Section 172 Statement included in the Strategic Report.

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 has a share scheme for employees.

Future developments

The Directors believe that the Company remains well positioned in the market place with a differentiated offer. For further information, visit our website: www.ovoenergy.com. See Strategic Report for the Company's future developments.

Going concern

2020 is a transformative year for Imagination Industries Limited. Post year-end, OVO Energy Limited, an indirect subsidiary of Imagination Industries Limited, completed the acquisition of SSE plc's GB domestic retail business (see note 17). The Group also continued the optimisation of its business model, especially in light of the new scale of the business, and the challenges arising due to COVID-19.

The acquisition of SSE Energy Services provides many benefits to the Group, including the contribution of positive cash flow generation, and an enhanced liquidity and earnings profile. In addition, as a result of the acquisition, the company has also agreed a series of financial covenants with its key financial and trading creditors. The financial covenants in place over the forecast period relate to liquidity, key earnings ratios and the net worth of the company. The group also has a number of arrangements with its creditors which allows for extended payment terms through the seasonal cycle, in order to manage it's working capital commitments. These arrangements have associated financial covenants, against which the Group has been compliant during the period. These facilities were not drawn at the end of the financial year.

The directors have performed a detailed assessment of the Group's ability to continue as a going concern. As part of this assessment they considered both the liquidity position and compliance with financial covenants. This assessment is predicated on management's 'base case' financial outlook through to December 2021. The base case takes account of the following:
- The directors expectation of the continued effect of COVID-19 on the group,
- Unemployment due to COVID-19 rising above 8% in 2021 impacting expected credit losses expense, and
- Localised restrictions and requirements for social distancing being in place throughout that period impacting our ability to mobilise parts of our workforce.

The directors believe that future regulated price caps may reflect these adverse factors. However, the base case is conservative in that it does not assume any uplift to the price cap in respect of these factors as this mitigating factor is outside of the company's direct control. In addition, the base case has been subject to a set of severe but plausible downside stress tests, including a further increase in bad debt, a reduction in smart meter installs, an increase in customer churn, and cold/ warm weather scenarios. In the case of downside stress tests the directors took into account the potential mitigating factors (within their direct control) to protect the group's earnings and liquidity.

Under the base case, and the severe downside scenarios considered, the Group has sufficient liquidity to continue as a going concern, and is compliant with all financial covenants throughout 2020 and 2021. Accordingly the directors have a reasonable expectation that the Group has adequate liquidity, and resources to continue operating for a period of at least 12 months from the date of approval of the financial statements, and therefore the financial statements have been prepared on a going concern basis.

Management also considered the cashflows outside of the OVO Group which relate to the Group. Management produced cashflow forecasts and assessed the compliance with loan covenants. There was nothing that would affect the ability of the Company and Group to continue as a going concern.

Having considered these matters, the directors do not believe there are any material uncertainties to disclose in relation to the Group's ability to continue as a going concern.

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 last financial year and is currently in force as at the date of approval of the financial statements. The Company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its Directors.

Disclosure of information to the auditors

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.

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and company 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 group and company and of the profit or loss of the group and company for that period. In preparing the financial statements, the directors are required to:

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

The directors are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Approved by the Board on 22 December 2020 and signed on its behalf by:

....

Vincent Casey
Director

Imagination Industries Ltd

Independent Auditors' Report to the Members of Imagination Industries Ltd

Report on the audit of the financial statements

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 2019 and of the group's loss and the group's and the company's cash flows for the year then ended;

• have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and

• have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Consolidated and Company Statements of Financial Position as at 31 December 2019; the Consolidated Income Statement, the Consolidated and Company Statements of Cash Flows, and the Consolidated and Company Statements of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

• the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

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

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

Independent Auditors' Report to the Members of Imagination Industries Ltd (continued)

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

Imagination Industries Ltd

Independent Auditors' Report to the Members of Imagination Industries Ltd (continued)

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

• we have not received all the information and explanations we require for our audit; or

• adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or

• certain disclosures of directors' remuneration specified by law are not made; or

• the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

KE Finn

....
Katharine Finn (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
2 Glass Wharf
Bristol
BS2 0FR

22 December 2020

Imagination Industries Ltd

Consolidated Income Statement for the Year Ended 31 December 2019

	Note	2019 £ 000	2018 Restated* £ 000
Revenue	4	1,449,007	1,042,048
Cost of sales		(1,296,249)	(943,582)
Gross profit		152,758	98,466
Administrative expenses		(268,669)	(168,424)
Other operating income	5	3,107	1,133
Other gains	6	2,770	18,942
Operating loss	7	(110,034)	(49,883)
Finance income		726	224
Finance costs		(4,207)	(3,127)
Net finance cost	8	(3,481)	(2,903)
Share of loss of equity accounted investees	16	(547)	(176)
Loss before tax		(114,062)	(52,962)
Income tax receipt	12	1,305	11,194
Loss for the year		(112,757)	(41,768)
(Loss)/profit attributable to:			
Owners of the company		(73,296)	(26,503)
Non-controlling interests		(39,461)	(15,265)
		(112,757)	(41,768)

*Refer to Note 17 for details of prior period restatement from the finalisation of acquistion accounting.

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

Imagination Industries Ltd

(Registration number: 06890468)
Consolidated and Company Statements of Financial Position as at 31 December 2019

		Group		Company	
		2019	2018 Restated *	2019	2018
	Note	£ 000	£ 000	£ 000	£ 000
Assets					
Non-current assets					
Property, plant and equipment	13	6,062	3,811	-	-
Intangible assets	15	122,393	110,155	2,000	2,000
Right of use assets	14	20,989	-	-	-
Deferred tax assets	12	11,532	12,926	-	-
Investments in subsidiaries	16	-	-	16,263	16,739
Investments accounted for using the equity method	16	1,857	24	1,000	-
		162,833	126,916	19,263	18,739
Current assets					
Inventories	18	9,828	4,909	-	-
Trade and other receivables	19	144,582	93,464	5,071	2,874
Income tax asset		3,669	1,051	50	215
Cash and cash equivalents	20	32,353	84,934	7,142	3,320
		190,432	184,358	12,263	6,409
Total assets		**353,265**	**311,274**	**31,526**	**25,148**
Current liabilities					
Trade and other payables	21	(267,444)	(206,824)	(2,662)	(3,988)
Loans and borrowings	23	-	(12,000)	-	(12,000)
Lease Liabilities	24	(2,853)	-	-	-
Deferred income		(89,596)	(112,315)	-	-
Provisions	27	-	(2,923)	-	-
		(359,893)	(334,062)	(2,662)	(15,988)
Non-current liabilities					
Loans and borrowings	23	-	(33,934)	-	-
Provisions	27	(11,706)	(77)	-	-
Lease liabilities	24	(19,744)	-	-	-
		(31,450)	(34,011)	-	-
Total liabilities		(391,343)	(368,073)	(2,662)	(15,988)

The notes on pages 26 to 84 form an integral part of these financial statements.

Imagination Industries Ltd

(Registration number: 06890468)
Consolidated and Company Statements of Financial Position as at 31 December 2019 (continued)

		Group		Company	
		2019	2018 Restated *	2019	2018
	Note	£ 000	£ 000	£ 000	£ 000
Net (liabilities)/assets		**(38,078)**	**(56,799)**	**28,864**	**9,160**
Equity					
Share capital	22	-	-	-	-
Share premium		32,758	32,758	4,048	4,048
Other reserves		2,180	1,975	6	6
(Accumulated losses)/Retained earnings		(55,543)	(76,544)	24,810	5,106
Equity attributable to owners of the parent		(20,605)	(41,811)	28,864	9,160
Non-controlling interests		(17,473)	(14,988)	-	-
Total equity		**(38,078)**	**(56,799)**	**28,864**	**9,160**

*See Note 17 for details regarding the prior period restatement resulting from the finalisation of acquistion accounting.

No income statement is presented for the Company as permitted by Section 408 of the Companies Act 2006. Its profit for the year was £19,706,000 (2018: loss of £4,878,000).

Approved by the Board on 22 December 2020 and signed on its behalf by:

....
Vincent Casey
Director

Imagination Industries Ltd

Consolidated Statement of Changes in Equity for the Year Ended 31 December 2019

	Attributable to owners of the parent					
	Share premium £ 000	Other reserves £ 000	Accumulated losses £ 000	Total £ 000	Non-controlling interests £ 000	Total equity £ 000
At 1 January 2018	32,758	1,773	(31,266)	3,265	(5,090)	(1,825)
Loss for the year*	-	-	(26,503)	(26,503)	(15,265)	(41,768)
Acquisition of non-controlling interest, increase in equity	-	-	(18,775)	(18,775)	5,367	(13,408)
Share based payment transactions	-	202	-	202	-	202
At 31 December 2018	32,758	1,975	(76,544)	(41,811)	(14,988)	(56,799)

* Refer to Note 17 for details of prior period restatement resulting from the finalisation of acquisition accounting.

	Attributable to owners of the parent					
	Share premium £ 000	Other reserves £ 000	Accumulated losses £ 000	Total £ 000	Non-controlling interests £ 000	Total equity £ 000
At 1 January 2019	32,758	1,975	(76,544)	(41,811)	(14,988)	(56,799)
Loss for the year	-	-	(73,296)	(73,296)	(39,461)	(112,757)
Movement in non-controlling interest*	-	-	94,297	94,297	36,976	131,273
Share based payment transactions	-	214	-	214	-	214
Merger adjustment, increase/ (decrease) in equity	-	(9)	-	(9)	-	(9)
At 31 December 2019	32,758	2,180	(55,543)	(20,605)	(17,473)	(38,078)

*Refer to note 16 Investments in subsidiaries and associates.

Imagination Industries Ltd

Company Statement of Changes in Equity for the Year Ended 31 December 2019

	Share premium £ 000	Other reserves £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2018	4,048	6	9,984	14,038
Loss for the year	-	-	(4,878)	(4,878)
Total comprehensive income	-	-	(4,878)	(4,878)
At 31 December 2018	4,048	6	5,106	9,160

	Share premium £ 000	Other reserves £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2019	4,048	6	5,106	9,160
Profit for the year	-	-	19,704	19,704
Total comprehensive income	-	-	19,704	19,704
At 31 December 2019	4,048	6	24,810	28,864

Imagination Industries Ltd

Consolidated Statement of Cash Flows for the Year Ended 31 December 2019

	Note	2019 £ 000	2018 Restated* £ 000
Cash flows from operating activities			
Loss for the year		(112,757)	(41,768)
Adjustments to cash flows from non-cash items			
Depreciation and amortisation	7	23,363	9,919
Impairment of property, plant and equipment and intangible assets		5,681	-
Gain on bargain purchase	6	(1,195)	(18,889)
Profit on disposal of intangible assets	6	-	(53)
Profit from disposal of subsidiary	6	(1,575)	-
Foreign exchange gain	7	(9)	(93)
Finance income	8	(726)	(224)
Finance costs	8	4,207	3,127
Research and development expenditure credit		(3,107)	-
Share based payment transactions		214	202
Share of loss/(profit) of equity accounted investees		547	176
Income tax expense/(credit)	12	(1,305)	(11,194)
		(86,662)	(58,797)
Working capital adjustments			
(Increase)/decrease in inventories	18	(4,919)	2,416
Increase in trade and other receivables	19	(52,136)	(12,892)
Increase in trade and other payables	21	45,726	57,521
Increase in provisions	27	8,649	2,183
(Decrease)/increase in deferred income		(22,719)	38,368
Income taxes paid		(1,067)	(1,188)
Net cash flow generated from/(used in) operating activities		(113,128)	27,611
Cash flows from investing activities			
Interest received	8	726	224
Acquisitions of property plant and equipment	13	(5,974)	(2,012)
Proceeds from sale of property plant and equipment		-	53
Acquisition of intangible assets	15	(11,496)	(1,827)
Acquisition of investments in associates	16	(2,380)	-
Acquisition of subsidiary, net of cash acquired		(998)	(750)
Proceeds from disposal of shares in subsidiaries		30,115	-
Payment of deferred consideration		-	(5,000)
Net cash flows (used in)/generated from investing activities		9,993	(9,312)

The notes on pages 26 to 84 form an integral part of these financial statements.

Imagination Industries Ltd

Consolidated Statement of Cash Flows for the Year Ended 31 December 2019 (continued)

	Note	2019 £ 000	2018 Restated* £ 000
Cash flows from financing activities			
Interest paid	8	(4,114)	(3,127)
Proceeds from issue of shares in subsidiary, net of issue costs		102,555	-
Proceeds from bank borrowing draw downs		-	(13,617)
Repayment of bank borrowing		(45,934)	-
Payments to finance lease creditors		(1,953)	-
Net cash flows generated from/(used in) financing activities		50,554	(16,744)
Net (decrease)/increase in cash and cash equivalents		(52,581)	1,555
Cash and cash equivalents at 1 January		84,934	83,379
Cash and cash equivalents at 31 December		32,353	84,934

*See Note 17 for details regarding the prior period restatement resulting from the finalisation of acquisition accounting.

Imagination Industries Ltd

Company Statement of Cash Flows for the Year Ended 31 December 2019

	Note	2019 £ 000	2018 £ 000
Cash flows from operating activities			
Profit/(loss) for the year		19,704	(4,878)
Adjustments to cash flows from non-cash items			
Depreciation and amortisation	7	-	21
Profit on disposal of property, plant and equipment	6	-	(43)
Profit from disposals of investments	6	(27,840)	-
Finance income	8	(1,130)	(371)
Finance costs	8	203	746
Income tax (credit)/charge	12	128	(19)
		(8,935)	(4,544)
Working capital adjustments			
(Increase)/decrease in trade and other receivables	19	(2,147)	14,043
(Decrease)/increase in trade and other payables	21	(1,326)	3,944
Cash generated from/(used in) operations		(12,408)	13,443
Income taxes paid	12	(13)	(1,244)
Net cash flow generated from/(used in) operating activities		(12,421)	12,199
Cash flows from investing activities			
Interest received	8	1,130	371
Acquisition of shares in subsidiaries	16	-	(13,617)
Proceeds from sale of shares in subsidiaries		28,316	-
Proceeds from sale of property plant and equipment		-	43
Acquisition of investments in associates	16	(1,000)	-
Net cash flows (used in)/generated from investing activities		28,446	(13,203)
Cash flows from financing activities			
Interest paid	8	(203)	(746)
Repayment of bank borrowing		(12,000)	-
Net cash flows generated from/(used in) financing activities		(12,203)	(746)
Net increase/(decrease) in cash and cash equivalents		3,822	(1,750)
Cash and cash equivalents at 1 January		3,320	5,070
Cash and cash equivalents at 31 December		7,142	3,320

The notes on pages 26 to 84 form an integral part of these financial statements.

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2019

1 General information

The company is a private company limited by share capital, incorporated in England and Wales and domiciled in UK.

The address of its registered office is:
140-142 Kensington Church Street
London
W8 4BN
United Kingdom

These financial statements were authorised for issue by the Board on 22 December 2020.

2 Accounting policies

Statement of compliance

The group financial statements have been prepared in accordance with International Financial Reporting Standards and its interpretations adopted by the EU ("adopted IFRS's").

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.

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.

Prior year restatement

Comparative information for prior periods presented in the financial statements have been revised as a result of adjustments made against the provisional amounts recognised resulting from the business combination undertaken in the prior year. As required under IFRS 3 Business Combinations, the adjustments have been recognised as if they occurred on the acquisition date. Refer 17 to Note for further details.

2 Accounting policies (continued)

Going concern

The financial statements have been prepared on a going concern basis. 2020 is a transformative year for Imagination Industries Limited. Post year-end, OVO Energy Limited, an indirect subsidiary of Imagination Industries Limited, completed the acquisition of SSE plc's GB domestic retail business (see note 17). The Group also continued the optimisation of its business model, especially in light of the new scale of the business, and the challenges arising due to COVID-19.

The acquisition of SSE Energy Services provides many benefits to the Group, including the contribution of positive cash flow generation, and an enhanced liquidity and earnings profile. In addition, as a result of the acquisition, the company has also agreed a series of financial covenants with its key financial and trading creditors. The financial covenants in place over the forecast period relate to liquidity, key earnings ratios and the net worth of the company. The group also has a number of arrangements with its creditors which allows for extended payment terms through the seasonal cycle, in order to manage it's working capital commitments. These arrangements have associated financial covenants, against which the Group has been compliant during the period. These facilities were not drawn at the end of the financial year.

The directors have performed a detailed assessment of the Group's ability to continue as a going concern. As part of this assessment they considered both the liquidity position and compliance with financial covenants. This assessment is predicated on management's 'base case' financial outlook through to December 2021. The base case takes account of the following:
- The directors expectation of the continued effect of COVID-19 on the group,
- Unemployment due to COVID-19 rising above 8% in 2021 impacting expected credit losses expense, and
- Localised restrictions and requirements for social distancing being in place throughout that period impacting our ability to mobilise parts of our workforce.

The directors believe that future regulated price caps may reflect these adverse factors. However, the base case is conservative in that it does not assume any uplift to the price cap in respect of these factors as this mitigating factor is outside of the company's direct control.

In addition, the base case has been subject to a set of severe but plausible downside stress tests, including a further increase in bad debt, a reduction in smart meter installs, an increase in customer churn, and cold/ warm weather scenarios. In the case of downside stress tests the directors took into account the potential mitigating factors (within their direct control) to protect the group's earnings and liquidity.

Under the base case, and the severe downside scenarios considered, the Group has sufficient liquidity to continue as a going concern, and is compliant with all financial covenants throughout 2020 and 2021. Accordingly the directors have a reasonable expectation that the Group has adequate liquidity, and resources to continue operating for a period of at least 12 months from the date of approval of the financial statements, and therefore the financial statements have been prepared on a going concern basis.

Management also considered the cashflows outside of the OVO Group which relate to the Group. Management produced cashflow forecasts and assessed the compliance with loan covenants. There was nothing that would affect the ability of the Company and Group to continue as a going concern.

Having considered these matters, the directors do not believe there are any material uncertainties to disclose in relation to the Group's ability to continue as a going concern.

Basis of consolidation

The group financial statements consolidate the financial statements of the company and its subsidiary undertakings drawn up to 31 December 2019

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. Corporate restructuring, which does not meet the definition of a business combination, are accounted for through the application of predecessor accounting, where applicable.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. 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.

Intra-group losses are also eliminated but may indicate an impairment that requires recognition in the consolidated financial statements.

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.

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

2 Accounting policies (continued)

Changes in accounting policy

New standards, interpretations and amendments effective

The following have been applied for the first time from 1 January 2019 and have had an effect on the financial statements:

IFRS 16 Leases

The Group had to change its accounting policies as a result of adopting IFRS 16. The Group has adopted IFRS 16 Leases retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 7%.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The associated right-of-use assets for property leases were measured on a modified retrospective basis as if the new rules had always been applied.

Reconciliation of the impact is set out below:

Measurement of lease liabilities	**£'000**
Operating lease commitments disclosed as at 31 December 2018	23,962
Discounted using the lessee's incremental borrowing rate of at the date of initial application	(1,886)
Add: finance lease liabilities recognised as at 31 December 2018	389
(Less): short-term leases not recognised as a liability	(827)
Add/(less): contracts reassessed as lease contracts	3,133
Add/(less): adjustments as a result of a different treatment of extension and termination options	(1,107)
Lease liability recognised as at 1 January 2019	**23,664**

Adjustments recognised in the balance sheet on 1 January 2019

	£'000
Right-of-use assets - increase by	23,664
Lease liabilities - increase by	23,664

2 Accounting policies (continued)

Other new accounting standards and amendments

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2019:
- Prepayment Features with Negative Compensation - Amendments to IFRS 9
- Long-term Interests in Associates and Joint Ventures - Amendments to IAS 28
- Annual Improvements to IFRS Standards 2015 - 2017 Cycle
- Plan Amendment, Curtailment or Settlement - Amendments to IAS 19
- Interpretation 23 Uncertainty over Income Tax Treatments

None of the standards, interpretations and amendments effective for the first time from 1 January 2019 have had a material effect on the financial statements.

New standards and interpretations and amendments not yet effective
Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable furture transactions.

Revenue recognition

Recognition

The company earns revenue from the provision of services relating to Revenues are generated primarily from the sale of electricity and gas to customers. This revenue is recognised in the accounting period when the services are rendered at an amount that reflects the consideration to which the entity expects to be entitled in exchange for fulfilling its performance obligations to customers.

The principles in IFRS are applied to revenue recognition criteria using the following 5 step model:

1. Identify the contracts with the customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when or as the entity satisfies its performance obligations

Transaction price

In determining the transaction price, the Company considers the effects of variable consideration, the existence of significant financing components, non-cash consideration, and consideration payable to the customer (if any).

(i) Variable consideration
If the consideration in a contract includes a variable amount, revenue is only recognised in an amount at which a significant reversal is improbable in the future.

(ii) Consideration payable to a customer
If the contract contains consideration payable to a customer, the consideration payable is accounted for as a reduction of the transaction price.

2 Accounting policies (continued)

Contract assets and receivables

A contract asset is the right to consideration in exchange for goods or services provided to the customer. If the Company provides goods or services to a customer before the customer pays consideration or before payment is due, a contract asset, accrued income, is recognised for the earned consideration that is conditional.

A receivable represents the Company's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

Contract liabilities

A contract liability is the obligation to provide goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Company provides goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities, deferred income, are recognised as revenue when the Company performs under the contract.

Net basis of measurement of contract balances

Contract asset and contract liability positions are determined for each contract on a net basis. This is because the rights and obligations within each contract are considered inter-dependent. Where two contracts are with the same or related entities, an assessment is made of whether contract assets and liabilities are inter-dependent and if so, contract balances are reported net.

Capitalisation of costs to obtain or fulfil a contract

The incremental costs of obtaining a contract are recognised as an asset if certain criteria are met. The Company incurs broker commissions for customers who have signed-up through broker sites. The Company has elected to apply the optional practical expedient for costs to obtain a contract which allows the Company to immediately expense customer acquisition costs because the amortisation period of the asset that the Company otherwise would have used is one year or less.

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.

2 Accounting policies (continued)

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.

The assets and liabilities of foreign operations are translated into sterling at exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated into sterling at rates approximating to the exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation of foreign operations are recognised in the foreign currency translation reserve.

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.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the group operates and generates taxable 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
Office equipment	3 years straight line

2 Accounting policies (continued)

Goodwill

Goodwill arising on the acquisition of an entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of identifiable assets, liabilities and contingent liabilities of the entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill is held in the currency of the acquired entity and revalued to the closing rate at each reporting period date.

Goodwill is not subject to amortisation but is tested for impairment.

Negative goodwill arising on an acquisition is recognised directly in the income statement. On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss recognised in the income statement on disposal.

Intangible assets

Customer-related intangible assets acquired in a business combination are recognised at fair value at the acquisition date.

Customer-related intangible assets have a finite useful life and are carried at cost less accumulated amortisation and any accumulated impairment losses.

Separately acquired trademarks and licenses are shown at historical cost. Trademarks and licences acquired in a business combination are recognised at fair value at the acquisition date. Trademarks and licenses have a finite useful life and are carried at cost less accumulated amortisation.

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 attributable 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.

Computer software and licences acquired in a business combination are recognised at fair value at the acquisition date.

2 Accounting policies (continued)

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
Other intangible assets	3 years straight line
Contractual customer relationships	Over the expected life of the contract

Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash flows (cash-generating units). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

Investments

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

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.

Trade receivables

Trade receivables are amounts due from customers for the sale of electricity and gas or other services performed in the ordinary course of the Group's 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 do not carry any interest and are held at transaction price less an appropriate impairment recognised where the loss is probable. The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected credit loss allowance for all trade receivables and contract assets. Further detail on this model and application within these accounts can be found within the Critical accounting estimates note.

Deferred Income

Represents monies received from customers in advance of the delivery of gas or electricity that may be returned to the customer if future delivery does not occur.

2 Accounting policies (continued)

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.

Smart meter inventory is stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable selling expenses.

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.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

2 Accounting policies (continued)

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.

Leases

The below policy has been applied in 2019 following the adoption of IFRS 16 as noted above.

In the previous year, the company only recognised lease assets and lease liabilities in relation to leases that were classified as 'finance leases' under IAS 17 Leases. Leases in which substaintially all the risks and rewards of ownership are retained by the lessor were classified as 'operating leases'. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

Definition

A lease is a contract, or a part of a contract, that conveys the right to use an asset or a physically distinct part of an asset ("the underlying asset") for a period of time in exchange for consideration. Further, the contract must convey the right to the group to control the asset or a physically distinct portion thereof. A contract is deemed to convey the right to control the underlying asset if, throughout the period of use, the group has the right to:

· Obtain substantially all the economic benefits from the use of the underlying asset, and;
· Direct the use of the underlying asset (eg direct how and for what purpose the asset is used).

Initial recognition and measurement

The group initially recognises a lease liability for the obligation to make lease payments and a right-of-use asset for the right to use the underlying asset for the lease term.
The lease liability is measured at the present value of the lease payments to be made over the lease term. The lease payments include fixed payments, purchase options at exercise price (where payment is reasonably certain), expected amount of residual value guarantees, termination option penalties (where payment is considered reasonably certain) and variable lease payments that depend on an index or rate.
The right-of-use asset is initially measured at the amount of the lease liability, adjusted for lease prepayments, lease incentives received, the group's initial direct costs (e.g., commissions) and an estimate of restoration, removal and dismantling costs.

2 Accounting policies (continued)

Subsequent measurement

After the commencement date, the group measures the lease liability by:
(a) Increasing the carrying amount to reflect interest on the lease liability;
(b) Reducing the carrying amount to reflect the lease payments made; and
(c) Re-measuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in substance fixed lease payments or on the occurrence of other specific events.
Interest on the lease liability in each period during the lease term is the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability. Interest charges are [presented separately as non-operating /included in finance cost] in the income statement, unless the costs are included in the carrying amount of another asset applying other applicable standards. Variable lease payments not included in the measurement of the lease liability, are included in operating expenses in the period in which the event or condition that triggers them arises.
The related right-of-use asset is accounted for using the Cost model in IAS 16 and depreciated and charged in accordance with the depreciation requirements of IAS 16 Property, Plant and Equipment as disclosed in the accounting policy for Property, Plant and Equipment. Adjustments are made to the carrying value of the right of use asset where the lease liability is re-measured in accordance with the above. Right of use assets are tested for impairment in accordance with IAS 36 Impairment of assets as disclosed in the accounting policy in impairment.

Lease modifications

If a lease is modified, the modified contract is evaluated to determine whether it is or contains a lease. If a lease continues to exist, the lease modification will result in either a separate lease or a change in the accounting for the existing lease.
The modification is accounted for as a separate lease if both:
(a) The modification increases the scope of the lease by adding the right to use one or more underlying assets; and
(b) The consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.
If both of these conditions are met, the lease modification results in two separate leases, the unmodified original lease and a separate lease. The group then accounts for these in line with the accounting policy for new leases.
If either of the conditions are not met, the modified lease is not accounted for as a separate lease and the consideration is allocated to the contract and the lease liability is re-measured using the lease term of the modified lease and the discount rate as determined at the effective date of the modification.
For a modification that fully or partially decreases the scope of the lease (e.g., reduces the square footage of leased space), IFRS 16 requires a lessee to decrease the carrying amount of the right-of-use asset to reflect partial or full termination of the lease. Any difference between those adjustments is recognised in profit or loss at the effective date of the modification.
For all other lease modifications which are not accounted for as a separate lease, IFRS 16 requires the lessee to recognise the amount of the re-measurement of the lease liability as an adjustment to the corresponding right-of-use asset without affecting profit or loss.

Short term and low value leases

The group has made an accounting policy election, by class of underlying asset, not to recognise lease assets and lease liabilities for leases with a lease term of 12 months or less (i.e., short-term leases).
The group has made an accounting policy election on a lease-by-lease basis, not to recognise lease assets on leases for which the underlying asset is of low value.
Lease payments on short term and low value leases are accounted for on a straight line bases over the term of the lease or other systematic basis if considered more appropriate. Short term and low value lease payments are included in operating expenses in the income statements.

2 Accounting policies (continued)

Sub leases

If an underlying asset is re-leased by the group to a third party and the group retains the primary obligation under the original lease, the transaction is deemed to be a sublease. The group continues to account for the original lease (the head lease) as a lessee and accounts for the sublease as a lessor (intermediate lessor). When the head lease is a short term lease, the sublease is classified as an operating lease. Otherwise, the sublease is classified using the classification criteria applicable to Lessor Accounting in IFRS 16 by reference to the right-of-use asset in the head lease (and not the underlying asset of the head lease). After classification lessor accounting is applied to the sublease.

Share based payments

The Group operates a number of equity-settled, share based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of OVO Group Ltd, Vertical Aerospace Ltd or Imagine Just 3 Things 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, the Group revises its 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 share awards are granted, the relevant subsidiary company issues 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 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)

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.

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.

2 Accounting policies (continued)

Financial instruments

Initial recognition

Financial assets and financial liabilities comprise cash and cash equivalents, trade and other receivables, trade and other payables and borrowings.

The group recognises financial assets and financial liabilities in the statement of financial position when, and only when, the group becomes party to the contractual provisions of the financial instrument.

Financial assets are initially recognised at fair value. Financial liabilities are initially recognised at fair value, representing the proceeds received net of premiums, discounts and transaction costs that are directly attributable to the financial liability.

All regular way purchases and sales of financial assets and financial liabilities classified as fair value through profit or loss ("FVTPL") are recognised on the trade date, i.e. the date on which the group commits to purchase or sell the financial assets or financial liabilities. All regular way purchases and sales of other financial assets and financial liabilities are recognised on the settlement date, i.e. the date on which the asset or liability is received from or delivered to the counterparty. Regular way purchases or sales are purchases or sales of financial assets that require delivery within the time frame generally established by regulation or convention in the market place.

Subsequent to initial measurement, financial assets and financial liabilities are measured at either amortised cost or fair value.

When measuring fair values, management use the fair value hierachy as set out below to reflect the significance of the inputs used:
(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
(b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2); and
(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

Classification and measurement

Financial instruments are classified at inception into one of the following categories, which then determine the subsequent measurement methodology:-

Financial assets are classified into one of the following three categories:-
· financial assets at amortised cost;
· financial assets at fair value through other comprehensive income (FVTOCI); or
· financial assets at fair value through the profit or loss (FVTPL).

Financial liabilities are classified into one of the following two categories:-
· financial liabilities at amortised cost; or
· financial liabilities at fair value through the profit or loss (FVTPL).

The classification and the basis for measurement are subject to the group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets, as detailed below:-

2 Accounting policies (continued)

Financial assets at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:-
· the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
· the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

If either of the above two criteria is not met, the financial assets are classified and measured at fair value through the profit or loss (FVTPL).

If a financial asset meets the amortised cost criteria, the group may choose to designate the financial asset at FVTPL. Such an election is irrevocable and applicable only if the FVTPL classification significantly reduces a measurement or recognition inconsistency.

Financial assets at fair value through other comprehensive income (FVTOCI)

A financial asset is measured at FVTOCI only if it meets both of the following conditions and is not designated as at FVPTL:-
· the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
· the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investments that is not held for trading, the group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

If an equity investment is designated as FVTOCI, all gains and losses, except for dividend income, are recognised in other comprehensive income and are not subsequently included in the statement of income.

Financial assets at fair value through the profit or loss (FVTPL)

Financial assets not otherwise classified above are classified and measured as FVTPL.

Financial liabilities at amortised cost

All financial liabilities, other than those classified as financial liabilities at FVTPL, are measured at amortised cost using the effective interest rate method.

Financial liabilities at fair value through the profit or loss

Financial liabilities not measured at amortised cost are classified and measured at FVTPL. This classification includes derivative liabilities.

2 Accounting policies (continued)

Derecognition

Financial assets

The group derecognises a financial asset when;
- the contractual rights to the cash flows from the financial asset expire,
- it transfers the right to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred; or
- the group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset and the sum of the consideration received is recognised as a gain or loss in the profit or loss.

Any cumulative gain or loss recognised in OCI in respect of equity investment securities designated as FVTOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the group is recognised as a separate asset or liability.

The group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised.

When the group derecognises transferred financial assets in their entirety, but has continuing involvement in them then the entity should disclose for each type of continuing involvement at the reporting date:

(a) The carrying amount of the assets and liabilities that are recognised in the entity's statement of financial position and represent the entity's continuing involvement in the derecognised financial assets, and the line items in which those assets and liabilities are recognised.

(b) The fair value of the assets and liabilities that represent the entity's continuing involvement in the derecognised financial assets;

(c) The amount that best represents the entity's maximum exposure to loss from its continuing involvement in the derecognised financial assets, and how the maximum exposure to loss is determined

(d) The undiscounted cash outflows that would or may be required to repurchase the derecognised financial assets or other amounts payable to the transferee for the transferred assets

Financial liabilities

The group derecognises a financial liability when its contractual obligations are discharged, cancelled, or expire.

2 Accounting policies (continued)

Modification of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to the cash flows from the original financial asset are deemed to expire. In this case the original financial asset is derecognised and a new financial asset is recognised at either amortised cost or fair value.

If the cash flows are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in the statement of income.

Financial liabilities

If the terms of a financial liabilities are modified, the group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual obligations from the cash flows from the original financial liabilities are deemed to expire. In this case the original financial liabilities are derecognised and new financial liabilities are recognised at either amortised cost or fair value.

If the cash flows are not substantially different, then the modification does not result in derecognition of the financial liabilities. In this case, the group recalculates the gross carrying amount of the financial liabilities and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in the statement of income.

2 Accounting policies (continued)

Impairment of financial assets

Measurement of Expected Credit Losses

The group recognises loss allowances for expected credit losses (ECL) on financial instruments that are not measured at FVPTL, namely:

- Financial assets that are debt instruments
- Accounts and other receivables
- Financial guarantee contracts issued; and
- Loan commitments issued.

The group classifies its financial instruments into stage 1, stage 2 and stage 3, based on the applied impairment methodology, as described below:

Stage 1: for financial instruments where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired on origination, the group recognises an allowance based on the 12-month ECL.

Stage 2: for financial instruments where there has been a significant increase in credit risk since initial recognition but they are not credit-impaired, the group recognises an allowance for the lifetime ECL.

Stage 3: for credit-impaired financial instruments, the group recognises the lifetime ECL.

The group measures loss allowances at an amount equal to the lifetime ECL, except for the following, for which they are measured as a 12-month ECL:

- debt securities that are determined to have a low credit risk (equivalent to investment grade rating) at the reporting date; and
- other financial instruments on which the credit risk has not increased significantly since their initial recognition.

The group considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

A 12-month ECL is the portion of the ECL that results from default events on a financial instrument that are probable within 12 months from the reporting date.

Provisions for credit-impairment are recognised in the statement of income and are reflected in accumulated provision balances against each relevant financial instruments balance.

Evidence that the financial asset is credit-impaired include the following;

- Significant financial difficulties of the borrower or issuer;
- A breach of contract such as default or past due event;
- The restructuring of the loan or advance by the group on terms that the group would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for the security because of financial difficulties; or
- There is other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

2 Accounting policies (continued)

For trade receivables, the group applies the simplified approach, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The expected loss rates are based on the payment profiles of sales over a period of 36 month before 31 December 2019 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The group has identified the GDP and the unemployment rate of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

Derivative financial instruments

Derivative financial instruments are contracts, the value of which is derived from one or more underlying financial instruments or indices, and include futures, forwards, swaps and options in the interest rate, foreign exchange, equity and credit markets.

Derivative financial instruments are recognised in the statement of financial position at fair value. Fair values are derived from prevailing market prices, discounted cash flow models or option pricing models as appropriate.

In statement of financial position, derivative financial instruments with positive fair values (unrealised gains) are included as assets and derivative financial instruments with negative fair values (unrealised losses) are included as liabilities.

The changes in the fair values of derivative financial instruments entered into for trading purposes are included in trading income.

Commodity derivatives

Within its regular course of business, the Group routinely enters into sale and purchase transactions for physical delivery of electricity and gas. Where the contract was entered into and continues to be held for the purpose of meeting forecast customer usage, the contacts are designated as "Own Use" contracts and are measured at cost. These contracts are not within the scope of IFRS 9.

Accounting estimates and assumptions

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of certain financial assets, liabilities, income and expenses.

The use of estimates and assumptions is principally limited to the determination of provisions for impairment, the valuation of financial instruments, unbillable supplies and deferred tax assets as explained in more detail below:-

Provisions for impairment

In determining impairment of financial assets, judgement is required in the estimation of the amount and timing of future cash flows as well as an assessment of whether the credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL.

2 Accounting policies (continued)

Fair value of financial assets and liabilities
Where the fair value of financial assets and liabilities cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is derived from observable markets where available, but where this is not feasible, a degree of judgement is required in determining assumptions used in the models. Changes in assumptions used in the models could affect the reported fair value of financial assets and liabilities.

3 Critical accounting judgements and key sources of estimation uncertainty

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

Revenue recognition - energy supplied but not yet measured (estimation uncertainty)
Revenue from energy supplied to OVO customers includes an estimate of the value of electricity or gas supplied to customers between the date of the latest meter reading and the financial year end.

This estimate comprises both billed revenue (trade receivables) and unbilled revenue (accrued income) and is calculated with reference to the tariffs and contractual rates applicable to customers against estimated customer consumption. Estimated customer consumption takes into account various factors including usage patterns, weather trends and notified aggregated volumes supplied to the customers from national settlements bodies.

A change in the assumptions underpinning the calculation would have an impact on the amount of revenue recognised in any given period.

This estimate is subject to an internal validation process which compares calculated unbilled volumes to a theoretical real-time billing benchmark measure of unbilled volumes with reference to historical consumption patterns adjusted for seasonality/weather and aggregated metering data used in industry reconciliation processes. Unbilled revenue recognised on the Group Balance Sheet was £74,234,000. A 1% change in revenue would have a £1,222,000 impact on the unbilled revenue recognised.

3 Critical accounting judgements and key sources of estimation uncertainty (continued)

Impairment of trade receivables (estimation uncertainty)
Impairments against trade receivables are recognised where the loss is expected. The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected credit loss allowance for all trade receivables and contract assets. For energy customers the impairment is calculated by splitting the portfolio into segments and The Directors have based their assessment of the level of impairment on collection rates experienced within each segment 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.

The assumption that future performance of customer debt settlement will be a reflective of past performance is the most significant assumption within the expected credit loss provisioning model. To address this risk, The Group reviews the provision rates for each segment on a regular basis to ensure they the most up to date assumptions and use forward looking information. In order to test the sensitivity of the impairment of the Group's trade receivables balance, the Group has considered the impact of an addition aging of Trade Receivables which requires an extra 0.5% of Revenue being provided for. This would lead to a £2,863,000 increase in the expected credit loss provision in 2019.

Deferred tax assets (accounting judgement and uncertainty)
Deferred tax assets have been recognised in respect of all tax losses and other temporary differences giving rise to deferred tax assets where the directors believe it is probable that these assets will be recovered, i.e. that future taxable amounts (e.g. taxable profits) will be available to utilise those temporary differences and losses. The carrying amount of the deferred tax assets are reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered. The recoverability of deferred tax assets relating to losses is based on forecasts of future taxable profits which are, by their nature, uncertain.

The Group prepares medium-term forecasts based on Board-approved budgets. These are used to support judgements made in the preparation of the Group's financial statements including the recognition of deferred tax assets.

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.

The Group remains exposed to the risk of changes in law that impact the Group's ability to carry forward and utilise tax attributes recognised as deferred tax assets.

4 Revenue

The analysis of the group's revenue for the year from continuing operations is set out below.

	2019 £ 000	2018 £ 000
Sale of gas and electricity	1,362,198	951,056
Rendering of services	46,647	68,504
Rental income from investment property	17,076	15,955
Other revenue	23,086	6,533
	1,449,007	1,042,048

Contract assets arise where goods or services are transferred to the customer before the customer pays consideration, or before payment is due. Contract receivables (loans and advances) represent our unconditional right to consideration for the goods or services supplied and performance obligations delivered. Contract liabilities (deposits from customers) relate to consideration received when we still have an obligation to deliver goods or services for that consideration.

5 Other operating income

The analysis of the group's other operating income for the year is as follows:

	2019 £ 000	2018 £ 000
Research and development expenditure credit	3,107	1,133

6 Other gains

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

	2019 £ 000	2018 Restatement* £ 000
Gain on disposal of intangible assets	-	53
Gain on bargain purchase	1,195	18,889
Gain on disposal of subsidiary	1,575	-
	2,770	18,942

*Refer to Note 17 for details of prior period restatement of Gain on bargain purchase resulting from the finalisation of acquisition accounting.

7 Operating (loss)/profit

Arrived at after charging/(crediting)

	2019 £ 000	2018 £ 000
Depreciation expense	1,555	2,002
Depreciation on right of use assets - Property	2,873	-
Depreciation on right of use assets - Other	785	-
Amortisation expense	18,150	7,917
Impairment loss	5,681	-
Research and development cost	8,528	1,795
Foreign exchange gains	354	(93)
Operating lease expense - property	-	2,902

8 Finance income and costs

	2019 £ 000	2018 £ 000
Finance income		
Interest income on bank deposits	726	224
Finance costs		
Interest on bank overdrafts and borrowings	(2,803)	(3,127)
Interest expense on leases - Property	(1,404)	-
Total finance costs	(4,207)	(3,127)
Net finance costs	(3,481)	(2,903)

9 Staff costs

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

	2019 £ 000	2018 £ 000
Wages and salaries	72,547	55,958
Social security costs	6,672	6,027
Other pension costs	2,198	1,393
Share-based payment expenses	214	202
Other employee expense	6,367	3,564
	87,998	67,144

Payroll costs of £4,708,000 ahve been capitalised in the current year (2018: £nil).

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

	2019 No.	2018 No.
Administration and support	1,114	1,083
Sales, marketing and distribution	1,024	1,060
	2,138	2,143

Company
The Company had no employees in the year (2018: no employees). Salary recharges from subsidiaries amounted to £45,833 (2018: £50,000) with an additional £4,539 (2018: £6,000) of social security costs and £2,042 (2018: £1,500) of contributions to a define contribution pension scheme.

10 Directors' remuneration

There were a total of two (2018: three) directors during the year. The remuneration reflects the remuneration received from any company within the Imagination Industries Ltd Group.

Total directors' remuneration for the year was £371,000 (2018: £657,000) with pension contirbutions of £10,850 (2018: £9,000).

The highest paid director in the year received remuneration of £345,000 (2018: £334,000) and contributions to the pension scheme of £nil (2018: £nil).

One of the Director's received benefits through long term incentive schemes.

11 Auditors' remuneration

	2019 £ 000	2018 £ 000
Audit of these financial statements	20	15
Audit of the financial statements of subsidiary companies	274	198
	294	213

Other fees to auditors

Taxation compliance services	32	77
All other assurance services	10	10
All other non-audit services	3,010	10
	3,052	97

Other non-audit related services predominately related to services in respect of the acquisition of SSE Energy Services Limited.

12 Taxation

Tax charged/(credited) in the income statement

	2019 £ 000	2018 £ 000
Current taxation		
UK corporation tax	(628)	(405)
UK corporation tax adjustment to prior periods	1,636	-
	1,008	(405)
Deferred taxation		
Arising from origination and reversal of temporary differences	(4,099)	(10,789)
Arising from changes in tax rates and laws	364	-
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	1,422	-
Total deferred taxation	(2,313)	(10,789)
Tax credit in the income statement	(1,305)	(11,194)

12 Taxation (continued)

The tax on profit before tax for the year is higher than the standard rate of corporation tax in the UK (2018 - lower than the standard rate of corporation tax in the UK) of 19% (2018 - 19%).

The differences are reconciled below:

	2019 £ 000	2018 £ 000
Loss before tax	(114,062)	(52,962)
Corporation tax at standard rate	(16,383)	(10,063)
Increase (decrease) in current tax from adjustment for prior periods	3,028	(416)
Decrease (increase) from effect of revenues exempt from taxation	(8,398)	(3,280)
Increase (decrease) from effect of expenses not deductible in determining taxable profit (tax loss)	3,966	1,475
Decrease (increase) from tax losses for which no deferred tax asset was recognised	16,180	78
Deferred tax expense (credit) from unrecognised temporary difference from a prior period	-	50
Deferred tax expense (credit) relating to changes in tax rates or laws	571	1,271
Increase (decrease) from effect of adjustment in research development tax credit	(269)	-
Total tax credit	(1,305)	(10,885)

The main rate of UK corporation tax for the years to 31 March 2018, 31 March 2019 and 31 March 2020 was 19%.

At Budget 2020, the government announced that the Corporation Tax main rate (for all profits except ring fence profits) for the years starting 1 April 2020 and 2021 would remain at 19%.

12 Taxation (continued)

Deferred tax

Group

Deferred tax movement during the year:

	At 1 January 2019 £ 000	Recognised in income £ 000	Recognised on business combinations £ 000	At 31 December 2019 £ 000
Accelerated tax depreciation	665	159	-	824
Tax losses carry-forwards	22,656	(757)	-	21,899
Pension benefit obligations	12	67	-	79
Revaluation of intangible assets	(10,407)	2,844	(3,707)	(11,270)
Net tax assets/(liabilities)	12,926	2,313	(3,707)	11,532

Deferred tax movement during the prior year:

	At 1 January 2018 £ 000	Recognised in income £ 000	Recognised on business combinations Restated* £ 000	At 31 December 2018 £ 000
Accelerated tax depreciation	841	(176)	-	665
Tax losses carry-forwards	12,498	10,158	-	22,656
Pension benefit obligations	-	12	-	12
Revaluation of intangible assets	(5,205)	795	(5,997)	(10,407)
Net tax assets/(liabilities)	8,134	10,789	(5,997)	12,926

*Refer to Note 17 for details of prior period restatement as a result of finalisation of business combinations.

All deferred tax is non-current as it is expected to be recovered after 12 months.

The standard rate of UK corporation tax is 19% and this took effect from 1 April 2017. The 2016 Finance Act introduced a UK corporation tax rate of 17% from 1 April 2020. Accordingly, these rates are applicable in the measurement of deferred tax assets and liabilities at 31 December 2019. Deferred tax has been provided at 17% being the rate at which temporary differences are expected to reverse.

However, the Budget which took place on 11 March 2020 confirmed the rate of corporation tax will remain at 19% from 1 April 2020, cancelling the enacted rate reduction to 17%. The rate reduction reversal was substantively enacted on 17 March 2020 by way of a special resolution. Accordingly, there will be an increase of £1,328,000 due to this rate change for the year ended 31 December 2020.

13 Property, plant and equipment

Group

	Leasehold property £ 000	Fixtures and fittings* £ 000	Office equipment* £ 000	Total £ 000
Cost or valuation				
At 1 January 2018	7,142	1,948	3,453	12,543
Acquired through business combinations	-	205	379	584
Additions	228	29	1,913	2,170
Disposals	(206)	(351)	(376)	(933)
At 31 December 2018	7,164	1,831	5,369	14,364
Additions	2,103	1,830	2,041	5,974
Acquired through business combinations	-	13	34	47
Disposals	(98)	(4)	(296)	(398)
At 31 December 2019	9,169	3,670	7,148	19,987
Accumulated depreciation				
At 1 January 2018	5,661	1,405	2,404	9,470
Charge for year	819	318	865	2,002
Eliminated on disposal	(192)	(365)	(362)	(919)
At 31 December 2018	6,288	1,358	2,907	10,553
Charge for the year	662	224	669	1,555
Eliminated on disposal	(8)	-	(299)	(307)
Impairment	-	-	2,124	2,124
At 31 December 2019	6,942	1,582	5,401	13,925
Carrying amount				
At 31 December 2019	2,227	2,088	1,747	6,062
At 31 December 2018	876	473	2,462	3,811
At 1 January 2018	1,481	543	1,049	3,073

*Classification of Property, plant and equipment has been amended in both current and prior years in order to align presentation across the Group.

13 Property, plant and equipment (continued)

Company

	Furniture, fittings and equipment £ 000	Total £ 000
Cost or valuation		
At 1 January 2018	94	94
Disposals	(94)	(94)
At 31 December 2018	-	-
Accumulated Depreciation		
At 1 January 2018	73	73
Charge for year	21	21
Eliminated on disposal	(94)	(94)
At 31 December 2018 and 31 December 2019	-	-
Carrying amount		
At 31 December 2019	-	-
At 31 December 2018	-	-
At 1 January 2018	21	21

14 Right of use assets

Group

The balance sheet shows the following asset amounts relating to leases:

	Property £ 000	Other £ 000	Total £ 000
Cost or valuation			
At 1 January 2019 (on adoption of IFRS 16)	21,439	2,225	23,664
Additions	983	-	983
At 31 December 2019	22,422	2,225	24,647
Depreciation			
Charge for the year	2,873	785	3,658
At 31 December 2019	2,873	785	3,658
Carrying amount			
At 31 December 2019	19,549	1,440	20,989

In the previous year, the group only recognised lease assets and lease liabilities in relation to leases that were classified as 'finance leases' under IAS 17 Leases.

For adjustments recognised on adoption of IFRS 16 on 1 January 2019, please refer to Note 2.

15 Intangible assets

Group

	Goodwill £ 000	Contractual customer relationships* £ 000	Other intangible assets £ 000	Total £ 000
Cost or valuation				
At 1 January 2018	40,126	19,800	35,241	95,167
Additions	-	-	1,827	1,827
Acquired through business combinations	1,245	37,094	90	38,429
Disposals	-	-	(759)	(759)
At 31 December 2018	41,371	56,894	36,399	134,664
Additions	-	-	11,496	11,496
Acquired through business combinations	1,483	22,141	51	23,675
Disposals	(1,639)	-	-	(1,639)
At 31 December 2019	41,215	79,035	47,946	168,196
Accumulated amortisation				
At 1 January 2018	-	1,320	16,026	17,346
Amortisation charge	-	1,980	5,937	7,917
Amortisation eliminated on disposals	-	-	(754)	(754)
At 31 December 2017	-	3,300	21,209	24,509
Amortisation charge	-	12,743	5,407	18,150
Amortisation eliminated on disposals	(413)	-	-	(413)
Impairment	413	3,144	-	3,557
At 31 December 2019	-	19,187	26,616	45,803
Carrying amount				
At 31 December 2019	41,215	59,848	21,330	122,393
At 31 December 2018	41,371	53,594	15,190	110,155
At 31 December 2017	40,126	18,480	19,215	77,821

*Refer to Note 17 for details of the restatement resulting from finalisation of acquistion accounting.

The amortisation charge of £7,917,000 (31 December 2018: £7,863,000) is recognised in administrative expenses.

15 Intangible assets (continued)

The carrying amount of internally developed software, supporting a supplier contract has been reduced to its recoverable amount through recognition of an impairment loss against Internally generated software development costs. This loss has been included in administrative expenses in the income statement.

At each reporting period end date, an annual impairment test is undertaken. This test compares the carrying value of the non-financial assets of the cash-generating unit (CGU) to their recoverable amount. Where the recoverable amount is less than the carrying value, an impairment occurs.

At the balance sheet date, the non-financial assets of the Group were tested for impairment. This testing did not identify any instances where the recoverable amount was in excess of the carrying value and therefore no impairment charge has been recorded.

The recoverable amount for the CGU has been determined based on a value in use calculation. These calculations use cash flow projections, covering a five-year period, obtained from financial forecasting approved by the Board. The discount rate used is 8%.

There was no further indication of impairment of the goodwill, trademark or industry accreditation during the year. The carrying amount of the trademark 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.

Goodwill, trademarks and industry accreditation 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.

Company

	Brand £ 000
Cost or valuation	
At 1 January 2018	2,000
At 31 December 2018	2,000
At 31 December 2019	2,000
Carrying amount	
At 31 December 2019	2,000
At 31 December 2018	2,000
At 1 January 2018	2,000

16 Investments in subsidiaries and associates

Group subsidiaries

Details of the Company's subsidiaries as at 31 December 2019 are as follows:

Name of subsidiary	Principal activity	Registered office	Proportion of ownership interest/voting rights held 2019	2018
Ovo Group Ltd*	Management entity	1 Rivergate, Temple Quay, Bristol, BS1 6ED, UK	62% / 66%	65% / 80%
Ovo Energy Ltd	Sale of electricity and gas to customers in the UK	1 Rivergate, Temple Quay, Bristol, BS1 6ED, UK UK	62% / 66%	65% / 80%
Ovo Electricity Ltd	Procurement and sale of UK electricity from the wholesale markets and renewable sources	1 Rivergate, Temple Quay, Bristol, BS1 6ED, UK	62% / 66%	65% / 80%
Ovo Gas Ltd	Supply of gas and UK related services	1 Rivergate, Temple Quay, Bristol, BS1 6ED, UK	62% / 66%	65% / 80%
ONI Energy Ltd	Dormant	Murray House, Murray Street, Belfast, Northern Ireland, BT1 6DN, UK	62% / 66%	65% / 80%
ONI Electricity Ltd	Dormant	Murray House, Murray Street, Belfast, Northern Ireland, BT1 6DN, UK	62% / 66%	65% / 80%
ONI Gas Ltd	Dormant	Murray House, Murray Street, Belfast, Northern Ireland, BT1 6DN, UK	62% / 66%	65% / 80%
Ovo Field Force Ltd (formerly Intelligent Energy Technology Services Ltd)	Smart meter installation business	1 Rivergate, Temple Quay, Bristol, BS1 6ED, UK	62% / 66%	65% / 80%
Intelligent Energy Technology Ltd (previously OVO Technology Ltd)	Product development and provision of trading services	1 Rivergate, Temple Quay, Bristol, BS1 6ED, UK	62% / 66%	65% / 80%
Ovo Holdings Ltd (formerly Lilibet Holdings Ltd)	Holding company	1 Rivergate Temple Quay, Bristol, England, BS1 6ED, UK	62% / 66%	65% / 80%

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

16 Investments in subsidiaries and associates (continued)

Name of subsidiary	Principal activity	Registered office	Proportion of ownership interest/voting rights held 2019	2018
Ovo Finance Ltd (formerly Lilibet Finance Ltd)	Holding company	1 Rivergate Temple Quay, Bristol, England, BS1 6ED, UK	62% / 65%	66% / 80%
Corgi Homeplan Ltd	Provider of boiler and home care cover	1 Masterton Park, South Castle Drive, Dunfermline, Fife, KY11 8NX, UK	62% / 66%	65% / 80%
Corgi Homeheat Ltd	Installation of boilers	1 Masterton Park, South Castle Drive, Dunfermline, Fife, KY11 8NX, UK	62% / 66%	65% / 80%
CLCB Holdings Ltd	Holding company	1 Masterton Park, South Castle Drive, Dunfermline, Fife, KY11 8NX, UK	0% / 0%	65% / 80%
Hybrid Energy Solutions Ltd	Electric Vehicle charge point installers	Unit 1b Silver House Adelphi Way, Ireland Industrial Estate, Staveley, Chesterfield, Derbyshire, England, S43 3LJ, UK	62% / 66%	44% / 54%
ETP Assets 1 Ltd	Dormant	140 -142 Kensington Church Street, London, England, W8 4BN UK	62% / 66%	65% / 80%
Lumo Online Ltd	Dormant	140-142 Kensington Church Street, London, England, W8 4BN UK	62% / 66%	65% / 80%
Spark Energy Ltd	Sale of electricity and gas to customers in the UK	Ettrick Riverside, Dunsdale Road, Selkirk, United Kingdom, TD7 5EB UK	62% / 66%	65% / 80%
Spark Gas Shipping Ltd	Supply of gas and related services	1 Rivergate, Temple Quay, Bristol, England, BS1 6ED UK	62% / 66%	65% / 80%
Spark Energy Finance Plc	Finance	Ettrick Riverside, Dunsdale Road, Selkirk, Scotland, TD7 5EB UK	62% / 66%	65% / 80%

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

16 Investments in subsidiaries and associates (continued)

Name of subsidiary	Principal activity	Registered office	Proportion of ownership interest/voting rights held 2019	2018
Spark Generation Ltd	Dissolved	Ettrick Riverside, Dunsdale Road, Selkirk UK	0% / 0%	65% / 80%
OVO Energy Pty Ltd (formerly Imagination Industries Pty Ltd)	Sale of electricity and gas to customers in Australia	19/181 William Street, Melbourne, VIC Australia	62% / 66%	65% / 80%
OVO Energy France SAS	Sale of electricity and gas to customers in France	231 rue Saint-Honore 75001 Paris France	62% / 66%	65% / 80%
OVO Energy (Netherlands) B.V.	Dormant	Netherlands	62% / 66%	0% / 0%
OVO Energy (Italy) S.r.l	Dormant	Via dell'Annunciata n. 23/4, Avv. Francesco Dagnino c/o LEXIA Avvocati, 20121, Milan, Italy	62% / 66%	0% / 0%
OVO Energy Spain S.L.L	Sale of electricity and gas to customers in Spain	C. Muntaner 328 Entresuelo 1a, 08021 Barcelona, España	62% / 66%	0% / 0%
OVO Energy Japan GK	Dormant	Level 11, Aoyama Palacio Tower 3-6-7 Kita-Aoyama Minato-ku, Tokyo	62% / 66%	0%
OVO Energy Germany GmbH	Dormant	CO23 Berlin UG, Stresemannsr. 23, 10963 Berlin, Germany	62% / 66%	0%
4hundred GmbH	Sale of electricity and gas to customers in Germany	Ernst-Heimeran-Weg 10, 82319 Starnberg Germany	0% / 0%	65% / 46%
Kantan Ltd (formerly Corgi Network Ltd)	Information technology	140 – 142 Kensington Church Street, London, W8 4BN	62% / 66%	0%
Orion Energy Technology Ltd	Information techonology	69 Notting Hill Gate, Notting Hill, England, W11 3JS	62% / 66%	0%
Kaluza Ltd	Information technology	140-142 Kensington Church Street, London, England, W8 4BN	62% / 66%	0%

16 Investments in subsidiaries and associates (continued)

Name of subsidiary	Principal activity	Registered office	Proportion of ownership interest/voting rights held 2019	2018
OVO Insurance Services Limited	Insurance services	PO Box 155, Mill Court, La Charroterie, St Peter Port, Guernsey, GY1 4ET	62% / 66%	0%
VCharge Inc	Dissolved	USA	0% / 0%	65% / 80%
VCharge UK Ltd	Dissolved	1 Masterton Park, South Castle Drive, Dunfermline, Scotland, KY11 8NX, UK	0% / 0%	65% / 80%
Imagination Industries Incubator Ltd*	Provider of intragroup support services and start up incubator	140 - 142 Kensington Church Street, London, W8 4BN UK	100% / 100%	100% / 100%
Vertical Aerospace Ltd*	Research and development of aerospace technology	140 -142 Kensington Church Street, London, W8 4BN UK	85% / 100%	88% / 100%
Imagine Just 3 Things Ltd*	Commercial software developer	140 - 142 Kensington Church Street, London, W8 4BN UK	85% / 85%	85% / 85%
Akili Partners Ltd*	Investment fund	140 - 142 Kensington Church Street, London, W8 4BN UK	50% / 50%	50% / 50%
Vertical Advanced Engineering Ltd	Engineering consultancy	140-142 Kensington Church Street London W8 4BN	85% / 100%	0% / 0%

* indicates direct investment of Imagination Industries Ltd

16 Investments in subsidiaries and associates (continued)

Group associates

Details of the group associates as at 31 December 2019 are as follows:

Name of associate	Principal activity	Registered office	Proportion of ownership interest and voting rights held by the group 2019	2018
Indra Renewable Technologies Ltd	Engineering design activities for industrial process and production	140 - 142 Kensington Church Street, London, England, W8 4BN UK	15% / 16%	20% / 20%
Della Vite Trading Ltd *	Sales of Prosecco	11 Latimer Studios Latimer Road, London, England, W10 6RQ UK	16% / 16%	0% / 0%
Chaddenwych Services Limited	Energy information technology service activities	86-90 Paul Street, London, England, EC2A 4NE UK	18% / 19%	0% / 0%
The Renewable Exchange Limited	Trade of renewable energy	The Waterfront Ground Floor, Welsh Back, Bristol, England, BS1 4SB UK	27% / 29%	0% / 0%

* indicates direct investment of Imagination Industries Ltd

In February 2019, OVO Group Ltd issued Mitsubishi Corporation 1,658,282 A Ordinary Shares for a consideration of £109,340,000, being £102,555,000 net of transaction costs. The net income from the new issue shares has been split between owners of the parent and non-controlling interest in the Consolidated Statement of Changes in Equity and is included in "Changes in non-controlling interest". Additionally, Imagination Industries Ltd sold A Ordinary shares to Mitsubishi Corporation for a cash consideration of £28,316,000, realising a gain of £27,840,000. The gain is included in "Changes in non-controlling interest" in the Consolidated Statement of Changes in Equity under "Accumulated losses".

Summary of the company investments

	31 December 2019 £ 000	31 December 2018 £ 000
Investments in subsidiaries	16,263	16,739
Investments in associates	1,000	-
	17,263	16,739

16 Investments in subsidiaries and associates (continued)

Subsidiaries	£ 000
Cost or valuation	
At 1 January 2018	3,122
Additions	13,617
At 31 December 2018	16,739
At 1 January 2019	16,739
Disposals	(476)
At 31 December 2019	16,263

The increase in investments in 2018 of £13,617,000 relates to the purchase of shares in OVO Group Ltd from non-controlling interests. The disposal of investments of £476,000 relates to the sale of shares in OVO Group Ltd to non-controlling interests.

Associates	Group £ 000	Company £ 000
Cost or valuation		
At 1 January 2018	200	-
Share of associate losses	(176)	-
At 31 December 2018	24	-
Additions	2,380	1,000
Share of associate losses	(547)	-
At 31 December 2019	1,857	1,000
Carrying amount		
At 31 December 2019	1,857	1,000
At 31 December 2018	24	-
At 1 January 2018	200	-

17 Acquisition of subsidiary

On 12 January 2019, the group entered into a transaction via the Supplier of Last Resort ("SOLR") which resulted in the acquisition of customer base of Economy Energy Ltd ("Economy Energy"), along with a commitment to repay other liabilities to its customers. The principal activity of Economy Energy is the supply of gas and electricity.

There is significant judgement of the fair value of the acquired group's net assets, and the best available data has therefore been used. The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below:

	31 December 2019 £ 000
Assets and liabilities acquired (provisional)	
Identifiable intangible assets	22,198
Deferred tax liability	(3,774)
Financial liabilities	(17,229)
Total identifiable assets	1,195

The total consideration transferred was £nil.

This business combination resulted in a bargain purchase transaction because the provisional fair value of assets acquired and liabilities assumed exceed the total of the fair value of consideration paid by £1,195,000.

Intangible assets of £22,198,000 have been recognised on acquisition of Economy Energy Ltd's customer base. This was for the recognition of existing relationships with approximately 360,000 customer accounts.

Vertical Advanced Engineering Acquisition
On 29 July 2019, the group purchased 100% of the share capital of Vertical Advanced Engineering Ltd ('VAE'). The principal activity of VAE is engineering consultancy. The fair value of the consideration was £1.8m, paid in cash over 3 years.

Management concluded that there were no fair value adjustments to be made on acquisition.

This business combination resulted in goodwill of £1.5m.

17 Acquisition of subsidiary (continued)

-

Reassessment of the fair value of the group's acquisition in the prior year

On 28 November 2018, the group acquired 100% of the issued share capital of Spark Energy Ltd through Ofgem's Supplier of Last Resort process. The principal activity of Spark Energy Ltd and its subsidiaries is the supply of gas and electricity. Spark Energy Ltd was acquired to grow the Group's domestic energy customer base.

During 2019, the provisional fair values, as reported in the 31 December 2018 OVO Group Limited financial statements, have been finalised and new information about facts and circumstances that existed at the date of acquisition has been used to adjust the acquisition accounting. The adjustments to the provisional amounts have been recognised as if the accounting for the business combination had been completed at the acquisition date.

The adjusted fair values of the assets and liabilities acquired, as at 28 November 2018, are as follows:

Assets and liabilities acquired	**Provisional fair value of assets and liabilities acquired**	**Measurement period adjustments**	**Finalsied fair value of assets and liabilities acquired**
Financial assets	22,748	(2,950)	19,798
Property, plant and equipment	584	-	584
Identifiable intangible assets	27,680	9,400	37,080
Financial Liabilities	(33,750)	(4,800)	(38,550)
Total identifiable assets	17,262	1,650	18,912
Consideration transferred	-	-	-
Gain on Bargain Purchase	17,262	1,650	18,912

Intangible assets of £37,080,000 have been recognised on the acquisition of Spark Energy Ltd and its subsidiaries. This was for the recognition of existing relationships with approximately 290,000 customer accounts.

Finance assets recognised contain an expected amount claimed to Ofgem under the Last Resort Supply Payment Scheme.

18 Inventories

	Group		Company	
	31 December 2019 £ 000	**31 December 2018 £ 000**	**31 December 2019 £ 000**	**31 December 2018 £ 000**
Finished goods and goods for resale	9,828	4,909	-	-

The cost of ROCs recognised as an expense in the year amounted to £108,987,000 (2018 - £76,422,000). This is included within cost of sales.

19 Trade and other receivables

	Group		Company	
	31 December 2019 £ 000	31 December 2018 £ 000	31 December 2019 £ 000	31 December 2018 £ 000
Trade receivables and accrued income	187,417	104,786	3,160	-
Provision for impairment of trade receivables and accrued income	(77,825)	(52,923)	-	-
Net trade receivables	109,592	51,863	3,160	-
Receivables from related parties	4,771	1,550	1,850	2,294
Prepayments	8,391	11,557	-	-
Other receivables	21,828	28,494	61	580
	144,582	93,464	5,071	2,874

*Refer to Note 17 for details of prior period restatement to Other receivables resulting from the finalisation of acquisition accounting.

Accrued income of £74,234,000 included in the Trade receivables and accrued income disclosed above, has increased from £46,912,000 in 2018, driven primarly by the impact of the acquisiton of Economy Energy Limited in the current year

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 the financial risk management and impairment note.

The Loans to related parties shown above relates to a loan with Just Racing Ltd. Details are disclosed in Note 30 Related party transactions.

20 Cash and cash equivalents

	Group		Company	
	31 December 2019 £ 000	31 December 2018 £ 000	31 December 2019 £ 000	31 December 2018 £ 000
Cash at bank	32,353	84,934	7,142	3,320

21 Trade and other payables

	Group		Company	
	31 December 2019 £ 000	31 December 2018 £ 000	31 December 2019 £ 000	31 December 2018 £ 000
Trade payables	103,398	5,296	-	-
Accrued expenses	139,386	192,482	34	46
Amounts due to related parties	1,867	2,628	1,314	2,628
Social security and other taxes	1,727	1,598	-	-
Other payables	21,066	4,820	1,314	1,314
	267,444	206,824	2,662	3,988

*Refer to Note 17 for details of prior period retatement of Other payables resulting from the finalisation of acquisition accounting.

Deferred income of £89,595,000 has decreased from £110,050,000 in 2018, primarily driven by lower cash receipts at the year end as well as the impact of weather fluctuations against seasonal norms in the prior period, resulting in reduced customer credit positions as a result of increased usage.

The group's exposure to market and liquidity risks, including maturity analysis, related to trade and other payables is disclosed in the financial risk review note.

22 Share capital

Allotted, called up and fully paid shares

	31 December 2019		31 December 2018	
	No.	£	No.	£
Ordinary share capital of £0.0001 each	950,000	95.00	950,000	95.00

23 Loans and borrowings

	Group		Company	
	31 December 2019 £ 000	31 December 2018 £ 000	31 December 2019 £ 000	31 December 2018 £ 000
Non-current loans and borrowings				
Bank borrowings	-	33,934	-	-

23 Loans and borrowings (continued)

	Group		Company	
	31 December 2019 £ 000	31 December 2018 £ 000	31 December 2019 £ 000	31 December 2018 £ 000
Current loans and borrowings				
Bank borrowings	-	12,000	-	12,000

Group

Bank borrowings

The loan taken by Lilibet Finance Ltd with HSBC and Investec during the year is denominated in GBP with a nominal interest rate of 5.65%, and with the final instalment due on 28 February 2023. The carrying amount at year end is £Nil (2018 - £31,934,000).

Upon acquisition of Spark Energy group of companies the Group took on the Bond issued to Spark Energy Finance Ltd in 2015 is denominated in GBP with a nominal interest rate of 9%, and with the final instalment due on 1 September 2022. The carrying amount at year end is £Nil (2018 - £2,000,000).

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 the financial risk management and impairment note.

24 Leases

Group

The balance sheet shows the following amounts relating to lease liabilities:

	31 December 2019 £000	1 January 2019* £000
Lease Liability - Current	2,853	2,015
Lease liability - Non-current	19,744	21,649
Total Lease Liability	**22,597**	**23,664**

*In the previous year, the group only recognised lease assets and lease liabilities in relation to leases that were classified as 'finance leases' under IAS 17 Leases.

For adjustments recognised on adoption of IFRS 16 on 1 January 2019, please refer to Note 2.

24 Leases (continued)

Lease liabilities maturity analysis

A maturity analysis of lease liabilities based on undiscounted gross cash flow is reported in the table below:

	31 December 2019 £ 000	31 December 2018 £ 000
Less than one year	4,276	4,294
Between one and five years	19,831	18,251
Greater than five years	6,438	1,242
Total lease liabilities (undiscounted)	30,545	23,787

The group leases various offices and vehicles. The balance sheet amounts relating to leases are shown within Note 14 - *Right of use assets*.

The current period interest expense on lease liabilities (included in finance cost) was £1,404,000.

The total cash outflow for leases for the year ended 31 December 2019 was £3,151,000.

Expenses relating to short-term leases accounted for by applying IFRS 16, paragraph 6 (included in administrative expenses) totalled £455,000.

Expenses relating to leases of low-value assets accounted for by applying IFRS 16, paragraph 6 (included in administrative expenses) totalled £19,000.

25 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 £2,198,000 (2018 - £1,393,000).

26 Share-based payments

Ovo Group Ltd Share Scheme

Scheme details and movements

In July 2014, Ovo Group Ltd established a new employee share plan. Under the terms of the scheme, Ovo Group Ltd awarded its own employees and employees of Ovo Energy Ltd class B, C, D and E ordinary shares in Ovo Group Ltd.

B shares ('Employee Shareholder Scheme') are free shares awarded to employees in line with the UK government's employee shareholder status rules. They have a three year vesting period.

Employees are given the option to purchase C shares from their bonus. They have a one year vesting period.

D shares are also awarded as part of the LTIP scheme. They have a vested period based on performance conditions.

E shares are also awarded as part of the LTIP scheme. They have a vesting period based on performance conditions.

The scheme is equity settled and a fair value liability was calculated on grant date. The expense is charged to the income statement on a straight line basis over the expected vesting period of the awards.

Analysis of charge to the consolidated income statement

£000	2019	2018
'B' Shares	166	184
'C' Shares	-	-
'D' Shares	-	-
'E' Shares	48	18
	214	202

26 Share-based payments (continued)

Reconciliation of movements in awards

Thousands of shares	'B' Shares	'C' Shares	'D' Shares	'E' Shares
As at 1 January 2019	85	87	1,845	570
Issued March 2019	-	-	-	-
Issued June 2019	75	-	-	-
Issued December 2019	-	-	-	-
Cancelled	(85)	(60)	(1,437)	(75)
Issued at 31 December 2019	75	27	408	495
Weighted average vesting period (months)	36	-	-	12

26 Share-based payments (continued)

Thousands of shares	**'B' Shares**	**'C' Shares**	**'D' Shares**	**'E' Shares**
As at 1 January 2018	85	83	1,845	119
Issued June 2018	-	-	-	-
Issued September 2018	-	4	-	267
Issued December 2018	-	3	-	288
Cancelled	-	(3)	-	(104)
Issued at 31 December 2018	85	87	1,845	570
Weighted average vesting period (months)	1	8	-	24

Pricing

For the purpose of valuing the awards, to calculate the share-based payment charge all shares issued were valued based on an observable market multiples of competitors, discounted cash flow and where available transaction data.

'B' Shares
Upon issuance, the 'B' Shares awarded in June 2017 were valued at £12.10 per share, September 2017 shares were valued at £15.30 per share and December 2017 shares were valued at £15.30 per share. 'B1' Shares issued June 2019 were valued at £14.30 and 'B2' Shares at £2.60.

'C' Shares
Upon issuance, the 'C' Shares awarded in June 2017 were valued at £17.00 per share and September 2017 shares were valued at £17.00 per share. The 'C' Shares awarded in 2018 were all valued at £17.00 per share. The 'C' Shares awarded in 2018 were all valued at £17.00 per share.

'D' Shares
Upon issuance, the 'D' Shares awarded in June 2017 were valued at £0.31 per share and September 2017 shares were valued at £0.31 per share. There were no 'D' Shares awarded in 2018.

'E' Shares
Upon issuance, the 'E' Shares awarded in 2017 had no fair value. The 'E' Shares awarded in 2018 were valued at £0.20 per share.

26 Share-based payments (continued)

Imagine Just 3 Things share scheme

Scheme details and movements

In 2018, Imagine Just 3 Things Ltd established a new employee share plan. Under the terms of the scheme, Imagine Just 3 Things Ltd awarded its own employees class B ordinary shares in Imagine Just 3 Things Ltd.

B shares are free shares awarded to employees. The vesting period is 2 years.

The scheme is equity settled. The shares awarded had a fair value of £Nil on the grant date. No expense has been charged to the income statement.

Reconciliation of movements in awards

Thousands of shares	**'B' Shares**
As at 1 January 2019	2
Issued	-
Forfeited during the period	1
As at 31 December 2019	1
Weighted average vesting period (months)	6

Vertical Aerospace Share Scheme

Scheme details and movements

In 2018, Vertical Aerospace Ltd established a new employee share plan. Under the terms of the scheme, Vertical Aerospace Limited awarded its own employees class B1 ordinary shares in Vertical Aerospace Ltd

B1 shares are free shares awarded to employees. The vesting period ranged from immediate to 4 years.

The scheme is equity settled. The shares awarded had a fair value of £Nil on the grant date. No expense has been charged to the income statement.

26 Share-based payments (continued)

Reconciliation of movements in awards

Thousands of shares	**'B1' Shares**
As at 1 January 2019	11
Issued	5
Forfeited	(3)
As at 31 December 2019	13
Weighted average vesting period (months)	24

27 Provisions

Group

	Ofgem Settlement Provision £ 000	**Facility agreement exit fee provision £ 000**	**Dilapidation provisions £ 000**	**Total £ 000**
At 1 January 2019	-	2,000	1,000	3,000
Additional provisions	8,876	-	155	9,031
Provisions used	-	-	(325)	(325)
At 31 December 2019	8,876	2,000	830	11,706
Non-current liabilities	8,876	2,000	830	11,706

Dilapidation provision

The Group is required to restore the leased premises of its offices to their original condition at the end of the respective lease terms. A provision has been recognised for the present value of the estimated expenditure required to remove any leasehold improvements. These costs have been capitalised as part of the cost of leasehold improvements and are amortised over the shorter of the term of the lease or the useful life of the assets.

Facility agreement exit fee provision

Upon the occurence of an exit event for a fully repaid facility agreement, the group is required to make an exit fee payment based on the enterprise value of the group at the date of the event. The recognised provision reflects the director's best estimates of the fair value of this fee at 31 December 2019.

Ofgem settlement agreement provision

Ofgem's investigation into OVO Electricity Ltd's and OVO Gas Ltd's compliance with Standard Licence Condition(s) 0, 22C, 25C, 26, 27, 28A and 31A of their gas and electricity supply licence was concluded during the year. In recognition of these issues, OVO Group Limited agreed a settlement with Ofgem in accordance with which a Penalty and Consumer Redress package totalling £8,876,000.

28 Financial instruments

Group

Financial assets

	Carrying value		Fair value	
	31 December 2019 £ 000	31 December 2018 £ 000	31 December 2019 £ 000	31 December 2018 £ 000
Cash and cash equivalents	32,353	84,934	32,353	84,934
Trade and other receivables	136,191	85,784	136,191	85,784
	168,544	170,718	168,544	170,718

Valuation methods and assumptions

Financial assets:
The fair value of financial assets is based on the expectation of recovery of balances. Impaired receivables mainly relate to customers from whom it is unlikely that full payment will ever be received. The primary inputs used to impair the receivable balances are not based on observable market data.

Financial liabilities

Financial liabilities at amortised cost

	Carrying value		Fair value	
	31 December 2019 £ 000	31 December 2018 £ 000	31 December 2019 £ 000	31 December 2018 £ 000
Trade and other payables	265,717	203	265,717	203
Borrowings	-	33,934	-	33,934
	265,717	34,137	265,717	34,137

Lease liabilities had a carrying value of £22,597,000 at 31 December 2019 (31 December 2018: £389,000). The carrying value approximates to their fair value.

Valuation methods and assumptions

Financial liabilities at amortised cost
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 date if the effect is material. Due to their short maturities, the fair value of the trade and other payables approximates to their book value.

28 Financial instruments (continued)

Company

Financial assets
Loans and receivables

	Carrying value		Fair value	
	31 December 2019 £ 000	31 December 2018 £ 000	31 December 2019 £ 000	31 December 2018 £ 000
Cash and cash equivalents	7,142	3,320	7,142	3,320
Trade and other receivables	5,121	2,874	5,121	2,874
	12,263	6,194	12,263	6,194

Valuation methods and assumptions

Loans and receivables:
The fair value of loans and receivable is based on the expectation of recovery of balances. The individually impaired receivables mainly relate to related parties and more information is given in the related parties note.

Financial liabilities

Financial liabilities at amortised cost

	Carrying value		Fair value	
	31 December 2019 £ 000	31 December 2018 £ 000	31 December 2019 £ 000	31 December 2018 £ 000
Trade and other payables	2,662	3,988	2,662	3,988
Borrowings	-	12,000	-	12,000
	2,662	15,988	2,662	15,988

Other non-current financial liabilities at 31 December 2018 were £2,628,000 (2017: nil) and represent long term payables to third parties. Their carrying value approximates to their fair value.

Valuation methods and assumptions

Financial liabilities at amortised cost
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 date if the effect is material. Due to their short maturities, the fair value of the trade and other payables approximates to their book value.

29 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 and from security deposits and prepayments to suppliers and distributors.

The allowance account for trade receivables is used to record impairment losses unless the Group has no reasonable expectation of recovery; at that point the amounts considered irrecoverable are written off against the trade receivables directly. The Group provides for impairment losses based on expected credit losses. For trade receivables and contract assets, the Group applies the IFRS 9 simplified approach, which requires expected lifetime losses to be recognised from initial recognition of the receivables. The Group has established a provision matrix that is based on its historical credit loss experience. Trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets. Generally trade receivables are written off if final billed, past due for more than three months and are not subject to enforcement activity.

The carrying amount of financial assets represents the maximum credit exposure. Therefore, the maximum exposure to credit risk at the balance sheet date was £168,544,000 (31 December 2018: £170,718,000) 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.

Trade receivables are written off only after a period of time has elapsed since the final bill. Enforcement activity continues in respect of these balances unless there is specific know circumstances that removes any value in further action.

The credit quality of financial assets that are neither due or impaired can be assessed by reference to historical information about counterparty default rates. Impaired receivables mainly relate to customers from whom it is unlikely that full payments will be received.

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

Past due and impaired financial assets

Allowances for impairment by credit losses

2019	Trade receivables £ 000
At start of year	52,923
Additional impairment for credit losses	24,902
At end of year	77,825

2018	Loans and receivables £ 000
At start of year	40,286
Additional impairment for credit losses	12,637
At end of year	52,923

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 and other financial instruments for speculative purposes.

Derivatives are measured at fair value on the contract date and are re-measured to fair value at subsequent reporting dates. Changes in the fair value of derivatives and other financial instruments are recognised in the income statement as they arise. Unrealised net losses on open contracts at the year end were £nil (2018: £nil).

The Group manages this risk by entering into forward contracts for a variety of periods. Energy procurement contracts are entered into and continue to be held for the purpose of the receipt of a non-financial item which is in accordance with the Group's expected purchase and sale requirements and are therefore out of scope of IFRS 9. Energy contracts that are not financial instruments under IFRS 9 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 IFRS 9 is monitored for internal risk management purposes, only those energy contracts within the scope of IFRS 9 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.

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

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

2019	Within 1 year £ 000	After 1 year £ 000	Total £ 000
Trade and other payables	265,717	-	265,717
Finance lease liabilities (present value)	2,853	19,744	22,597
	268,570	19,744	288,314

2018	Within 1 year £ 000	After 1 year £ 000	Total £ 000
Trade and other payables	204,196	-	204,196
Interest bearing borrowings	12,000	33,934	45,934
	216,196	33,934	250,130

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.

30 Related party transactions

Key management personnel

Key management compensation - Group

	31 December 2019 £ 000	31 December 2018 £ 000
Salaries and other short term employee benefits	2,169	1,923

30 Related party transactions (continued)

Summary of transactions with key management

Stephen Fitzpatrick owns 100% of the share capital of Imagination Industries Ltd.

Other transactions with directors

In 2019, the Company loaned Stephen Fitzpatrick the following amounts:

	2019 £ 000	2018 £ 000
At 1 January	483	2,361
Advanced	6,940	1,900
Repaid	(7,865)	(3,820)
Interest charged	1	42
At 31 December	(441)	483

Summary of transactions with subsidiaries

During the year, the Company provided loan funds to Vertical Aerospace Ltd of £11,003,000 (2018: £3,398,000). The loan incurred an interest charge at 7% (2018: 7%) of £635,000 (2017: £210,000). As at 31 December 2019, the total balance outstanding was £17,082,000 (2018: £5,445,000). At the year end, a provision of £16,427,000 (2018: £5,110,000) was held against the receivable.

During the year, the Company provided loan funds to Imagine Just 3 Things Ltd of £1,471,000 (2018: £2,059,000). The loan incurred an interest charge at 7% (2018: 7%) of £198,000 (2018: £54,000). As at 31 December 2019, the total balance outstanding was £3,781,000 (2018: £2,113,000). At the year end, a provision of £3,539,000 (2018: £2,113,000) was held against the receivable.

During the year, the Company provided loan funds to Imagination Industries Incubator Ltd of £2,706,000,000 (2018: £1,094,000). The loan incurred an interest charge at 7% (2018: 7%) of £220,000 (2018: £56,000). As at 31 December 2019, the total balance outstanding was £4,885,000 (2018: £1,960,000). At the year end, a provision of £4,035,000 (2018: £1,662,000) was held against the receivable.

During the year, the Company provided loan funds to Akili Partners Ltd of £489,000 (2018: £10,000). The loan incurred an interest charge at 7% (2018: nil) of £19,000 (2018: £nil). .As at 31 December 2019, the total balance outstanding was £508,000 (2018: £10,000). At the year end, a provision of £390,000 (2018: £nil) was held against the receivable.

During the year, the Company repaid loan funds from OVO Group Ltd of £194,000 (2018: £194,000). The loan incurred no interest charge. As at 31 December 2019, the total balance owed to OVO Group Ltd was £nil (2018: £194,000).

During the year, the Company charged OVO Energy Ltd brand royalty fees totalling £6,871,000 (2018: £4,636,000). As at 31 December 2019 OVO Energy Ltd owed Imagination Industries Ltd £2,758,000 (2017: £1,826,000).

30 Related party transactions (continued)

Summary of transactions with associates

During the year, the Company provided loan funds to Della Vite Trading Limited of £36,000 (2018: £nil). The loan incurred no interest charge on the capital balance. As at 31 December 2018, the total balance outstanding was £36,000 (2018: £nil).

31 Parent and ultimate parent undertaking

The ultimate controlling party is Stephen Fitzpatrick.

32 Non adjusting events after the financial period

Acquisition of SSE Energy Services Ltd

On 15 January 2020, OVO Energy Limited, an indirect subsidiary of OVO Group Limited, acquired 100% of the issued shares in SSE Energy Services Ltd (SSE plc's GB domestic retail business) for consideration of £441,938,000. The acquisition is expected to increase the group's market share and reduce costs through economies of scale. The financial effects of this transaction have not been recognised as of 31 December 2019. The operating results and assets and liabilities of the acquired company will be consolidated from 15 January 2020.

The acquisition was financed through a combination of a new £400,000,000 Term Loan between OVO Finance Limited and Barclays Bank plc and £41,938,000 in Loan Notes issued by OVO Holdings Limited. Subsequently, the Term Loan has been syndicated into two separate instruments, a £300,000,000 Term Loan and a secondary loan of £100,000,000.

In completing this acquisition, OVO's customer base has expanded from 1.3m as at the balance sheet date to 5.1m as at the date of completion.

As at the date of these financial statements, the fair value accounting exercise has not been completed. The Group believes that integration and synergies will drive significant change in the fair values and as such, the fair values assigned to assets and liabilities within SSE Energy Services and its subsidiaries will be disclosed within the 31 December 2020 financial statements.

There are no contingent liabilities to be recognised as part of this acquisition.

The net book value of assets and liabilities of SSE Energy Services as at the date of acquisition are as follows:

32 Non adjusting events after the financial period (continued)

Net Book Value	**£'000**
Cash and equivalents	207,182
Property, plant and equipment	25,684
Identifiable intangible assets and goodwill	480,096
Inventories	976
Receivables	1,091,809
Payables	(1,370,852)
Net deferred tax assets	7,043
Net assets and goodwill acquired	**441,938**

The goodwill is attributable to SSE Energy Services' strong position in the Domestic Energy market and synergies expected to arise after the company's acquisition of the new subsidiary.

None of the goodwill is expected to be deductible for tax.

COVID-19

Our investment in technology and shared platforms has ensured a high level of connectivity which means we are able to move to remote operations with minimal disruption.

However, unfortunately COVID-19 will impact our commercial performance in 2020, due to some key sales channels within the business experiencing significant interruption as a result of the lockdown. The most notable of these is the impact on our ability to continue the roll-out of smart meters to customers.

As a result of COVID-19, we also anticipate the need to recognise additional bad debt charges in 2020 as the economic consequences of the pandemic materialise with our customers. This will be recognised in accordance with IFRS 9, however there has been no financial impact on these financial statements.

33 Audit exemption of subsidiary

OVO Group Ltd has guaranteed the liabilities of the following active subsidiaries in order that it qualify for the exemption from preparing individual financial statements under Section 479A of the Companies Act 2006 in respect of the year ended 31 December 2019:

- Intelligent Energy Technology Limited (company number 08330989)
- OVO Field Force Limited (previously Intelligent Energy Technology Services Limited) (company number 08785057)
- OVO Holdings Limited (previously Lilibet Holdings Limited) (company number 10722665)
- Corgi Homeplan Limited (company number SC358475)
- Corgi Homeheat Limited (company number SC431485)
- Spark Energy Limited (company number SC301188)
- Spark Gas Shipping Limited (company number 05857480)
- Kantan Limited (company number 11681210)

Imagination Industries Ltd has guaranteed the liabilities of the following active subsidiary in order that it qualify for the exemption from preparing individual financial statements under Section 479A of the Companies Act 2006 in respect of the year ended 31 December 2019:

- Vertical Advanced Engineering Ltd (company number: 04960248)