

Ovo Energy Limited

**Director's report and financial
statements**

Registered number 06890795
For the period ended 30 June 2010

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Director's report

The Director presents his report and audited financial statements for the period ended 30 June 2010

Incorporation

Ovo Energy Limited was incorporated on 29 April 2009

Principal activities

The principal activity of Ovo Energy Limited is the sale of electricity and gas to mainly domestic customers around the United Kingdom

Business review

The results for the period and the financial position of the Company are shown in the following financial statements

Ovo Energy Limited experienced strong customer growth in its first operating period with around 25,000 customers as at 30 June 2010 after commencing trading in September 2009. Over the period the running of the team was strengthened with the appointment of a number of managers including a Finance Director with prior electricity and gas sector experience.

The revenue for the period was £10.3m, during the period our customers were on fixed price contracts for 12 months from the date they joined Ovo Energy Limited.

During the course of the period an in house trading system was developed and this allowed the Company to manage a large amount of data successfully and to keep the costs of trading to a minimum.

Administrative expenses were £2.2m during the period. There has been continual investment in staff and in IT so that Ovo Energy Limited can continue in its vision to provide the best possible service to its customers, a cornerstone of the Company's mission.

The Directors monitor the Key Performance Indicators of the Group on a regular basis. There is a weekly performance report that is issued to all senior management as well as the monthly management accounts. Important metrics include customer acquisition and customer losses, volumes sold of gas and electricity, revenue and cost of sales per unit, profit before tax, bank balance and payroll costs.

Future Developments

Ovo Energy Limited has continued to grow in customer numbers since the period end and the senior team has been further augmented, in particular with the appointment of an IS Director to drive continued systems improvement.

The Directors believe that Ovo Energy Limited remains well positioned in the market place with a differentiated offer.

Principal risks and uncertainties

The principal risks and uncertainties impacting the Company relate to the wholesale price of gas and electricity, price pressure from competitors and bad debt risk. The Company aims to manage risk by securing gas and electricity under forward contracts and by placing customers on fixed price contracts. By collecting monthly Direct Debits from our customers, the Company plans to keep bad debts to a minimum, however, this is an area to which close attention is being paid with the current national economic climate likely to cause household budgets to become more stretched in the coming months. Whilst the Company currently has no borrowing, the Directors are careful to manage capital to ensure that the business grows in a sustainable manner.

Director's report *(continued)*

Research and development

The Company undertook no research and development in the period

Proposed dividend

The Director does not recommend the payment of a final dividend. An interim dividend was paid during the period totalling £170,000.

Policy and practice on payment of creditors

The Director requires the Company to perform to high standards of commercial practice. Its policy is to comply with the terms of payment agreed with a supplier. Where terms are not negotiated, the Company endeavours to adhere to the supplier's standard terms.

At the period end there were 26 days of purchases in trade payables (excluding transactions between companies in the Ovo group).

Directors

The Directors who held office and their shareholdings during the period were as follows:

	30 June 2010	On appointment
Stephen Fitzpatrick (appointed 29 April 2009)	2,500	-
Kristopher Black (appointed 21 July 2009, resigned 14 December 2009)	-	-

On 1st April 2010 2,500 new ordinary shares were issued to Stephen Fitzpatrick for consideration of £50,000. The 10,000 ordinary shares issued on incorporation are owned by Ovo Group Limited, the parent company.

Employees

The average number of staff for the period was 15 which have not been split by function due to the start up nature of this trading period.

Political and charitable contributions

The Company made charitable donations of £158 during the period. The Company does not make political donations nor incur political expenditure.

Disclosure of information to auditors

The director who held office at the date of approval of this director's report confirms that, so far as he is aware, there is no relevant audit information of which the Company's auditors are unaware, and he has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Director's report *(continued)*

Statement of director's responsibilities

The director is responsible for preparing the Director's Report and the financial statements in accordance with applicable law and regulations

Company law requires the director to prepare financial statements for each financial year. Under that law the director has prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the director must not approve the financial statements unless he is satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the director is required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Auditors

Pursuant to Section 485 of the Companies Act 2006, the auditors, PricewaterhouseCoopers LLP, were appointed by the directors during the period.

By order of the board on 30 March 2011



Stephen Fitzpatrick
Director

Wellington House, Kemble, Gloucestershire GL7 6BQ

Independent Auditors' Report to the members of Ovo Energy Limited

We have audited the financial statements of Ovo Energy Limited for the period ended 30 June 2010 which comprise the Income Statement, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of director's responsibilities, the director is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 30 June 2010 and of its loss and cash flows for the period then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Director's Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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



Paul Nott (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP, Chartered Accountants and Statutory Auditors
East Midlands

30 March 2011

Income Statement
for the period ended 30 June 2010

	<i>Note</i>	For the 14 month period ended 30 June 2010 £000
<i>Revenue</i>	<i>1,3</i>	10,315
<i>Cost of sales</i>		(8,609)
		<hr/>
<i>Gross profit</i>		1,706
<i>Administrative expenses</i>	<i>1,4 5</i>	(2,243)
		<hr/>
<i>Operating loss</i>		(537)
<i>Finance income</i>	<i>6</i>	56
<i>Finance expense</i>	<i>6</i>	(89)
		<hr/>
<i>Loss before tax</i>		(570)
<i>Taxation</i>	<i>7</i>	-
		<hr/>
<i>Loss for the period attributable to equity shareholders</i>		(570)
		<hr/>

All amounts relate to continuing operations. There is no other comprehensive income other than the loss for the period.
 The notes on pages 11 to 26 form part of these financial statements.

Balance Sheet
at 30 June 2010

	<i>Note</i>	2010 £000
Non-current assets		
Property, plant and equipment	8	63
Intangible assets	9	218
		<hr/>
		281
		<hr/>
Current assets		
Inventories	10	519
Trade and other receivables	11	5,135
Cash and cash equivalents	12	306
		<hr/>
		5,960
		<hr/>
Total assets		6,241
		<hr/>
Current liabilities		
Trade and other payables	13	6,931
		<hr/>
		6,931
		<hr/>
Total liabilities		6,931
		<hr/>
Net liabilities		(690)
		<hr/>
Equity attributable to equity holders of the parent		
Share capital	14	-
Share premium	14	50
Retained earnings		(740)
		<hr/>
Total deficit		(690)
		<hr/>

These financial statements were approved by the board of directors on **30 March 2011** and were signed on its behalf by



Stephen Fitzpatrick
Director

Company registered number 06890795

The notes on pages 11 to 26 form part of these financial statements

Statement of Changes in Equity

	<i>Note</i>	Share Capital £000	Share premium £000	Retained earnings £000	Total equity £000
Equity at incorporation 29 April 2009	<i>14</i>	-	-	-	-
Loss for the period		-	-	(570)	(570)
		<hr/>	<hr/>	<hr/>	<hr/>
Issue of shares	<i>14</i>	-	50	-	50
Dividends	<i>14</i>	-	-	(170)	(170)
		<hr/>	<hr/>	<hr/>	<hr/>
Total contributions by and distributions to owners		-	50	(170)	(120)
		<hr/>	<hr/>	<hr/>	<hr/>
Balance at 30 June 2010		-	50	(740)	(690)
		<hr/>	<hr/>	<hr/>	<hr/>

The notes on pages 11 to 26 form part of these financial statements

Cash Flow Statement
for the period ended 30 June 2010

	<i>Note</i>	For the 14 month period ended 30 June 2010 £000
Cash flows from operating activities		
Loss for the period		(570)
<i>Adjustments for</i>		
Depreciation, amortisation and impairment	8,9	61
Financial income	6	(56)
Financial expense	6	89
		<hr/>
		(476)
 (Increase) in trade and other receivables	 6,11	 (5,080)
(Increase) in inventories	10	(519)
Increase in trade and other payables	6,13,18	6,774
		<hr/>
Net cash inflow from operating activities		699
		<hr/>
Cash flows from investing activities		
Interest received	6	1
Acquisition of property, plant and equipment	8	(94)
Acquisition of other intangible assets	9	(248)
		<hr/>
Net cash outflow from investing activities		(341)
		<hr/>
Cash flows from financing activities		
Proceeds from director's loan	18	70
Proceeds from the issue of share capital	14	50
Interest paid	6	(2)
Dividends paid	14	(170)
		<hr/>
Net cash outflow from financing activities		(52)
		<hr/>
Net increase/(decrease) in cash and cash equivalents		306
Cash and cash equivalents at incorporation		-
		<hr/>
Cash and cash equivalents at 30 June 2010	12	306
		<hr/>

The notes on pages 11 to 26 form part of these financial statements

Notes

(forming part of the financial statements)

1 Accounting policies

The principal accounting policies are summarised below

General information

Ovo Energy Limited (the "Company") is a company incorporated and domiciled in the United Kingdom

The nature of the Company's operations and its principal activities are set out in the Director's Report

The Company's registered office and principal place of business is Wellington House, Kemble Enterprise Park, Kemble, Cirencester, GL7 6BQ

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Company operates

Basis of preparation

The Company financial statements have been prepared and approved by the director in accordance with International Financial Reporting Standards as adopted by the European Union ("Adopted IFRSs") and IFRIC interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The accounting policies set out below have, unless otherwise stated, been applied consistently in these financial statements

The financial statements contain information about Ovo Energy Limited as an individual company and do not contain consolidated financial information as the parent of Ovo Electricity Limited and Ovo Gas Limited. The Company has taken advantage of the exemption under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its parent, Ovo Group Limited, a company incorporated in England and Wales

The financial statements are prepared on the historical cost basis. Non-current assets and disposal groups held for sale are stated at the lower of previous carrying amount and fair value less costs to sell

Going concern

Although the Company has been loss making and has net liabilities, the accounts have been prepared on a going concern basis. The director has reviewed the business plan of the Ovo group of companies as a whole and believes that the Ovo group as a whole has adequate financial resources to meet its debts as they fall due for the foreseeable future

Notes (continued)

1 Accounting policies (continued)

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables

Trade and other receivables

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

Trade and other payables

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

Investments in debt and equity securities

Investments in subsidiaries are carried at cost less impairment in the Company accounts

Cash and cash equivalents

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

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses. Lease payments are accounted for as described below

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows

- Leasehold property 3 years
- IT hardware equipment 3 years
- Fixtures, fittings and office equipment 2 to 3 years

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date

Notes (continued)

1 Accounting policies (continued)

Intangible assets and goodwill

Intangible assets

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

Intangible assets that are acquired by the Company are stated at cost less accumulated amortisation and less accumulated impairment losses

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- IT software 3 years
- Trademarks indefinite life
- Industry accreditation indefinite life

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, Ovo Energy Limited surrenders additional ROCs to demonstrate its environmental credentials transparently. The accounting policy distinguishes between the cost of the Company's obligations within the regulatory regime and the tactical disposition towards purchasing and holding ROCs. The cost obligation is recognised as it arises and charged to the income statement for the period 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.

Impairment excluding inventories and deferred tax assets

Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Notes (continued)

1 Accounting policies (continued)

Impairment excluding inventories and deferred tax assets (continued)

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units, or ("CGU"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company 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.

Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

Notes (continued)

1 Accounting policies (continued)

Revenue

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

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

Revenue from the sale of Renewables Obligation Certificates is recognised when substantially all the risks and rewards of ownership are transferred to a third party. Revenue is recognised at the invoiced value net of VAT.

Expenses

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Finance income and expense

Financing expense comprises interest payable on shareholder and other loans and is recognised in profit or loss using the effective interest method. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset. 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.

Taxation

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

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.

Notes (continued)

1 Accounting policies (continued)

Adopted IFRS not yet applied

The following Adopted IFRSs have been issued but have not been applied by the Company in these financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated.

- Amendments to IAS 27 'Consolidated and Separate Financial Statements' (mandatory for the year commencing on or after 1 July 2009)
- Amendments to IAS 39 'Financial Instruments Recognition and Measurement Eligible Hedged Items' (mandatory for year commencing on or after 1 July 2009)
- Amendments to IAS 39 'Reclassification of Financial Assets Effective Date and Transition' (mandatory for year commencing on or after 1 July 2009)
- IFRIC 18 'Transfer of Assets from Customers' (mandatory for year commencing on or after 1 November 2009)
- Improvements to IFRSs (issued 16 April 2009) (adoption dates varies but certain improvements are mandatory for the year commencing on or after 1 July 2009)
- Revised IAS 24 'Related Party Disclosure' (mandatory for year commencing on or after 1 January 2011)
- IFRS 9 'Financial Instruments' (mandatory for year commencing on or after 1 January 2013)

Critical estimates and judgments

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

Revenue recognition – supplies that cannot be billed

Revenue for the supply of electricity and gas is recognised using customer tariff rates and industry settlement data (specific to the Group) net of estimated supplies that are not billable based on historical patterns. The industry settlement data is the estimated quantity the industry system operator deems the individual suppliers, including the Group, to have supplied. In assessing the level of supplies that will not be billed and therefore not recognised in revenue, the director has estimated the likely losses that arise from the reconciliation of industry settlement data to the estimated quantity of gas and electricity supplied to customers according to meter reading data.

Impairment of trade receivables

Impairments against trade receivables are recognised where the loss is probable. As the company has a short trading history, there is little historical evidence available to assess the likely level of bad debts. The director has therefore based his assessment of the level of impairment on prior industry experience as well as collection rates experienced by the company to date. The estimates and assumptions used to determine the level of provision will continue to be reviewed periodically and could lead to changes in the impairment provision methodology which would impact the income statement in future years.

Deferred tax assets

Deferred tax assets are only recognised when it is considered more likely than not that the Group will make future taxable profits against which the deferred tax asset can be utilised. In forming his assessment of the likely future profitability of the Group, the director has taken into account the early stage of development of the Group and the impact that the anticipated continued growth in customer numbers and related necessary support costs will have on the profitability of the Group in the near term. Accordingly the potential deferred tax asset has not been recognised. Once the director believes that it is probable that the Group will start to generate sustainable profits, the deferred tax will be recognised, resulting in a benefit to the income statement and balance sheet at that time.

Notes (continued)

2 Acquisitions of subsidiaries

On 31 August 2009, the Company acquired all the ordinary shares of both Ovo Electricity Limited and Ovo Gas Limited for nil consideration. The principal activity of Ovo Electricity Limited is the procurement and sale of electricity from the wholesale markets and renewable sources. The principal activity of Ovo Gas Limited is the supply of gas and related services. Pursuant to Section 400 of the Companies Act 2006, Ovo Energy Limited is exempt from the obligation to prepare and deliver group accounts as the Company is included in the consolidated accounts of Ovo Group Limited (note 19).

The Company has the following investments in subsidiaries

	Country of Incorporation	Class of shares held	Ownership 2010
Ovo Electricity Limited	UK	Ordinary	100%
Ovo Gas Limited	UK	Ordinary	100%

Ovo Energy Limited owns all 10,000 ordinary shares, of £0.01 each, in each subsidiary

3 Revenue

All revenue is attributable to the Company's principal activity being the supply of electricity and gas, and related services, in the United Kingdom.

4 Expenses and auditors' remuneration

Included in the loss for the period are the following

	For the 14 month period ended 30 June 2010 £000
<i>Depreciation of tangible assets</i>	31
<i>Amortisation of intangible assets</i>	30
<i>Operating lease rental costs</i>	18
<i>Impairment loss on trade receivables and prepayments</i>	74
<i>Audit fees in respect of these financial statements</i>	13

Notes (continued)

5 Staff numbers and costs

The average number of persons employed by the Company during the period was 15 and totalled 44 at period end. During this first trading period, it is not appropriate to categorise staff numbers and costs by function.

The aggregate payroll costs of these persons were as follows:

	For the 14 month period ended 30 June 2010 £000
<i>Wages and salaries</i>	460
<i>Social security costs</i>	41
	<hr/>
	501
	<hr/>

There were two directors in the period. Directors' remuneration and salary cost is recognised in Ovo Group Limited. Salary costs were recharged from Ovo Group Limited and Ovo Energy Limited for time spent by its directors and employees working for other Ovo group companies. The Company paid £460,000 to its employees in the period and incurred social security costs of £41,000. The Company then recharged £59,626 of these costs to other group companies and also received staff cost recharges of £26,058. Total staff costs equate to an amount representing an 83% charge for staff in Ovo group companies (including directors).

6 Finance income and expense

Recognised in profit or loss

	For the 14 month period ended 30 June 2010 £000
<i>Finance income</i>	
<i>Interest receivable on amounts owed by group undertakings</i>	55
<i>Bank interest receivable</i>	1
	<hr/>
<i>Total interest income on unimpaired financial assets not at fair value through profit or loss</i>	56
	<hr/>
<i>Total finance income</i>	56
	<hr/>
<i>Finance expense</i>	
<i>Interest payable on amounts owed to group undertakings</i>	51
<i>Interest payable on loan from director</i>	36
<i>Other interest payable</i>	2
	<hr/>
<i>Total interest expense on financial liabilities measured at amortised cost</i>	89
	<hr/>
<i>Total finance expense</i>	89
	<hr/>

Notes (continued)

7 Taxation

Factors affecting current tax charge

The Company has no tax charge during the period as it made a taxable loss of £570,000 resulting in a tax credit of £159,600 (at corporation tax rate in UK of 28%)

Reconciliation of effective tax rate

	For the 14 month period ended 30 June 2010 £000
<i>Loss for the period</i>	(570)
<i>Tax using the UK corporation tax rate of 28%</i>	(160)
<i>Non deductible expenses</i>	1
<i>Deferred tax movement not recognised</i>	159
<i>Total tax expense</i>	-

Factors affecting future tax charge

There is an unrecognised deferred tax asset of £158,760 (£567,000 at 28%) from the period, relating to the tax value of losses carried forward, capital allowances not claimed in the period and other temporary differences, which management believe will not be utilised in the foreseeable future

A number of changes to the UK Corporation Tax system were announced in the 2010 Budget Report which have been enacted in the 2010 Finance Act. The impact of these is not considered to be material to the future tax charge in the UK.

Further changes were announced in the UK Government's Budget on 23 March 2011. This included a reduction in the main corporation tax rate from the current 28% to 26% from 1 April 2011 and a 1% per annum reduction in each of the following three years until the rate is 23%. In addition, in the Emergency Budget on 22 June 2010, the rates of capital allowances on assets in the main and special pools are expected to fall from 20% to 18% and from 10% to 8% respectively from 1 April 2012.

The changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements. The Directors are in the process of evaluating the impact these changes will have on future tax charges.

Notes (continued)

8 Property, plant and equipment

	Leasehold property	IT hardware equipment	Fixtures, fittings & office equipment	Total
	£000	£000	£000	£000
Cost				
<i>Balance at incorporation 29 April 2009</i>	-	-	-	-
<i>Additions</i>	27	58	9	94
	<u>27</u>	<u>58</u>	<u>9</u>	<u>94</u>
<i>Balance at 30 June 2010</i>	27	58	9	94
	<u>27</u>	<u>58</u>	<u>9</u>	<u>94</u>
Depreciation and impairment				
<i>Balance at incorporation 29 April 2009</i>	-	-	-	-
<i>Depreciation charge for the period</i>	19	10	2	31
	<u>19</u>	<u>10</u>	<u>2</u>	<u>31</u>
<i>Balance at 30 June 2010</i>	19	10	2	31
	<u>19</u>	<u>10</u>	<u>2</u>	<u>31</u>
Net book value				
<i>At incorporation 29 April 2009</i>	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>At 30 June 2010</i>	8	48	7	63
	<u>8</u>	<u>48</u>	<u>7</u>	<u>63</u>

Notes (continued)

9 Intangible assets

	IT software	Trademarks	Industry accreditation	Total
	£000	£000	£000	£000
Cost				
<i>Balance at incorporation 29 April 2009</i>	-	-	-	-
<i>Additions – externally purchased</i>	165	3	80	248
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Balance at 30 June 2010</i>	165	3	80	248
	<hr/>	<hr/>	<hr/>	<hr/>
Amortisation and impairment				
<i>Balance at incorporation 29 April 2009</i>	-	-	-	-
<i>Amortisation for the period</i>	30	-	-	30
<i>Impairment charge</i>	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Balance at 30 June 2010</i>	30	-	-	30
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value				
<i>At incorporation 29 April 2009</i>	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
<i>At 30 June 2010</i>	135	3	80	218
	<hr/>	<hr/>	<hr/>	<hr/>

Amortisation and impairment charge

The amortisation of £30,000 is recognised in administrative expenses

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

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 Company 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 Company to operate in the electricity and gas supply industry.

10 Inventories

	2010 £000
<i>Renewables obligation certificates</i>	519
	<hr/>
	519
	<hr/>

As at 30 June 2010, the Renewables Obligation Certificates (ROCs) shown above relate to ROCs accruing to the Company but not yet issued by Ofgem for generation that had already taken place. Therefore these ROCs were not able to be sold before the end of the reporting period.

Notes (continued)

11 Trade and other receivables

	2010 £000
<i>Current</i>	
<i>Amounts due from group undertakings</i>	2,979
<i>VAT recoverable</i>	159
<i>Trade receivables</i>	369
<i>Prepayments and other receivables</i>	608
<i>Accrued income</i>	1,020
	<hr/>
	5,135
	<hr/>

The fair value of trade and other receivables 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 trade and other receivables approximates to their book value.

As at 30 June 2010, trade receivables due from group undertakings had no provision for impairment of receivables. Amounts due from group undertakings are repayable on demand but are only likely to be settled in cash on a net basis with amounts due to group undertakings.

Credit quality of financial assets and impairment losses

The aging of trade receivables (excluding transactions between companies in the Ovo group) at the balance sheet date was

	Gross 2010 £000	Impairment 2010 £000
<i>Not past due</i>	56	0
<i>Past due 0-30 days</i>	238	3
<i>Past due 31-60 days</i>	69	7
<i>Past due 61-90 days</i>	53	39
<i>More than 90 days</i>	27	25
	<hr/>	<hr/>
	443	74
	<hr/>	<hr/>

The movement in the allowance for impairment in respect of trade receivables during the period was as follows

	2010 £000
<i>Balance at incorporation 29 April 2009</i>	-
<i>Impairment loss recognised</i>	74
	<hr/>
<i>Balance at 30 June 2010</i>	74
	<hr/>

Notes (continued)

12 Cash and cash equivalents

	2010 £000
<i>Cash and cash equivalents per balance sheet</i>	306
<i>Cash and cash equivalents per cash flow statement</i>	306

The fair value of cash and cash equivalents is estimated as its carrying amount where the cash is repayable on demand. Where it is not repayable on demand then the fair value is estimated at the present value of future cash flows, discounted at the market rate of interest at the balance sheet date.

13 Trade and other payables

	2010 £000
<i>Current</i>	
<i>Amounts due to group undertakings</i>	2,766
<i>Trade payables</i>	528
<i>Social security and other taxes</i>	32
<i>Non-trade payables and accrued expenses</i>	876
<i>Deferred income</i>	2,729
	6,931

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 trade and other payables approximates to their book value.

As at 30 June 2010, amounts due to group undertakings are repayable on demand but are only likely to be settled in cash on a net basis with amounts due from group undertakings.

14 Capital and reserves

Share capital and reserves

Share capital authorised on incorporation totalled £100 00 (10,000 ordinary shares of £0 01 each). During the period the Company issued 2,500 ordinary shares of £0 01 each, for a consideration of £50,000, settled in cash. Therefore at the end of the period authorised share capital totalled £125 00 (12,500 ordinary shares of £0 01 each) with £49,975 share premium reserve.

The allotted, called up and fully paid ordinary share capital totalled £100 00 on incorporation (10,000 ordinary shares of £0 01 each) and £125 00 at the end of the period (12,500 ordinary shares of £0 01 each).

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Dividends

The following dividends were recognised during the period:

	2010 £000
£13.60 per qualifying ordinary share	170
	170

No dividends were proposed after the balance sheet date.

Notes (continued)

15 Financial risk

Credit risk

Financial risk management

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

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. Therefore, the maximum exposure to credit risk at the balance sheet date was £4,368,000 being the total of the carrying amount of financial assets, excluding equity investments, shown in note 11. All the receivables are with parties in the UK, with the majority of the balance being recoverable from other group undertakings.

The allowance account for trade receivables is used to record impairment losses unless the Company is satisfied that no recovery of the amount owing is possible, at that point the amounts considered irrecoverable are written off against the trade receivables directly. There were no transactions written off in the period. The Company provides for impairment losses based on estimated irrecoverable amounts determined by reference to specific circumstances and the experience of management of debtor default in the energy industry. The credit quality of financial assets and associated impairment losses are disclosed in note 11.

Liquidity risk

Financial risk management

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

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

Exposure to liquidity risk

All financial liabilities are non-derivative in nature, relate to trade and other payables, and are due within one year, as shown in note 13. The director believes that the group has adequate financial resources to meet its debts as they fall due.

Commodity risk

Financial risk management

Commodity risk is the exposure that the Company has to price movements in the wholesale electricity and gas 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 Company is also exposed to volumetric risk in the form of uncertain consumption profiles arising from a range of factors which include weather, economic climate and changes in energy consumption patterns.

Exposure to commodity risk

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

Capital risk management

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

Notes (continued)

16 Operating leases

Non-cancellable operating lease rentals are payable as follows

	2010 £000
<i>Less than one year</i>	18
<i>Between one and five years</i>	16
<i>More than five years</i>	-
	<hr/>
	34
	<hr/>

The Company leased office premises under operating leases. During the period £18,169 was recognised as an administrative expense in the income statement in respect of operating leases.

17 Commitments

Capital commitments

During the period ended 30 June 2010, the Company entered into a contract to purchase property, plant and equipment for £41,397 in total. Half of the contract was prepaid at the period end with the remainder expected to be settled in the following financial year.

18 Related parties

Identity of related parties with which the Company has transacted

During the period, loans existed between the Company and both of the subsidiary companies (Ovo Gas Limited and Ovo Electricity Limited) and between the Company and Ovo Group Limited (ultimate parent company). Interest is charged on the loans at 5% or 2.5% above the base rate if higher. During the period the Company received a loan from the director, at the end of the period the face value and carrying amount payable was £105,000 (including interest payable). The interest payable during the period was £35,793. The nominal interest rate was 10% per annum (compound on a monthly basis) and the year of maturity 2011.

Details of amounts outstanding and charged during the period are contained in notes 5, 6, 11, and 13.

Transactions with key management personnel

The director of the Company directly controls 20% per cent of the voting shares of the Company. The shares were acquired on 1 April 2010 for £50,000. The director and his immediate relatives owned 100% of the share capital of Ovo Gas Limited and Ovo Electricity Limited until 31 August 2009 when all of the shares were transferred to Ovo Energy Limited for nil consideration.

The compensation of key management personnel during the period is as follows

	2010 £000
Key management emoluments including social security costs	20
	<hr/>
	20
	<hr/>

Directors are compensated by Ovo Group Limited

Notes (continued)

18 Related parties (continued)

Other related party transactions

	Sales to 2010 £000	Purchases from 2010 £000
Ultimate parent of the Group	24	73
Subsidiaries	39	2,642
	<hr/>	<hr/>
	63	2,715
	<hr/>	<hr/>
	Receivables outstanding 2010 £000	Payables outstanding 2010 £000
Ultimate parent of the Group	17	75
Subsidiaries	2,962	2,691
	<hr/>	<hr/>
	2,979	2,766
	<hr/>	<hr/>

19 Ultimate parent company and controlling party

The Company is a subsidiary undertaking of Ovo Group Limited which is the ultimate parent company incorporated in England and Wales. The largest and smallest group in which the results of the Company are consolidated is headed by Ovo Group Limited. The ultimate controlling party is Stephen Fitzpatrick, director of Ovo Energy Limited and shareholder of the ultimate parent company. The consolidated financial statements of this group are available to the public from the registered office shown in note 1.