

Registration number: 06890468

Imagination Industries Ltd

Annual Report and Consolidated Financial Statements

for the Year Ended 31 December 2018



Imagination Industries Ltd

Contents

Company Information	1
Strategic Report	2 to 8
Directors' Report	9 to 11
Independent Auditors' Report	12 to 14
Consolidated Income Statement	15
Consolidated and Company Statements of Financial Position	16 to 17
Consolidated Statement of Changes in Equity	18
Company Statement of Changes in Equity	19
Consolidated Statement of Cash Flows	20
Company Statement of Cash Flows	21
Notes to the Financial Statements	22 to 67

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 2018

The directors present their strategic report for the year ended 31 December 2018.

Introduction

OVO grew out of the belief that there was a better way to sell energy. We started off with the ambition to make energy cheaper, greener and simpler; making it easy for everyone to play their part in addressing climate change. We committed to supporting more renewable power, to keeping our prices low through digitisation, and focused on building trust by delivering a great customer experience based on simplicity and transparency.

Nearly ten years on, we remain determined to create a world with clean, affordable energy for everyone. But in many ways, this is harder now than ever. The energy market is going through profound change with companies of all sizes struggling to adapt. Increased competition, digitisation, the explosion of data, and changing consumer demands are eroding traditional business models.

OVO has stayed true to its values, investing in technology that will transform the energy system, setting the business up for long-term success. We are now the largest UK independent energy company with over 1.5 million customers. Expanding into smart home services and new technologies including energy storage and electric vehicle charging, we have moved beyond energy retail.

At the start of 2019, we received a £217m 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 will help us 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.

OVO RETAIL

Customer growth

Amidst major change and rapid consolidation in the energy market OVO has grown significantly. As other energy suppliers collapsed under challenging market conditions, OVO was entrusted by Ofgem to take on 525,000 new customers through the Supplier of Last Resort (SoLR) process.

In November 2018, Ofgem appointed OVO Energy to take over Spark Energy's 290,000 customer accounts. Through the purchase of the operating company in Selkirk we were able to continue to serve customers by the existing team with minimal disruption to service. We look forward to growing Spark Energy's market-leading network of partnerships in the lettings and other sectors.

Subsequent events since the end of the reporting period

In January 2019, Ofgem appointed OVO Energy to take over Economy Energy's 235,000 customer accounts. With over two thirds of Economy Energy's customer base on prepayment meters, OVO was well equipped to seamlessly transition them onto Boost, OVO's prepayment brand, tailored specifically for pay-as-you-go customers. Economy Energy prepayment customers now have access to Boost's innovative products such as PAYG+, the first top-up and account management app in the UK prepayment market, and Winter Wallet, which enables customers to better budget for their winter energy costs. The appointment to take over Economy Energy's customer base is disclosed in the post balance sheet event note.

We are proud that Ofgem put its faith in OVO to take on the customer accounts for two of the largest SoLR processes. We have worked hard to seamlessly transition these customers onto our own platforms whilst maintaining unrivalled customer service. At the same time we were awarded the 2019 uSwitch supplier of the year award, for the fourth time in five years.

Imagination Industries Ltd

Strategic Report for the Year Ended 31 December 2018 (continued)

Global Expansion

The global energy market is moving rapidly towards a new era of digitisation, and decentralised clean power generation will place more control in the hands of consumers. More specifically, energy retail markets are deregulating and becoming more competitive, creating enormous opportunities for OVO.

We have global ambitions and our business is built for global scalability. Our best-in-class energy retail know-how, technology portfolio and customer centric business model is exportable to international deregulating markets.

After undertaking market analysis we will be continuing our international expansion plans into Europe as well as Australia and Japan.

Smart Homes

At OVO we were quick to see the potential of smart energy services. We championed the smart meter rollout, with more than 50% of our customers 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.

Working with the OVO Charitable Foundation

OVO Charitable Foundation was created in 2014 with the mission of supporting inspiring organisations with smart ideas to give young people across the world a better and brighter future. OVO Charitable Foundation develops projects in three programme areas: energy and the environment, youth poverty and education.

OVO Charitable Foundation is funded partly from customer donations, and partly from the OVO business: at the end of 2018, 75,000 customers donated to OVO Charitable Foundation each month.

KALUZA

Intelligent Energy Technology

We continued to invest in our proprietary intelligent flexibility platform Kaluza (formerly known as VCharge) which connects to a range of devices (electric vehicles, batteries, heaters) to bring flexibility to the energy system to help smooth peaks and troughs in energy pricing. This prevents customers overpaying at times of high demand while helping to balance the grid at a local and national level.

Dynamic charging and other integration technologies will be essential to support the energy market's expected transition from two-thirds fossil fuels in 2017 to two-thirds renewable energy by 2050. Recent analysis from Imperial College London indicates that the value of integrating energy devices, such as EV-to-grid chargers and dynamic batteries, could be up to £6.9bn per year in the UK alone. Considering the UK's share of electricity generation, globally this figure could be 76 times as much (or £525bn).

In early 2018 we launched three new technology products; a smart charger, the world's first widely available domestic vehicle-to-grid charger and a home energy storage system. At the start of 2019, we launched Kaluza, separating it out from OVO Retail. Kaluza is now an independent company providing software and hardware solutions as well as in-home installation services to a range of business customers.

Imagination Industries Ltd

Strategic Report for the Year Ended 31 December 2018 (continued)

Investments and Partnerships

In March 2019 Kaluza made a strategic investment in energy technology company Electron for a minority stake in the business. Electron will use the proceeds of Kaluza's investment to accelerate the development and deployment of its energy platforms and systems - namely its distributed flexibility marketplace. The deal is the first strategic investment for Kaluza, and builds on both companies' shared vision for a distributed, flexible and zero-carbon energy system where connected devices such as electric vehicles can support the grid.

The energy transition will require collaboration and partnerships across the industry. We have most recently agreed integration partnerships with leading manufacturers including Sonnen and Powervault in home energy storage and Dimplex, Daikin and Sunamp in electric heating. These partnerships create innovative customer value proposition as well as leverage existing routes to market - allowing more assets and customers to benefit from flexibility.

OVO GROUP

Group Strategy

OVO Group's strategy is to look beyond the traditional energy retail model and harness the technology that will unlock long term value for customers, and ultimately power human progress through clean affordable energy for everyone..

The customer is always in the room

We always ask ourselves what our customers value, and how technology can meet their needs and expectations. Our evolution into a greentech company is ultimately about building lasting and trusted relationships by providing an excellent user experience.

We are not chasing short-term returns. We want to build a better energy system and deliver the biggest changes in energy provision since the industrial revolution.

Sustainability

At OVO our purpose is to develop the products, services and technology to allow people to transition away from fossil fuels. We are helping customers manage their energy consumption and reduce their carbon footprints. In 2019 we will publish our first sustainability strategy, with ambitious aims and targets, including science-based carbon targets for OVO's own emissions (Scope 1 and Scope 2) and the electricity and gas we supply to our customers.

OVO is subject to the Streamlined Energy and Carbon Reporting Framework Regulations. While we are only required to include this information in our 2020 Annual Accounts, we have worked hard to measure OVO's first operational carbon footprint for 2018. We therefore include our energy consumption figures (see Table 1) and our greenhouse gas emissions relating to gas, electricity and transport (see Table 2) as well as an intensity ratio, and information relating to our energy efficiency action for 2018.

In 2018 (our base year) our Scope 1 and Scope 2 operational emissions were 1,733 tCO₂e (Market-based) and 1,850 tCO₂e (Location-based). The greatest contributor to our 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 1.7 tCO₂e/£m (Market-based) and 1.8 tCO₂e/£m (Location-based).

Imagination Industries Ltd

Strategic Report for the Year Ended 31 December 2018 (continued)

Table 1: 2018 energy consumption figures

Area	Category	Sub-category	2018 consumption	Units
Gas and diesel	Stationary combustion	Natural gas	1,678,201	kWh
		Diesel (100% mineral diesel)	-	Litres
Refrigerants	Fugitive emissions	R410A	21	Kg
Transport	Fleet vehicle fuel combustion	Small sized van (Diesel)	220,781	Litres
		Small sized van (Petrol)	83,969	Litres
		Small sized van (Battery electric vehicle)	71,721	Miles
Electricity	Electricity	Purchased electricity	2,553,841	kWh
District heating and cooling	District heating and cooling	District heating and cooling	3,059	kWh

Imagination Industries Ltd

Strategic Report for the Year Ended 31 December 2018 (continued)

TABLE 2: Scope 1 and 2 greenhouse gas emissions figures

Area	Category	Sub-category	2018 CO2 Emissions	Unit
Scope 1 emissions	Stationary combustion	Natural gas	309	Tonnes CO2e
		Diesel (100% mineral diesel)	-	Tonnes CO2e
	Fugitive emissions	R410A	44	Tonnes CO2e
	Combustion of fuel for transport purposes	Small sized van (Diesel)	580	Tonnes CO2e
		Small sized van (Petrol)	185	Tonnes CO2e
		Small sized van (Battery electric vehicle)	6	Tonnes CO2e
	Total Scope 1		1,123*	Tonnes CO2e
Scope 2 emissions	Electricity	Purchased electricity (Location-based)	725	Tonnes CO2e
		Purchased electricity (Market-based)	608	Tonnes CO2e
	District heating and cooling	District heating and cooling (Location-based)	2	Tonnes CO2e
		District heating and cooling (Market-based)	2	Tonnes CO2e
	Total Scope 2 emissions (Location-based)		727*	Tonnes CO2e
	Total Scope 2 emissions (Market-based)		610*	Tonnes CO2
Total Scope 1 and Scope 2 emissions	Total Scope 1 and Scope 2 emissions (Location-based)		1,850*	Tonnes CO2
	Total Scope 1 and Scope 2 emissions (Market-based)		1,733*	Tonnes CO2e
	Total Scope 1 and Scope 2 emissions intensity relative to revenue (tCO2e/£m) (Location-based)		1.8*	Tonnes CO2e/£m
	Total Scope 1 and Scope 2 emissions intensity relative to revenue (tCO2e/£m) (Market-based)		1.7*	Tonnes CO2e/£m
	Revenue	OVO Group Ltd revenue	1,042	£m

*Data included in PwC's limited assurance engagement. See www.ovo.com/2018-pwc-assurance-report for more details.

Imagination Industries Ltd

Strategic Report for the Year Ended 31 December 2018 (continued)

Energy efficiency action

We are working with the Carbon Trust to calculate science-based targets for our greenhouse gas emissions and we will then develop a concerted programme of emission reduction initiatives. This year, we are aiming to link bonuses with our carbon performance to incentivise behaviour, and we are going to deliver training to all OVO employees around energy and carbon management.

(i) Fleet:

We are working on a fleet management plan for improving the fuel efficiency of the fleet. This includes assessing options such as automated telematics for route planning, and driver training and awareness raising. We are also aiming to increase the number of electric vehicles in our fleet.

(ii) Buildings:

We have recently completed energy audits on our buildings to identify energy efficiency and reduction opportunities. We will implement projects based on the findings and recommendations, and we are already taking steps such as investing in LED lighting at our Head Office in Bristol. We have committed to sourcing 100% of our electricity from renewable sources for all sites where OVO controls the energy bill.

(iii) Business travel:

We promote the use of audio, video and online meetings to cut emissions from business travel. We encourage employees to use public transport where business travel is unavoidable.

(iv) Our supply chain and our customers:

We are currently working 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. Once we understand our impact, we will be looking to set science-based targets for our Scope 3 emissions and to implement initiatives to reduce emissions.

Reporting methodology

Our reporting approach is aligned with the GHG Reporting Protocol - Corporate Standard (<https://ghgprotocol.org/corporate-standard>). The Basis of Preparation document outlining the reporting methodology in detail can be found here: (<http://www.ovo.com/2018-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: (<http://www.ovo.com/2018-pwc-assurance-report>)

Key Financial and Performance Indicators

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

	Unit	2018	2017
Customer numbers	No.	1,302,000	935,000
Cash	£'000	84,934	83
Annualised gross profit margin	%	9	18
PBT&NAC	£'000	(30,710)	25,656

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

Imagination Industries Ltd

Strategic Report for the Year Ended 31 December 2018 (continued)

Reconciliation to Statutory Results	2018	2017
	£'000	£'000
PBT&NAC	(42,073)	27,366
Net Acquisition Costs	(12,516)	(10,213)
(Loss)/Profit Before Tax	(54,589)	17,153

The Group made a loss for the year ending 31 December 2018 and has net liabilities of £307,382,000 (2017: £263,448,000).

Future developments

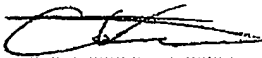
The Directors believe that the Company remains well positioned in the market place with a differentiated offer. For further information, visit our website: www.ovoenergy.com. See Strategic Report for the Company's future developments.

Principal risks and uncertainties

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

By securing gas and electricity under forward contracts the Group is required to place margin calls when the mark to market value of the contracts moves adversely. The Group has largely transitioned to new supply arrangements which do not incorporate margin calls but instead require a fixed deposit. Margin calls with other suppliers are made out of working capital in the form of cash deposits. The Group manages its cash resources to ensure it has sufficient funds to meet all expected demands as they fall due.

Approved by the Board on 31 July 2019 and signed on its behalf by:



Vincent Casey
Director

Imagination Industries Ltd

Directors' Report for the Year Ended 31 December 2018

The directors present their report and the audited consolidated financial statements for the year ended 31 December 2018.

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

Sophie Fitzpatrick (resigned 30 August 2018)

Dividends

The directors do not propose a dividend for the year ended 31 December 2018 (31 December 2017: 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 of the financial statements.

Charitable donations

During the year the company made charitable donations of £665,000. Individual donations were:

The OVO Charitable Foundation	£ 665,000
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Employment of disabled persons

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

Employee involvement

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

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.ovoenery.com. See Strategic Report for the Company's future developments.

Research and development

The Group continues to develop its IT infrastructure, investing £1.8m in software development and licences for the year to 31 December 2018 (2017: £2.9m). The Group incurred costs of £3.0m (2017: £1.4m) engaging in research during the year.

Imagination Industries Ltd

Directors' Report for the Year Ended 31 December 2018 (continued)

Going concern

The Group made a loss for the year and has net liabilities as at 31 December 2018, but expects to make profits in the future.

The Group meets its day-to-day working capital requirements through cash reserves and the Shell facility. The arrangement enables OVO to purchase commodity in advance in the forward markets, providing a hedge against its commitments to customers. The Group's forecasts and projections, taking into account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current facilities. In addition, the Group's investment from Mitsubishi Corporation at the start of 2019 has provided significant liquidity to the Group. The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore, continues to adopt the going concern basis in preparing its financial statements.

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.

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.

Statement of disclosure of information to auditors

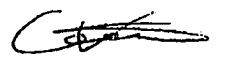
In the case of each director in office at the date the Directors' Report is approved:

Imagination Industries Ltd

Directors' Report for the Year Ended 31 December 2018 (continued)

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

Approved by the Board on 31 July 2019 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 2018 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 2018; 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

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the 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.

We have nothing to report in respect of the above matters.

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. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the group's trade, customers, suppliers and the wider economy.

Imagination Industries Ltd

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 on, 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 2018 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 10, 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.

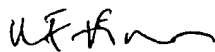
Other required reporting

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.



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

31 July 2019

Imagination Industries Ltd

Consolidated Income Statement for the Year Ended 31 December 2018

	Note	2018 £ 000	2017 £ 000
Revenue	4	1,042,048	833,653
Cost of sales		<u>(943,582)</u>	<u>(684,347)</u>
Gross profit		98,466	149,306
Administrative expenses		(168,424)	(130,191)
Other operating income	5	1,133	-
Other gains	6	<u>17,315</u>	<u>-</u>
Operating (loss)/profit	7	<u>(51,510)</u>	<u>19,115</u>
Finance income		224	587
Finance costs		<u>(3,127)</u>	<u>(2,549)</u>
Net finance cost	8	(2,903)	(1,962)
Share of loss of equity accounted investees		<u>(176)</u>	<u>-</u>
(Loss)/profit before tax		(54,589)	17,153
Income tax receipt/(expense)	12	<u>11,194</u>	<u>(1,710)</u>
(Loss)/profit for the year		<u>(43,395)</u>	<u>15,443</u>
(Loss)/profit attributable to:			
Owners of the company		(28,130)	13,622
Non-controlling Interests		<u>(15,265)</u>	<u>1,821</u>
		<u>(43,395)</u>	<u>15,443</u>

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 2018

		Group		Company	
	Note	2018	2017	2018	2017
		£ 000	£ 000	£ 000	£ 000
Assets					
Non-current assets					
Property, plant and equipment	13	3,811	3,073	-	21
Intangible assets	14	100,798	77,821	2,000	2,000
Deferred tax assets	12	14,517	8,134	-	-
Investments	15	24	200	16,739	3,122
		<u>119,150</u>	<u>89,228</u>	<u>18,739</u>	<u>5,143</u>
Current assets					
Inventories	17	4,909	7,325	-	-
Trade and other receivables	18	97,338	83,516	2,874	16,393
Income tax asset		1,051	-	215	-
Cash and cash equivalents	19	84,934	83,379	3,320	5,070
		<u>188,232</u>	<u>174,220</u>	<u>6,409</u>	<u>21,463</u>
Total assets		<u>307,382</u>	<u>263,448</u>	<u>25,148</u>	<u>26,606</u>
Current liabilities					
Trade and other payables	20	(204,196)	(142,076)	(1,360)	(44)
Loans and borrowings	22	(12,000)	(12,050)	(12,000)	(12,000)
Income tax liability		-	(662)	-	(524)
Deferred income		(110,050)	(71,682)	-	-
Provisions	26	(3,000)	(740)	-	-
		<u>(329,246)</u>	<u>(227,210)</u>	<u>(13,360)</u>	<u>(12,568)</u>
Non-current liabilities					
Loans and borrowings	22	(33,934)	(32,949)	-	-
Other non-current financial liabilities		(2,628)	(5,000)	(2,628)	-
		<u>(36,562)</u>	<u>(37,949)</u>	<u>(2,628)</u>	<u>-</u>
Total liabilities		<u>(365,808)</u>	<u>(265,159)</u>	<u>(15,988)</u>	<u>(12,568)</u>
Net (liabilities)/assets		<u>(58,426)</u>	<u>(1,711)</u>	<u>9,160</u>	<u>14,038</u>
Equity					
Share premium		32,758	32,758	4,048	4,048
Other reserves		1,975	1,887	6	6
(Accumulated losses)/Retained earnings		<u>(78,171)</u>	<u>(31,266)</u>	<u>5,106</u>	<u>9,984</u>
Equity attributable to owners of the parent		<u>(43,438)</u>	<u>3,379</u>	<u>9,160</u>	<u>14,038</u>

The notes on pages 22 to 67 form an integral part of these financial statements.

Imagination Industries Ltd

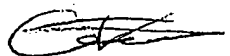
(Registration number: 06890468)

**Consolidated and Company Statements of Financial Position as at 31 December 2018
(continued)**

Note	Group		Company	
	2018 £ 000	2017 £ 000	2018 £ 000	2017 £ 000
Non-controlling Interests	<u>(14,988)</u>	<u>(5,090)</u>	-	-
Total equity	<u>(58,426)</u>	<u>(1,711)</u>	<u>9,160</u>	<u>14,038</u>

No income statement is presented for the Company as permitted by Section 408 of the Companies Act 2006. Its loss for the year was £4,878,000 (2017: loss of £12,142,000).

Approved by the Board on 31 July 2019 and signed on its behalf by:



Vincent Casey
Director

Imagination Industries Ltd

Consolidated Statement of Changes in Equity for the Year Ended 31 December 2018

	Attributable to owners of the parent				Non-controlling interests	Total equity
	Share premium	Other reserves	Accumulated losses	Total		
	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
At 1 January 2017	32,758	1,000	(44,200)	(10,442)	(6,911)	(17,353)
Profit for the year	-	-	13,622	13,622	1,821	15,443
Purchase of own share capital	-	-	(688)	(688)	-	(688)
Share based payment transactions	-	621	-	621	-	621
Merger adjustment, increase/ (decrease) in equity	-	266	-	266	-	266
At 31 December 2017	<u>32,758</u>	<u>1,887</u>	<u>(31,266)</u>	<u>3,379</u>	<u>(5,090)</u>	<u>(1,711)</u>

	Attributable to owners of the parent				Non-controlling interests	Total equity
	Share premium	Other reserves	Accumulated losses	Total		
	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
At 1 January 2018	32,758	1,887	(31,266)	3,379	(5,090)	(1,711)
Loss for the year	-	-	(28,130)	(28,130)	(15,265)	(43,395)
Acquisition of non-controlling interest	-	-	(18,775)	(18,775)	5,367	(13,408)
Share based payment transactions	-	202	-	202	-	202
Merger adjustment, increase/ (decrease) in equity	-	(114)	-	(114)	-	(114)
At 31 December 2018	<u>32,758</u>	<u>1,975</u>	<u>(78,171)</u>	<u>(43,438)</u>	<u>(14,988)</u>	<u>(58,426)</u>

The notes on pages 22 to 67 form an integral part of these financial statements.

Imagination Industries Ltd

Company Statement of Changes in Equity for the Year Ended 31 December 2018

	Share premium £ 000	Other reserves £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2017	4,048	6	(2,158)	1,896
Profit for the year	-	-	12,142	12,142
Total comprehensive Income	-	-	12,142	12,142
At 31 December 2017	4,048	6	9,984	14,038
	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

The notes on pages 22 to 67 form an integral part of these financial statements.

Imagination Industries Ltd

Consolidated Statement of Cash Flows for the Year Ended 31 December 2018

	Note	2018 £ 000	2017 £ 000
Cash flows from operating activities			
(Loss)/profit for the year		(43,395)	15,443
Adjustments to cash flows from non-cash items			
Depreciation and amortisation	7	9,919	11,109
Gain on bargain purchase	6	(17,262)	-
Profit on disposal of Intangible assets	6	(53)	-
Foreign exchange gain	7	(93)	(3)
Finance Income	8	(224)	(587)
Finance costs	8	3,127	2,549
Share based payment transactions		202	621
Share of loss/(profit) of equity accounted Investees		176	-
Income tax expense/(credit)	12	(11,194)	1,710
		(58,797)	30,842
Working capital adjustments			
Decrease/(increase) in Inventories	17	2,416	(2,623)
Increase in trade and other receivables	18	(13,554)	(22,151)
Increase in trade and other payables	20	57,521	40,016
Increase in provisions	26	2,183	189
Increase/(decrease) in deferred income		38,368	(3,268)
Cash generated from/(used in) operations		28,137	43,005
Income taxes paid	12	(526)	-
Net cash flow generated from/(used in) operating activities		27,611	43,005
Cash flows from investing activities			
Interest received	8	224	587
Acquisitions of property plant and equipment		(2,012)	(1,668)
Proceeds from sale of property plant and equipment		53	-
Acquisition of intangible assets	14	(1,827)	(1,940)
Acquisition of subsidiary, net of cash acquired		(750)	(58,602)
Payment of deferred consideration		(5,000)	-
Net cash flows (used in)/generated from investing activities		(9,312)	(61,623)
Cash flows from financing activities			
Interest paid	8	(3,127)	(2,549)
Payments for purchase of shares in Group companies		(13,617)	(688)
Proceeds from bank borrowing draw downs		-	34,847
Net cash flows generated from/(used in) financing activities		(16,744)	31,610
Net increase in cash and cash equivalents		1,555	12,992
Cash and cash equivalents at 1 January		83,379	70,387
Cash and cash equivalents at 31 December		84,934	83,379

The notes on pages 22 to 67 form an integral part of these financial statements.

Imagination Industries Ltd

Company Statement of Cash Flows for the Year Ended 31 December 2018

	Note	2018 £ 000	2017 £ 000
Cash flows from operating activities			
(Loss)/profit for the year		(4,878)	12,142
Adjustments to cash flows from non-cash items			
Depreciation and amortisation	7	21	34
Profit on disposal of property, plant and equipment	6	(43)	-
Finance income	8	(371)	(579)
Finance costs	8	746	981
Income tax (credit)/charge	12	(19)	527
		<u>(4,544)</u>	<u>13,105</u>
Working capital adjustments			
Decrease/(increase) in trade and other receivables	18	13,519	(11,828)
Increase/(decrease) in trade and other payables	20	3,944	(390)
Cash generated from/(used in) operations		<u>12,919</u>	<u>887</u>
Income taxes paid	12	<u>(720)</u>	<u>-</u>
Net cash flow generated from/(used in) operating activities		<u>12,199</u>	<u>887</u>
Cash flows from investing activities			
Interest received	8	371	579
Acquisition of shares in subsidiaries	15	(13,617)	(688)
Proceeds from sale of property plant and equipment		<u>43</u>	<u>-</u>
Net cash flows (used in)/generated from Investing activities		<u>(13,203)</u>	<u>(109)</u>
Cash flows from financing activities			
Interest paid	8	(746)	(981)
Proceeds from bank borrowing draw downs		<u>-</u>	<u>2,000</u>
Net cash flows generated from/(used in) financing activities		<u>(746)</u>	<u>1,019</u>
Net (decrease)/increase in cash and cash equivalents		<u>(1,750)</u>	<u>1,797</u>
Cash and cash equivalents at 1 January		<u>5,070</u>	<u>3,273</u>
Cash and cash equivalents at 31 December		<u>3,320</u>	<u>5,070</u>

The notes on pages 22 to 67 form an integral part of these financial statements.

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2018

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 31 July 2019.

2 Accounting policies

Summary of significant accounting policies and key accounting estimates

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

Basis of preparation

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention.

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

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

Going concern

The Group has net liabilities and made a loss in the year ended 31 December 2018, but is expected to make profits in the future. Therefore, the financial statements have been prepared on a going concern basis. The Group meets its day-to-day working capital requirements through cash reserves and the Shell facility. The arrangement enables OVO to purchase commodity in advance in the forward markets, providing a hedge against its commitments to customers. The Shell commodity purchasing arrangement gives rise to a variable liability to Shell which is a combination of accounts payable and future purchase commitments secured on some the cash of OVO Energy Ltd. During the year, the Group renegotiated its existing arrangement with Shell and the term of the arrangement was extended.

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

At the start of 2019, OVO Group Ltd received an investment from Mitsubishi Corporation for a 20% stake. This investment has been taken into consideration in the directors' assessment of going concern.

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

2 Accounting policies (continued)

Adjusting events after the financial period

On 14 January 2019, OVO Energy Ltd acquired 235,000 customers from Economy Energy Ltd through the Supplier of Last Resort mechanism. The financial effects of this transaction have not been recognised at 31 December 2018.

In February 2019, the OVO Group Ltd received a £217m 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 will help us 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.

Basis of consolidation

The group financial statements consolidate the financial statements of the company and its subsidiary undertakings drawn up to 31 December 2018.

No income statement is presented for the company as permitted by section 408 of the Companies Act 2006. The company made a loss after tax for the financial year of £4,878,000 (2017 - profit of £12,142,000).

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

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

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

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

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

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2018 (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 2018 and have had an effect on the financial statements:

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted IFRS 15 using the modified retrospective approach as a transition method for first-time application as of 1 January 2018. Prior year figures have not been restated following an assessment performed by management concluding the impact to be immaterial. The effect of adopting IFRS 15 is immaterial to the financial statements.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group applied IFRS 9 retrospectively, with an initial application date of 1 January 2018. The Group has not restated the comparative information, which continues to be reported under IAS 39.

IFRS 9 includes new rules for classifying financial instruments, which basically envisage four valuation categories:

- Debt instruments measured at amortised cost
- Debt instruments measured at fair value through other comprehensive income, the changes in value of which are recognised with an effect on income (recycling) upon disposal
- Equity instruments measured at fair value through other comprehensive income, the changes in value of which remain in equity and are not recognised in profit or loss (no recycling) upon disposal
- Financial instruments measured at fair value through profit or loss.

Financial receivables which were classified in the category 'Loans and receivables' pursuant to IAS 39 are now assigned to the category 'Financial assets measured at fair value through profit or loss' due to the first time application of IFRS 9, as the contractually agreed cash flows from these financial instruments do not solely consist of interest and principal on the outstanding capital amount.

IFRS 9 also contains new regulations on the impairment of financial assets, which stipulate that such be based on expected losses. The adoption of IFRS 9 has not changed the Company's accounting for impairment losses for financial assets, the Company previously calculated a provision for impairment under IAS 39 based on an expected credit loss approach using a provision matrix. The new standard has not had a material effect on the Company's impairment provision.

IFRS 9 introduces new regulations for hedge accounting, which aim to improve the presentation of risk management activities in consolidated financial statements. For this purpose, IFRS 9 extends the scope of underlying transactions qualifying for hedge accounting and introduces a new approach for assessing effectiveness, among other things. The Company continues to not apply hedge accounting.

The fair value option for own-use contracts and the possibility to exclude the fair value component of options for hedging relationships are not made use of by the Company. Overall, the new regulations regarding hedge accounting do not have any material effect on the Company's financial statements.

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

2 Accounting policies (continued)

None of the standards, interpretations and amendments effective for the first time from 1 January 2018 have had a material effect on the financial statements.

New standards, interpretations and amendments not yet effective

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

IFRS 16 Leases

New standards and interpretations and amendments not yet effective

The introduction of IFRS 9 has had a material impact on the carrying value of Intercompany receivables in the Company. During 2018, an impairment charge of £8,885,000 was recognised in the Company to write Intercompany receivables down to their recoverable amount as at the balance sheet date. None of the standards, interpretations and amendments which are effective for periods beginning after 1 January 2018 and which have not been adopted early, are expected to have a material effect on the Group financial statements.

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.

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).

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

2 Accounting policies (continued)

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.

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.

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

2 Accounting policies (continued)

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

Goodwill

Goodwill arises on business combinations and represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired. Where the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities of the acquired entity is greater than the cost of acquisition, the excess is immediately recognised in the income statement.

Goodwill is recognised as an asset at cost and is tested at least annually for impairment. If an impairment is identified, the carrying value of the goodwill is written down immediately through the income statement and is not subsequently reversed. At the date of disposal of a subsidiary, the carrying value of attributable goodwill is included in the calculation of profit and loss on disposal.

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

2 Accounting policies (continued)

Intangible assets

a) Trademarks and licenses

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.

b) Computer software and licenses

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

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

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

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

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

Investments

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

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

Cash and cash equivalents

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

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

2 Accounting policies (continued)

Trade receivables

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

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

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.

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

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

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

Share based payments

The Company 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 Company 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.

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

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.

Financial Instruments

Initial recognition

Financial assets and financial liabilities comprise all assets and liabilities reflected in the statement of financial position, although excluding property, plant and equipment, investment properties, intangible assets, deferred tax assets, prepayments, deferred tax liabilities and employee benefits plan.

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 hierarchy 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).

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

2 Accounting policies (continued)

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:-

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 FVTPL:-

- 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.

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

2 Accounting policies (continued)

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.

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.

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

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.

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

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.

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

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 months before 31 December 2018 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.

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.

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.

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

2 Accounting policies (continued)

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 Company) 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 Directors have 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.

Deferred tax assets

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

3 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 and recognition of deferred tax assets.

Revenue recognition - energy supplied but not yet measured

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

Impairment of trade receivables

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

Deferred tax assets

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

Business combinations

There is significant judgement on the fair value of a company's assets on acquisition. Management uses valuation techniques when determining the fair values of certain assets and liabilities acquired in a business combination. Management bases its assumptions on the best data available. Management will continue to assess the fair value using the best available data until the measurement period ends.

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

4 Revenue

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

	2018 £ 000	2017 £ 000
Sale of gas and electricity	951,056	726,110
Installation of smart meters	68,504	84,915
Sale of home emergency cover	15,955	13,123
Other revenue	6,533	9,505
	<u>1,042,048</u>	<u>833,653</u>

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:

	2018 £ 000	2017 £ 000
Research and development expenditure credit	<u>1,133</u>	<u>-</u>

6 Other gains

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

	2018 £ 000	2017 £ 000
Gain (loss) on disposal of intangible assets	53	-
Gain on bargain purchase	<u>17,262</u>	<u>-</u>
	<u>17,315</u>	<u>-</u>

7 Operating (loss)/profit

Arrived at after charging/(crediting)

	2018 £ 000	2017 £ 000
Depreciation expense	2,002	3,246
Amortisation expense	7,917	7,863
Impairment loss	-	173
Foreign exchange gains	(93)	(3)
Operating lease expense - property	<u>2,902</u>	<u>2,038</u>

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

8 Finance Income and costs

	2018 £ 000	2017 £ 000
Finance Income		
Interest income on loans	224	587
Finance costs		
Interest on bank overdrafts and borrowings	<u>(3,127)</u>	<u>(2,549)</u>
Net finance costs	<u>(2,903)</u>	<u>(1,962)</u>

9 Staff costs

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

	2018 £ 000	2017 £ 000
Wages and salaries	64,087	51,808
Social security costs	6,027	4,699
Other pension costs	1,393	979
Share-based payment expenses	202	621
Other employee expense	<u>334</u>	<u>473</u>
	<u>72,043</u>	<u>58,580</u>

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

	2018 No.	2017 No.
Administration and support	1,083	337
Sales, marketing and distribution	<u>1,060</u>	<u>940</u>
	<u>2,143</u>	<u>1,277</u>

Company

The Company had no employees in the year (2017: no employees). Salary recharges from subsidiaries amounted to £50,000 (2017: £178,000) with an additional £6,000 (2017: £36,000) of social security costs and £1,500 (2017: £5,000) of contributions to a define contribution pension scheme.

10 Directors' remuneration

There were a total of three (2017: 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 £657,000 (2017: £1,265,000) with pension contributions of £9,000 (2017: £21,000).

The highest paid director in the year received remuneration of £334,000 (2017: £409,000) and contributions to the pension scheme of £nil (2017: 9,000).

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

11 Auditors' remuneration

	2018 £ 000	2017 £ 000
Audit of these financial statements	15	14
Audit of the financial statements of subsidiary companies	198	178
	<u>213</u>	<u>192</u>
Other fees to auditors		
Taxation compliance services	77	91
All other assurance services	10	-
All other non-audit services	10	-
	<u>97</u>	<u>91</u>

12 Taxation

Tax charged/(credited) in the income statement

	2018 £ 000	2017 £ 000
Current taxation		
UK corporation tax	(405)	1,185
Deferred taxation		
Arising from origination and reversal of temporary differences	(10,789)	525
Tax (receipt)/expense in the income statement	<u>(11,194)</u>	<u>1,710</u>

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

12 Taxation (continued)

The tax on profit before tax for the year is lower than the standard rate of corporation tax in the UK (2017 - lower than the standard rate of corporation tax in the UK) of 19% (2017 - 19.25%).

The differences are reconciled below:

	2018 £ 000	2017 £ 000
(Loss)/profit before tax	(54,589)	17,153
Corporation tax at standard rate	(10,372)	3,302
Increase (decrease) in current tax from adjustment for prior periods	(416)	166
Decrease (increase) from effect of revenues exempt from taxation	(3,280)	-
Increase (decrease) from effect of expenses not deductible in determining taxable profit (tax loss)	1,475	(1,342)
Decrease (increase) from tax losses for which no deferred tax asset was recognised	78	-
Deferred tax expense (credit) from unrecognised temporary difference from a prior period	50	53
Deferred tax expense (credit) relating to changes in tax rates or laws	1,271	(143)
Decrease from pre-acquisition of subsidiaries tax charge	-	(347)
Other tax effects for reconciliation between accounting profit and tax expense (income)	-	21
Total tax (credit)/charge	(11,194)	1,710

The main rate of UK corporation tax for the year to 31 March 2017 was 19% and the rate for year to 31 March 2018 was 19%

At Budget 2016, the government announced a further reduction to the corporation tax main rate (for all profits except ring fenced profits) for the year starting 1 April 2020, setting the rate at 17%. The deferred tax balance has been presented in accordance with this rate.

Deferred tax

Group

Deferred tax assets and liabilities

	Asset £ 000	Liability £ 000	Net deferred tax £ 000
2018			
Accelerated tax depreciation	665	-	665
Tax losses carry-forwards	22,656	-	22,656
Pension benefit obligations	12	-	12
Revaluation of intangible assets	257	(9,073)	(8,816)
	23,590	(9,073)	14,517

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

12. Taxation (continued)

	Asset £ 000	Liability £ 000	Net deferred tax £ 000
2017			
Accelerated tax depreciation	841	-	841
Tax losses carry-forwards	12,498	-	12,498
Pension benefit obligations	-	-	-
Revaluation of Intangible assets	155	(5,360)	(5,205)
	<u>13,494</u>	<u>(5,360)</u>	<u>8,134</u>

Deferred tax movement during the year:

	At 1 January 2018 £ 000	Recognised in income £ 000	Recognised on business combinations £ 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	(4,406)	(8,816)
Net tax assets/(liabilities)	<u>8,134</u>	<u>10,789</u>	<u>(4,406)</u>	<u>14,517</u>

Deferred tax movement during the prior year:

	At 1 January 2017 £ 000	Recognised in income £ 000	Recognised in other comprehensive income £ 000	At 31 December 2017 £ 000
Accelerated tax depreciation	663	178	-	841
Tax losses carry-forwards	13,984	(1,486)	-	12,498
Pension benefit obligations	-	-	-	-
Revaluation of intangible assets	(514)	783	(5,474)	(5,205)
Net tax assets/(liabilities)	<u>14,133</u>	<u>(525)</u>	<u>(5,474)</u>	<u>8,134</u>

Company

Deferred tax assets

Deferred tax asset movement during the year:

	At 1 January 2018 £ 000	At 31 December 2018 £ 000
Accelerated tax depreciation	<u>-</u>	<u>-</u>

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

12 Taxation (continued)

Deferred tax asset movement during the prior year:

	At 1 January 2017 £ 000	Recognised in income £ 000	At 31 December 2017 £ 000
Accelerated tax depreciation	3	(3)	-

13 Property, plant and equipment

Group

	Leasehold property £ 000	Fixtures and fittings £ 000	Office equipment £ 000	Total £ 000
Cost or valuation				
At 1 January 2017	6,277	1,909	2,587	10,773
Acquired through business combinations	11	120	-	131
Additions	854	267	561	1,682
Disposals	-	(25)	(18)	(43)
At 31 December 2017	7,142	2,271	3,130	12,543
Additions	228	29	1,913	2,170
Acquired through business combinations	-	205	379	584
Disposals	(206)	(351)	(376)	(933)
At 31 December 2018	7,164	2,154	5,046	14,364
Accumulated depreciation				
At 1 January 2017	3,742	1,042	1,470	6,254
Charge for year	1,919	604	723	3,246
Eliminated on disposal	-	(25)	(5)	(30)
At 31 December 2017	5,661	1,621	2,188	9,470
Charge for the year	819	419	764	2,002
Eliminated on disposal	(192)	(365)	(362)	(919)
At 31 December 2018	6,288	1,675	2,590	10,553
Carrying amount				
At 31 December 2018	876	479	2,456	3,811
At 31 December 2017	1,481	650	942	3,073
At 31 December 2016	2,535	867	1,117	4,519

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

13 Property, plant and equipment (continued)

Company

	Furniture, fittings and equipment £ 000	Total £ 000
Cost or valuation		
At 1 January 2017	94	94
At 31 December 2017	94	94
At 1 January 2018	94	94
Disposals	(94)	(94)
At 31 December 2018	-	-
Accumulated Depreciation		
At 1 January 2017	39	39
Charge for year	34	34
At 31 December 2017	73	73
At 1 January 2018	73	73
Charge for the year	21	21
Eliminated on disposal	(94)	(94)
At 31 December 2018	-	-
Carrying amount		
At 31 December 2018	-	-
At 31 December 2017	21	21
At 1 January 2017	55	55

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

14 Intangible assets

Group

	Goodwill £ 000	Contractual customer relationships £ 000	Other intangible assets £ 000	Total £ 000
Cost or valuation				
At 1 January 2017	2,861	-	20,901	23,762
Additions	-	-	1,940	1,940
Acquired through business combinations	37,265	19,800	12,400	69,465
At 31 December 2017	40,126	19,800	35,241	95,167
Additions	-	-	1,827	1,827
Acquired through business combinations	1,245	27,737	90	29,072
Disposals	-	-	(759)	(759)
At 31 December 2018	41,371	47,537	36,399	125,307
Accumulated amortisation				
At 1 January 2017	-	-	9,310	9,310
Amortisation charge	-	1,320	6,543	7,863
Impairment	-	-	173	173
At 31 December 2017	-	1,320	16,026	17,346
Amortisation charge	-	1,980	5,937	7,917
Amortisation eliminated on disposals	-	-	(754)	(754)
At 31 December 2018	-	3,300	21,209	24,509
Carrying amount				
At 31 December 2018	41,371	44,237	15,190	100,798
At 31 December 2017	40,126	18,480	19,215	77,821
At 31 December 2016	2,861	-	11,591	14,452

The amortisation charge of £7,917,000 (31 December 2017: £7,863,000) is recognised in administrative expenses.

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

14 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 2017	<u>2,000</u>
At 31 December 2017	<u>2,000</u>
At 1 January 2018	<u>2,000</u>
At 31 December 2018	<u>2,000</u>
Carrying amount	
At 31 December 2018	<u>2,000</u>
At 31 December 2017	<u>2,000</u>
At 1 January 2017	<u>2,000</u>

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

15 Investments in subsidiaries and associates

Group subsidiaries

Details of the Company's subsidiaries as at 31 December 2018 are as follows:

Name of subsidiary	Principal activity	Registered office	Proportion of ownership interest/voting rights held	
			2018	2017
Ovo Group Ltd*	Management entity	1 Rivergate, Temple Quay, Bristol, BS1 6ED, UK	65% / 80%	60% / 72%
Ovo Energy Ltd	Sale of electricity and gas to customers in the UK	1 Rivergate, Temple Quay, Bristol, BS1 6ED, UK	65% / 80%	60% / 72%
Ovo Electricity Ltd	Procurement and sale of UK electricity from the wholesale markets and renewable sources	1 Rivergate, Temple Quay, Bristol, BS1 6ED, UK	65% / 80%	60% / 72%
Ovo Gas Ltd	Supply of gas and UK related services	1 Rivergate, Temple Quay, Bristol, BS1 6ED, UK	65% / 80%	60% / 72%
ONI Energy Ltd	Dormant	Murray House, Murray Street, Belfast, Northern Ireland, BT1 6DN, UK	65% / 80%	60% / 72%
ONI Electricity Ltd	Dormant	Murray House, Murray Street, Belfast, Northern Ireland, BT1 6DN, UK	65% / 80%	60% / 72%
ONI Gas Ltd	Dormant	Murray House, Murray Street, Belfast, Northern Ireland, BT1 6DN, UK	65% / 80%	60% / 72%
Intelligent Energy Technology Services Ltd (previously In Home Technology Ltd)	Smart meter installation business	1 Rivergate, Temple Quay, Bristol, BS1 6ED, UK	65% / 80%	60% / 72%
Intelligent Energy Technology Ltd (previously OVO Technology Ltd)	Product development and provision of trading services	1 Rivergate, Temple Quay, Bristol, BS1 6ED, UK	65% / 80%	60% / 72%
VCharge Inc	Development and provision of demand side grid balancing services	USA	65% / 80%	60% / 72%

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

15 Investments in subsidiaries and associates (continued)

Name of subsidiary	Principal activity	Registered office	Proportion of ownership interest/voting rights held	
			2018	2017
VCharge UK Ltd	Development and provision of demand side grid balancing services	1 Masterton Park, South Castle Drive, Dunfermline, Scotland, KY11 8NX, UK	65% / 80%	60% / 72%
Lilibet Holdings Ltd	Holding company	1 Rivergate Temple Quay, Bristol, England, BS1 6ED, UK	65% / 80%	60% / 72%
Lilibet Finance Ltd	Holding company	1 Rivergate Temple Quay, Bristol, England, BS1 6ED, UK	65% / 80%	60% / 72%
CLCB Holdings Ltd	Holding company	1 Masterton Park, South Castle Drive, Dunfermline, Fife, KY11 8NX, UK	65% / 80%	60% / 72%
Corgi Homeplan Ltd	Provider of boiler and home care cover	1 Masterton Park, South Castle Drive, Dunfermline, Fife, KY11 8NX, UK	65% / 80%	60% / 72%
Corgi Homeheat Ltd	Installation of boilers	1 Masterton Park, South Castle Drive, Dunfermline, Fife, KY11 8NX, UK	65% / 80%	60% / 72%
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	44% / 54%	31% / 37%
ETP Assets 1 Ltd	Dormant	140-142 Kensington Church Street, London, England, W8 4BN UK	65% / 80%	0% / 0%
Lumo Online Ltd	Dormant	140-142 Kensington Church Street, London, England, W8 4BN UK	65% / 80%	60% / 72%
Spark Energy Ltd	Sale of electricity and gas to customers in the UK	Ettrick Riverside, Dunsdale Road, Selkirk, United Kingdom, TD7 5EB UK	65% / 80%	0% / 0%
Spark Gas Shipping Ltd	Supply of gas and related services	1 Rivergate, Temple Quay, Bristol, England, BS1 6ED UK	65% / 80%	0% / 0%

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

15 Investments in subsidiaries and associates (continued)

Name of subsidiary	Principal activity	Registered office	Proportion of ownership interest/voting rights held	
			2018	2017
Spark Energy Finance Plc	Finance	Ettrick Riverside, Dunsdale Road, Selkirk, Scotland, TD7 5EB UK	65% / 80%	0% / 0%
Home Telecom Ltd	Telecom services	1 Rivergate, Temple Quay, Bristol, England, BS1 6ED UK	65% / 80%	0% / 0%
4hundred GmbH	Sale of electricity and gas to customers in Germany	Ernst-Heimeran-Weg 10, 82319 Starnberg Germany	65% / 46%	0% / 0%
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	65% / 80%	100% / 100%
OVO Energy France SAS	Sale of electricity and gas to customers in France	231 rue Saint-Honore 75001 Paris France	65% / 80%	0% / 0%
Spark Generation Ltd	Dormant	Ettrick Riverside, Dunsdale Road, Selkirk UK	65% / 80%	0% / 0%
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	88% / 100%	100% / 100%
Imagine Just 3 Things Ltd*	Commercial software developer	140 - 142 Kensington Church Street, London, W8 4BN UK	85% / 85%	100% / 100%
Akili Partners Ltd*	Investment fund	140 - 142 Kensington Church Street, London, W8 4BN UK	50% / 50%	0% / 0%

* indicates direct investment of the company

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

15 Investments in subsidiaries and associates (continued)

Group associates

Details of the group associates as at 31 December 2018 are as follows:

Name of associate	Principal activity	Registered office	Proportion of ownership interest and voting rights held by the group	
			2018	2017
Indra Renewable Technologies Ltd	Engineering design activities for industrial process and production	140 - 142 Kensington Church Street, London, England, W8 4BN UK	19.8%	19.8%

Aggregate financial information for the non-material associates

Please find below aggregate financial information for each associate material to the group:

	31 December 2018 £ 000
Group share of profit or loss from continuing operations	(176)
Aggregate carrying amount of the interest in this associate	24

Summary of the company investments

	31 December 2018 £ 000	31 December 2017 £ 000
Investments in subsidiaries	16,739	3,122
Subsidiaries		£ 000
Cost or valuation		
At 1 January 2017		2,434
Additions		688
At 31 December 2017		3,122
At 1 January 2018		3,122
Additions		13,617
At 31 December 2018		16,739

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

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

16 Acquisition of subsidiary

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.

There is significant judgement of the fair value of the acquired group's net assets, and the best available data has therefore been used. These amounts will remain provisional until the measurement period ends, at the earlier of when the group receives the full information required or 27 November 2019 in accordance with IFRS 3.

The provisional amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below:

	31 December 2018 £ 000
Assets and liabilities acquired (provisional)	
Financial assets	22,748
Property, plant and equipment	584
Identifiable intangible assets	27,680
Financial liabilities	<u>(33,750)</u>
Total identifiable assets	<u><u>17,262</u></u>

The total consideration transferred was £1.

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 £17.3m.

Provisional intangible assets of £27,680,000 were recognised on acquisition of Spark Energy Ltd and its subsidiaries. This was for the recognition of existing relationships with 290,000 customer accounts.

Provisional financial assets recognised on acquisition contains an expected amount claimed to Ofgem under the Last Resort Supply Payment scheme.

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

16 Acquisition of subsidiary (continued)

During the course of 2018, the group acquired 58% of the issued share capital of 4hundred GmbH, obtaining control. The principal activity of 4hundred GmbH is domestic supply of electricity and gas within Germany. 4hundred GmbH was acquired to expand the Group's supply of domestic electricity and gas into Germany.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below:

	31 December 2018 £ 000
Assets and liabilities acquired	
Identifiable intangible assets	57
Goodwill	<u>1,304</u>
Total consideration	<u><u>1,361</u></u>
Satisfied by:	
Cash	<u><u>1,361</u></u>
Cash flow analysis:	
Cash consideration	<u><u>1,361</u></u>

Identifiable Intangible assets of £57,000 were recognised on acquisition of 4hundred GmbH. This was for the recognition of existing customer relationships.

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

The fair value of the group's acquisition of CLCB Holdings Ltd and Hybrid Energy Solutions Ltd in 2017 have been reassessed in 2018 with no changes.

17 Inventories

	Group		Company	
	31 December 2018 £ 000	31 December 2017 £ 000	31 December 2018 £ 000	31 December 2017 £ 000
Finished goods and goods for resale	<u>4,909</u>	<u>7,325</u>	<u>-</u>	<u>-</u>

The cost of ROCs recognised as an expense in the year amounted to £76,422,000 (2017 - £50,063,000). This is included within cost of sales.

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

18 Trade and other receivables

	Group		Company	
	31 December 2018 £ 000	31 December 2017 £ 000	31 December 2018 £ 000	31 December 2017 £ 000
Trade receivables and accrued income	104,786	92,410	-	-
Provision for impairment of trade receivables and accrued income	(52,923)	(40,286)	-	-
Net trade receivables	51,863	52,124	-	-
Receivables from related parties	1,550	1,282	2,294	3,107
Loans to related parties	-	10,715	-	10,715
Prepayments	11,557	4,896	-	49
Other receivables	32,368	14,499	580	2,522
	<u>97,338</u>	<u>83,516</u>	<u>2,874</u>	<u>16,393</u>

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.

19 Cash and cash equivalents

	Group		Company	
	31 December 2018 £ 000	31 December 2017 £ 000	31 December 2018 £ 000	31 December 2017 £ 000
Cash at bank	<u>84,934</u>	<u>83,379</u>	<u>3,320</u>	<u>5,070</u>

20 Trade and other payables

	Group		Company	
	31 December 2018 £ 000	31 December 2017 £ 000	31 December 2018 £ 000	31 December 2017 £ 000
Trade payables	5,296	57,050	-	-
Accrued expenses	192,482	81,275	46	44
Amounts due to related parties	-	1,282	-	-
Social security and other taxes	1,598	1,281	-	-
Other payables	<u>4,820</u>	<u>1,188</u>	<u>1,314</u>	-
	<u>204,196</u>	<u>142,076</u>	<u>1,360</u>	<u>44</u>

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

20 Trade and other payables (continued)

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

21 Share capital

Allotted, called up and fully paid shares

	31 December 2018		31 December 2017	
	No.	£	No.	£
Ordinary share capital of £0.0001 each	950,000	95.00	950,000	95.00

22 Loans and borrowings

	Group		Company	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
	£ 000	£ 000	£ 000	£ 000
Non-current loans and borrowings				
Bank borrowings	33,934	32,949	-	-
Current loans and borrowings				
Bank borrowings	12,000	12,050	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 £31,934,000 (2017 - £32,949,000).

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 £2,000,000 (2017 - £Nil).

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.

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

23 Obligations under leases and hire purchase contracts

Group

Operating leases

The Group leases a number of office premises in Bristol, Dunfermline, Selkirk and London under non-cancellable operating lease agreements. The lease terms are between 2 and 6 years. Lease rentals are included in the income statement.

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

	31 December 2018 £ 000	31 December 2017 £ 000
Within one year	4,294	2,381
In one to five years	18,003	7,443
In over five years	630	-
	<u>22,927</u>	<u>9,824</u>

The amount of non-cancellable operating lease payments recognised as an expense during the year was £2,902,000 (2017 - £2,058,000)

24 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 £1,393,000 (2017 - £979,000).

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

25 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. These shares have been issued in tranches, (2016 called: D5 and D6)), to reflect the valuation of the company at the date of the award. They have a vesting period based on performance conditions.

E shares are also awarded as part of the LTIP scheme. These shares have been issued in tranches (called E1 in 2017 (2016: none)), to reflect the valuation of the company at the date of the award. 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	2018	2017
'B' Shares	184	
'C' Shares	-	-
'D' Shares	-	435
'E' Shares	18	-
	202	435

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

25 Share-based payments (continued)

Reconciliation of movements in awards

<i>Thousands of shares</i>	'B' Shares	'C' Shares	'D' Shares	'E' Shares
As at 1 January 2018	85	83	1,845	119
Issued March 2018	-	-	-	-
Issued June 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

<i>Thousands of shares</i>	'B' Shares	'C' Shares	'D' Shares	'E' Shares
As at 1 January 2017	91	76	1,556	-
Issued June 2017	10	5	298	-
Issued September 2017	17	5	-	100
Issued December 2017	5	-	-	19
Cancelled	(38)	(3)	(9)	-
Issued at 31 December 2017	85	83	1,845	119
Weighted average vesting period (months)	26	10	-	33

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.

'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.

'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.

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

25 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

<i>Thousands of shares</i>	'B' Shares
As at 9 November 2017	-
Issued	2
As at 31 December 2018	2
Weighted average vesting period (months)	18

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.

Reconciliation of movements in awards

<i>Thousands of shares</i>	'B1' Shares
As at 1 January 2018	-
Issued	13
Forfeited	(2)
As at 31 December 2018	11
Weighted average vesting period (months)	36

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

26 Other provisions

Group

	Facility agreement exit fee provision £ 000	Dilapidation provisions £ 000	Total £ 000
At 1 January 2018	-	740	740
Additional provisions	2,000	-	2,000
Increase in existing provisions	-	260	260
At 31 December 2018	<u>2,000</u>	<u>1,000</u>	<u>3,000</u>
Current liabilities	<u>2,000</u>	<u>1,000</u>	<u>3,000</u>

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 occurrence 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 2018.

27 Contingent liabilities

Group

In February 2018, Ofgem launched an investigation into OVO's estimation of customers' energy usage during winter 2016-17 and the general accuracy of its annual consumption figures in customers' annual statements. OVO has been fully cooperating with Ofgem in its investigation and it is anticipated that the investigation will be closed in 2019. OVO does not anticipate this investigation impacting its ability to supply energy or grow its customer base in any way.

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

28 Financial Instruments

Group

Financial assets

Loans and receivables

	Carrying value		Fair value	
	31 December 2018 £ 000	31 December 2017 £ 000	31 December 2018 £ 000	31 December 2017 £ 000
Cash and cash equivalents	84,934	83,379	84,934	83,379
Trade and other receivables	85,784	78,620	85,784	78,620
	<u>170,718</u>	<u>161,999</u>	<u>170,718</u>	<u>161,999</u>

Valuation methods and assumptions

Loans and receivables:

The fair value of loans and receivable is based on the expectation of recovery of balances. The individually impaired receivables mainly relate to customers from whom it is unlikely that full payment will ever be received.

Financial liabilities

Financial liabilities at amortised cost

	Carrying value		Fair value	
	31 December 2018 £ 000	31 December 2017 £ 000	31 December 2018 £ 000	31 December 2017 £ 000
Trade and other payables	203	140,795	203	140,795
Borrowings	33,934	44,999	33,934	44,999
	<u>34,137</u>	<u>185,794</u>	<u>34,137</u>	<u>185,794</u>

Other non-current financial liabilities at 31 December 2018 were £2,628,000 (2017: £5,000,000) 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.

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

28 Financial Instruments (continued)

Company

Financial assets

Loans and receivables

	Carrying value		Fair value	
	31 December 2018 £ 000	31 December 2017 £ 000	31 December 2018 £ 000	31 December 2017 £ 000
Cash and cash equivalents	3,320	5,070	3,320	5,070
Trade and other receivables	2,874	16,344	2,874	16,344
	<u>6,194</u>	<u>21,414</u>	<u>6,194</u>	<u>21,414</u>

Valuation methods and assumptions

Loans and receivables:

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

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

28 Financial instruments (continued)

Financial liabilities

Financial liabilities at amortised cost

	Carrying value		Fair value	
	31 December 2018 £ 000	31 December 2017 £ 000	31 December 2018 £ 000	31 December 2017 £ 000
Trade and other payables	1,360	44	1,360	44
Borrowings	<u>12,000</u>	<u>12,000</u>	<u>12,000</u>	<u>12,000</u>
	<u>13,360</u>	<u>12,044</u>	<u>13,360</u>	<u>12,044</u>

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.

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

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

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 £170,718,000 (31 December 2017: £154,892,000) 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.

On that basis, the loss allowance as at 31 December 2018 and 1 January 2018 (on adoption of IFRS 9) was determined as follows for both trade receivables and contract assets:

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

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

Past due and impaired financial assets

Allowances for impairment by credit losses

	Loans and receivables £ 000
2018	
At start of year	40,286
Additional impairment for credit losses	12,637
At end of year	52,923
2017	
At start of year	24,397
Additional impairment for credit losses	15,889
At end of year	40,286

Analysis of items past due or impaired Loans and receivables

	Carrying value of items neither past due nor impaired £ 000	Carrying value of items past due but not impaired £ 000	Carrying value of items past due and/or impaired £ 000	Pre impairment value £ 000	Impairment recognised to date £ 000
2018					
Loans and receivables	35,212	17,542	52,923	105,677	52,923
2017					
Loans and receivables	18,519	20,901	40,286	7,953	40,286

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

Liquidity risk

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

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

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

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

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

	Within 1 year £ 000	After 1 year £ 000	Total £ 000
2018			
Trade and other payables	204,196	-	204,196
Bank borrowings	<u>12,000</u>	<u>33,934</u>	<u>45,934</u>
	<u>216,196</u>	<u>33,934</u>	<u>250,130</u>
	Within 1 year £ 000	After 1 year £ 000	Total £ 000
2017			
Trade and other payables	142,076	-	142,076
Bank borrowings	<u>12,050</u>	<u>32,949</u>	<u>44,999</u>
	<u>154,126</u>	<u>32,949</u>	<u>187,075</u>

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 2018 £ 000	31 December 2017 £ 000
Salaries and other short term employee benefits	<u>1,923</u>	<u>1,286</u>

Summary of transactions with key management

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

Other transactions with directors

In 2018, the Company loaned Stephen Fitzpatrick the following amounts:

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

30 Related party transactions (continued)

	2018 £ 000	2017 £ 000
At 1 January	2,361	68
Advanced	1,900	2,253
Repaid	(3,820)	-
Interest charged	42	40
At 31 December	<u>483</u>	<u>2,361</u>

Summary of transactions with subsidiaries

During the year, the Company provided loan funds to Vertical Aerospace Ltd of £3,398,000 (2017: £505,000). The loan incurred an interest charge at 7% (2017: nil) of £210,000 (2017: nil). As at 31 December 2018, the total balance outstanding was £5,445,000 (2017: £1,837,000). At the year end, a provision of £5,110,000 (2017: nil) was held against the receivable.

During the year, the Company provided loan funds to Imagine Just 3 Things Ltd of £2,059,000 (2017: nil). The loan incurred an interest charge at 7% (2017: nil) of £54,000 (2017: nil). As at 31 December 2018, the total balance outstanding was £2,113,000 (2017: nil). At the year end, a provision of £2,113,000 (2017: nil) was held against the receivable.

During the year, the Company provided loan funds to Imagination Industries Incubator Ltd of £1,904,000 (2017: nil). The loan incurred an interest charge at 7% (2017: nil) of £56,000 (2017: nil). As at 31 December 2018, the total balance outstanding was £1,960,000 (2017: nil). At the year end, a provision of £1,662,000 (2017: nil) was held against the receivable.

During the year, the Company provided loan funds to Akili Partners Ltd of £10,000 (2017: nil). The loan incurred no interest charge. As at 31 December 2018, the total balance outstanding was £10,000 (2017: nil).

During the year, the Company received loan funds from OVO Group Ltd of £194,000 (2017: nil). The loan incurred no interest charge. As at 31 December 2018, the total balance owed to OVO Group Ltd was £194,000 (2017: nil).

During the year, the Company recharged £6,558 of costs to Intelligent Energy Technology Ltd (2017: nil). As at 31 December 2018, Intelligent Energy Technology Ltd owed Imagination Industries Ltd £6,885 (2017: nil).

During the year, the Company recharged £12,950 of costs to Imagination Industries Pty Ltd (2017: nil). As at 31 December 2018, Intelligent Energy Technology Ltd owed Imagination Industries Ltd £12,950 (2017: nil).

During the year, the Company charged OVO Energy Ltd brand royalty fees totalling £4,636,000 (2017: £3,625,000). As at 31 December 2018 OVO Energy Ltd owed Imagination Industries Ltd £1,826,000 (2017: £1,266,000).

Summary of transactions with associates

During the year, the Group provided loan funds to Indra Renewable Technologies Limited of £1,550,000 (2017: nil). The loan incurred no interest charge on the capital balance. As at 31 December 2018, the total balance outstanding was £1,550,000 (2017: nil).

Summary of transactions with other related parties

During the year, the Company received loan repayments from Just Racing Ltd (a Company owned by Stephen Fitzpatrick, the ultimate owner of Imagination Industries Ltd) to the value of £10,743,000 (2017: £1,429,000). The loans incurred no interest in 2018 (2017: £538,000 of interest charged).

The balance owed to the Company by Just Racing Ltd at the year end was £7,767,000 (2017: 18,510,000). The Company held a provision of £7,767,000 against the loan as at the balance sheet date (2017: £7,795,000).

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

31 Parent and ultimate parent undertaking

The ultimate controlling party is Stephen Fitzpatrick.

32 Audit exemption of subsidiary

OVO Group Ltd has guaranteed the liabilities of the following dormant subsidiaries in order that they qualify for the exemption from preparing individual financial statements under Section 394A of the Companies Act 2006 in respect of the year ended 31 December 2018:

- ONI Energy Ltd (company number: NI604034)
- ONI Electricity Ltd (company number: NI604035)
- ONI Gas Ltd (company number: NI604036)
- ETP Assets 1 Ltd (company number: 11303990)
- Lumo Online Ltd (company number: 10732817)

OVO Group 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 2018:

- Hybrid Energy Solutions Ltd (company number: 09666725)