

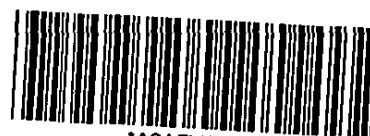
Ovo Energy Limited

**Director's report and financial
statements**

**For the six months ended 31 December
2011**

Registered number 06890795

THURSDAY



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Director's report

The Director presents his report and the audited financial statements for the six months ended 31 December 2011. The comparative financial information is for the year to 30 June 2011.

Principal activities

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

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

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

Change in accounting reference date

The company has changed its accounting reference date from 30 June to 31 December.

Business review

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

Ovo Energy commenced trading in September 2009 and it has experienced strong customer growth in the two operating periods covered by these financial statements with around 67,000 customers as at 31 December 2011 (June 2011: 40,000).

Revenue for the period was £25.4m (year to 30 June 2011: £37.4m). Cost of sales includes £1.6m unrealised losses (year to 30 June 2011: £255,000 unrealised gain) on gas and electricity forward contracts. Administrative expenses were £4.8m (year to 30 June 2011: £5.2m). There has been continual investment in staff and in IT so that the Company can continue in its vision to provide the best possible service to its customers, a cornerstone of the Company's mission. This investment has resulted in the Company making a loss for the period before tax of £5.2m (year to 30 June 2011: £1.2m), and the Director views this as a consequence of supporting the continued growth of the business.

The Company is managed on an integrated basis with other companies in the Ovo group and therefore the Director does not monitor Key Performance Indicators solely in respect of the Company. Key Performance Indicators for the group as a whole are discussed in the Directors' Report and Financial Statements of Ovo Group Limited.

Future Developments

The Company's financial performance continues in line with expectations and since the year end customer numbers have grown significantly, increasing year end levels to in excess of 141,000 in June 2013.

The Director believes that Company remains well positioned in the market place with a differentiated offer. For further information, visit our website www.ovoenergy.com.

Principal risks and uncertainties

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

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. In addition to providing cash deposits to cover margins calls, the Group had put in place surety bonds in favour of its main gas supplier which removed the need to place margin calls for the first £5 million of mark to market movements. As explained in note 22, following a change in gas suppliers, the surety was reduced to £2 million in November 2012 and in full shortly thereafter. Margin calls with current 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.

Director's report *(continued)*

Research and development

Company continues to develop its IT infrastructure, investing £539k in software development for the six months to 31 December 2011 (year to 30 June 2011 £528k)

Proposed dividend

The Director does not recommend the payment of a final dividend (year to 30 June 2011 £nil) No interim dividend was paid during the period or in the prior year

Policy and practice on payment of creditors

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

At the period end, there were 43 (30 June 2011 23) days of purchases in trade payables (excluding transactions between companies in the Ovo group)

Director

The Director who held office during the year was as follows

Stephen Fitzpatrick

Employees

The average number of staff for the period was 100 (30 June 2010 50)

Political and charitable contributions

The Company made charitable donations of £320 (30 June 2011 £1,445) during the period The Company does not make political donations nor incur political expenditure In addition to this, as part of our commitment to our environment, the company contributed £133,395 (year to 30 June 2011 £134,856) to Cool Earth, a charity involved in rainforest protection

Disclosure of information to auditors

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

Director's report *(continued)*

Director's responsibilities statement

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

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

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable International Financial Reporting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Corporate Governance

The Director is mindful of Corporate Governance and continues to work with advisers on how to enhance levels of governance that are appropriate for the current size of the Ovo group of companies.

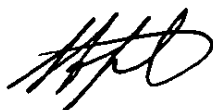
Directors' indemnities

As permitted by the Articles of Association, the Director has the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its Director.

Auditors

The auditors, PricewaterhouseCoopers LLP, have expressed their willingness to continue in office.

By order of the board



Stephen Fitzpatrick
Director

11 June 2013

Wellington House, Kemble, Gloucestershire GL7 6BQ

Independent Auditors' Report to the members of Ovo Energy Limited

We have audited the financial statements of Ovo Energy Limited for the six month period ended 31 December 2011 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the director's responsibilities statement on page 3, the director is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the director's report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2011 and of its loss and cash flows for the period then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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



Paul Nott (Senior Statutory Auditor)

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

12 June 2013

Statement of Comprehensive Income
for the year six months ended 31 December 2011

Six months ended 31 December 2011				Year ended 30 June 2011			
	Note	Before unrealised derivative gains/ (losses) £000	Unrealised derivative gains/ (losses) £000	Total £000	Before unrealised derivative gains/ (losses) £000	Unrealised derivative gains/ (losses) £000	Total £000
Revenue	1,2	25,374	-	25,374	37,463	-	37,463
Cost of sales		(24,170)	(1,576)	(25,746)	(33,713)	255	(33,458)
Gross (loss)/profit		1,204	(1,576)	(372)	3,750	255	4,005
Administrative expenses	1,3,4	(4,815)	-	(4,815)	(5,202)	-	(5,202)
Operating loss		(3,611)	(1,576)	(5,187)	(1,452)	255	(1,197)
Finance income	6	2	-	2	6	-	6
Finance expense	6	(46)	-	(46)	(49)	-	(49)
Loss before tax		(3,655)	(1,576)	(5,231)	(1,495)	255	(1,240)
Taxation	7	1,130	386	1,516	-	-	-
Loss for the period attributable to equity shareholders		(2,525)	(1,190)	(3,715)	(1,409)	255	(1,240)

All amounts relate to continuing operations. There is no other comprehensive income other than the loss for the period.

The notes on pages 9 to 26 form part of these financial statements.

Statement of Financial Position
at 31 December 2011

	Note	31 December 2011 £000	30 June 2011 £000
Non-current assets			
Property, plant and equipment	8	255	265
Intangible assets	9	945	570
Investment in subsidiaries	10	-	-
		<u>1,200</u>	<u>835</u>
Current assets			
Inventories	11	1,046	869
Trade and other receivables	12	4,646	20,925
Cash and cash equivalents	13	884	784
Deferred tax	7	1,516	-
Derivative financial instruments	14	409	470
		<u>8,501</u>	<u>23,048</u>
Total assets		<u>9,701</u>	<u>23,883</u>
Current liabilities			
Trade and other payables	15	13,615	25,598
Derivative financial instruments	14	1,730	215
		<u>15,345</u>	<u>25,813</u>
Total liabilities		<u>15,345</u>	<u>25,813</u>
Net liabilities		<u>(5,644)</u>	<u>(1,930)</u>
Equity attributable to ordinary shareholders			
Share capital	16	-	-
Share premium	16	50	50
Retained earnings		(5,694)	(1,980)
		<u>(5,644)</u>	<u>(1,930)</u>
Total deficit		<u>(5,644)</u>	<u>(1,930)</u>

These financial statements were approved by the director on 11/6/13 and were signed by



Stephen Fitzpatrick
 Director

Company registered number 06890795

The notes on pages 9 to 26 form part of these financial statements

Statement of Changes in Equity

	<i>Note</i>	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
Equity at 1 July 2010	16	-	50	(740)	(690)
Loss for the year		-	-	(1,240)	(1,240)
Balance at 1 July 2011		-	50	(1,980)	(1,930)
Loss for the period		-	-	(3,715)	(3,715)
Share based payments		-	-	1	1
Balance at 31 December 2011		-	50	(5,694)	(5,644)

The notes on pages 9 to 26 form part of these financial statements

Statement of Cash Flows
for the six months ended 31 December 2011

	<i>Note</i>	For the six months ended 31 December 2011 £000	For the year ended 30 June 2011 £000
Cash flows from operating activities			
Loss for the year		(5,231)	(1,240)
Adjustments for			
Depreciation, amortisation and impairment	8,9	232	288
Financial income	6	(2)	(6)
Financial expense	6	46	49
Loss on disposal of assets		9	1
Share based payments		1	-
Unrealised loss/(gain) on derivative financial instruments	14	1,576	(255)
		(3,369)	(1,163)
Increase/(decrease) in trade and other receivables	12	16,380	(15 790)
Increase in inventories	11	(177)	(350)
(Decrease)/increase in trade and other payables	6,15,20	(12,027)	18,768
Net cash inflow from operating activities		807	1,465
Cash flows from investing activities			
Proceeds from sale of plant, property and equipment		-	1
Interest received	6	2	6
Acquisition of property, plant and equipment	8	(67)	(314)
Acquisition of other intangible assets	9	(494)	(530)
Net cash outflow from investing activities		(559)	(837)
Cash flows from financing activities			
Repayment of director's loan	20	(1)	(66)
Interest paid	6	(147)	(84)
Net cash outflow from financing activities		(148)	(150)
Net increase in cash and cash equivalents		100	478
Cash and cash equivalents at 1 July 2011		784	306
Cash and cash equivalents at 31 December 2011	13	884	784

The notes on pages 9 to 26 form part of these financial statements

Notes

(forming part of the financial statements)

1 Accounting policies

The principal accounting policies are summarised below

General information

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

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

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

Basis of preparation

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

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

In the current year, the Company has adopted all applicable IFRS and interpretations which have been endorsed by the EU and which are relevant to its operations and effective for accounting periods beginning on 1 July 2011

The financial statements are prepared on the historical cost basis, except for derivative financial instruments that have been measured at fair value. Non-current assets are stated at the lower of previous carrying amount and fair value less costs to sell

Functional and presentation currency

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

Going concern

The Company made a loss during the year. Although the Company has been loss making and has net liabilities, the financial statements have been prepared on a going concern basis. The Company faces a number of risks which could impact its liquidity and hence its ability to continue as a going concern. The director has reviewed the business plan of the Company as a whole and believes that the Company has adequate financial resources to meet its debts as they fall due for the foreseeable future

Derivatives and other financial instruments

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

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

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

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

Non-derivative financial instruments

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

Notes (continued)

Trade and other receivables

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

Trade and other payables

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

Investments in debt and equity securities

Investments in subsidiaries are carried at cost less impairment charges.

Cash and cash equivalents

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

Interest-bearing borrowings

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

Property, plant and equipment

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

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

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

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

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

Intangible assets and goodwill

Intangible assets

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

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

Notes (continued)

1 Accounting policies (continued)

Intangible assets and goodwill (continued)

Amortisation

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

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

Inventories

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

Impairment excluding inventories and deferred tax assets

Financial assets (including receivables)

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

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

Non-financial assets

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

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Notes (continued)

1 Accounting policies (continued)

Impairment excluding inventories and deferred tax assets (continued)

Non-financial assets

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

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

Employee benefits

The Company 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 5% of their base pay. All costs related to the scheme are expensed in the income statement in the periods 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 Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts.

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

Provisions

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

Revenue

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

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

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

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

Expenses

Operating lease payments

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

Notes (continued)

1 Accounting policies (continued)

Expenses(continued)

Finance income and expense

Financing expense comprises interest payable on shareholder and other loans and is recognised in profit or loss using the effective interest method. 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.

Share-based payments

Share-based payment plans issued in the Ovo Group are accounted for in accordance with IFRS 2 Share-based Payments. The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The fair value of employee share options is measured using a Black Scholes model and the fair value of the liability is remeasured at each balance sheet date and settlement date.

Taxation

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

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

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

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

New and amended standards adopted by the company

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2011 that would be expected to have a material impact on the company.

New standards, amendments and interpretations issued but not effective for the financial period beginning 1 July 2011 and not early adopted

IAS 19, 'Employee benefits' was amended in June 2011 and the amendments have no impact on the company's financial statements.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The company is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2013, subject to endorsement by the EU.

IFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The group is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2013, subject to endorsement by the EU.

Notes (continued)

1 Accounting policies (continued)

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2011 and not early adopted (continued)

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The company is yet to assess IFRS 13's full impact and intends to adopt IFRS 13 no later than the accounting period beginning on or after 1 January 2012, subject to endorsement by the EU.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the company.

Critical estimates and judgements

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

Revenue recognition – 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 Company, to have supplied. In assessing the level of supplies that will not be billed and therefore not recognised in revenue, the director has estimated the likely losses that arise from the reconciliation of industry settlement data to the estimated quantity of gas and electricity supplied to customers according to meter reading data.

Impairment of trade receivables

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

Deferred tax assets

Deferred tax assets are only recognised when it is considered more likely than not that the Company 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 start to generate sustainable profits and therefore a deferred tax asset has been recognised, resulting in a benefit to the income statement and balance sheet.

Notes (continued)

2 Revenue

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

3 Expenses and auditors' remuneration

Included in the loss for the year are the following

	For the six months ended 31 December 2011 £000	For the year ended 30 June 2011 £000
Losses/(gains) on derivative commodity contracts	1,576	(255)
Depreciation of tangible assets	68	110
Amortisation of intangible assets	164	178
Operating lease rental costs	43	89
Impairment loss on trade receivables and prepayments	182	471
Audit fees in respect of these financial statements	38	38
Non audit services	42	87

4 Staff numbers and costs

The average number of persons employed by the Company during the period was 100 (30 June 2011 50) and totalled 115 (30 June 2011 62) at the period end. Average staff employed during the period categorised by functions is shown below

	For the six months ended 31 December 2011 £000	For the year ended 30 June 2011 £000
Support staff	37	19
Operations staff	63	31
	<u>100</u>	<u>50</u>

The aggregate payroll costs of these persons were as follows

	For the six months ended 31 December 2011 £000	For the year ended 30 June 2011 £000
Wages and salaries	1,546	1,568
Social security costs	127	149
Pension costs	-	11
	<u>1,673</u>	<u>1,728</u>

There was one director during the period (year to 30 June 2011 one). Directors' remuneration and salary cost is recognised in Ovo Group Limited.

Salary costs were recharged from the Company for time spent by its directors and employees working for other Ovo group companies. The Company recharged £360,607 (year to 30 June 2011 £299,153) of these costs to other group companies and also received staff cost recharges of £272,461 (year to 30 June 2011 £31,637) from other group companies. Total staff costs equate to an amount representing a 82% (year to 30 June 2011 77%) charge for staff in Ovo group companies (including directors).

Notes (continued)

5 Share-based payments

During the year, the Group of which the Company is part granted the right to share options to eligible employees under the OVO Group Enterprise Management Incentive Scheme. The scheme is cash settled and shares options can be exercised after three years, unless a sale or flotation takes place before this date. Unexercised share options expire 10 years from the grant date. During the period no options were granted (year to 30 June 2011: 46,300) and £1,026 (2011: £359) was recognised as an expense in the income statement. The options outstanding at the year-end have an exercise price in the range of £2 to £10 and a weighted average contractual life of 2.36 years.

6 Finance income and expenses

Recognised in profit or loss

	For the six months ended 31 December 2011 £000	For the year ended 30 June 2011 £000
<i>Finance income</i>		
<i>Bank interest receivable</i>	2	6
<i>Total finance income</i>	2	6
<i>Finance expenses</i>		
<i>Interest payable on amounts owed to group undertakings</i>	-	35
<i>Interest payable on loan from director</i>	-	10
<i>Other interest payable</i>	46	4
<i>Total finance expenses</i>	46	49

7 Taxation

	For the six months ended 31 December 2011 £000	For the year ended 30 June 2011 £000
<i>Deferred tax</i>	(1,516)	-
<i>Total tax credit</i>	(1,516)	-

Notes (continued)

7 Taxation (Continued)

Reconciliation of effective tax rate

	For the six months ended 31 December 2011 £000	For the year ended 30 June 2011 £000
<i>Loss for the period</i>	(5,231)	(1,240)
Tax using the UK corporation tax rate of 26 % (2011 27.5%)	(1,360)	(341)
Non-deductible expenses	14	1
Recognition of previously unrecognised deferred tax asset	(357)	-
Deferred tax movement not recognised	-	340
Re-measurement of deferred tax – change in main rate of UK corporation tax	187	-
<i>Total tax credit</i>	(1,516)	-

Deferred tax

	At 31 December 2011 £000	At 30 June 2011 £000
Arising on losses	1,142	-
Other short term timing differences	374	-
<i>Total deferred tax asset</i>	1,516	-

Deferred tax assets have been recognised as management consider it more likely than not that the group will generate sufficient profits to utilise the deferred tax assets in full

Factors affecting future tax charge

The main rate of UK corporation tax for the tax year to 31 March 2012 was 26%, reducing to 24% for the year to 31 March 2013 and then to 23% for the year to 31 March 2014

In addition to the changes in rates of Corporation tax disclosed above, further changes to the UK Corporation tax rates were announced in the 2012 Autumn Statement and the March 2013 Budget. These include further reductions to the main rate to reduce the rate to 21% from 1 April 2014 and to 20% from 1 April 2015. These changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements.

The proposed reductions to the main rate of corporation tax are both expected to be enacted as part of Finance Act 2013.

The overall effect of these further changes would reduce the deferred tax asset. However, management expect to have largely utilised the losses before these rates come into effect.

Notes (continued)

8 Property, plant and equipment

	Leasehold property	IT hardware equipment	Fixtures, fittings & office equipment	Total
	£000	£000	£000	£000
Cost				
<i>Balance at 1 July 2010</i>	27	58	9	94
<i>Additions</i>	126	142	46	314
<i>Disposals</i>	-	(3)	-	(3)
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Balance at 30 June 2011</i>	153	197	55	405
<i>Additions</i>	2	53	12	67
<i>Disposals</i>	-	(10)	(2)	(12)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2011	155	240	65	460
	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation and impairment				
<i>Balance at 1 July 2010</i>	19	10	2	31
<i>Depreciation charge for the year</i>	39	56	15	110
<i>Disposals</i>	-	(1)	-	(1)
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Balance at 30 June 2011</i>	58	65	17	140
<i>Depreciation charge for the period</i>	23	36	9	68
<i>Disposals</i>	-	(3)	-	(3)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2011	81	98	26	205
	<hr/>	<hr/>	<hr/>	<hr/>
<i>At 30 June 2010 and 1 July 2010</i>	8	48	7	63
<i>At 30 June 2011</i>	95	132	38	265
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2011	74	142	39	255
	<hr/>	<hr/>	<hr/>	<hr/>

Notes (continued)

9 Intangible assets

	IT software	Trademarks	Industry accreditation	Total
	£000	£000	£000	£000
Cost				
<i>Balance at 1 July 2010</i>	165	3	80	248
<i>Additions – externally purchased</i>	528	-	-	528
<i>Additions – transfers from group companies</i>	-	2	-	2
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Balance at 30 June 2011</i>	693	5	80	778
<i>Additions</i>	539	-	-	539
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Balance at 31 December 2011</i>	1,232	5	80	1,317
	<hr/>	<hr/>	<hr/>	<hr/>
Amortisation and impairment				
<i>Balance at 1 July 2010</i>	30	-	-	30
<i>Amortisation for the year</i>	178	-	-	178
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Balance at 30 June 2011</i>	208	-	-	208
<i>Amortisation for the period</i>	164	-	-	164
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Balance at 31 December 2011</i>	372	-	-	372
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value				
<i>At 30 June 2010 and 1 July 2011</i>	135	3	80	218
<i>At 30 June 2011</i>	485	5	80	570
	<hr/>	<hr/>	<hr/>	<hr/>
<i>At 31 December 2011</i>	860	5	80	945
	<hr/>	<hr/>	<hr/>	<hr/>

Amortisation and impairment charge

The amortisation charge of £164,000 (2011: £178,000) is recognised in administrative expenses.

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

Trademarks and industry accreditation are regarded by management to have an indefinite life as there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Company and circumstances continue to support the assessment that the useful life is indefinite. Trademarks relate to the brand of the Ovo group of companies and are expected to be valid for the life of the companies, which operate in an industry with stable market demand. Industry accreditation is required for the Company to operate in the electricity and gas supply industry.

Notes (continued)

10 Investment in subsidiaries

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

The Company had the following investments in subsidiaries at 30 June 2011 and 31 December 2011

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

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

11 Inventories

	31 December 2011 £000	30 June 2011 £000
<i>Renewables obligation certificates</i>	1,046	869

As at 31 December 2011, the Renewables Obligation Certificates (ROCs) shown above relate to ROCs accruing to the Company but not yet issued by Ofgem for generation that had already taken place. Therefore these ROCs were not able to be sold before the end of the reporting period.

12 Trade and other receivables

	31 December 2011 £000	30 June 2011 £000
Current		
Amounts due from group undertakings	-	16,026
VAT recoverable	851	115
Trade receivables	563	1,361
Prepayments and other receivables	578	596
Accrued income	2,654	2,827
	4,646	20,925

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

As at 31 December 2011, trade receivables due from group undertakings had no provision for impairment of receivables. Amounts due from group undertakings are repayable on demand but are only likely to be settled in cash on a net basis with amounts due to group undertakings.

Notes (continued)

12 Trade and other receivables (continued)

Credit quality of financial assets and impairment losses

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

	Gross	Impairment	Gross	Impairment
	31 December	31 December	30 June 2011	30 June 2011
	2011	2011		
	£000	£000	£000	£000
Not past due	-	-	246	-
Past due 0-30 days	362	56	644	48
Past due 31-60 days	295	73	410	81
Past due 61-90 days	142	106	270	80
More than 90 days	491	492	336	336
	1,290	727	1,906	545

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

	£000	£000
Balance at 1 July 2011 / 1 July 2010	545	74
Impairment loss recognised	182	471
Balance at 31 December 2011 / 30 June 2011	727	545

13 Cash and cash equivalents

	31 December	30 June
	2011	2011
	£000	£000
Cash and cash equivalents per balance sheet	884	784
Cash and cash equivalents per cash flow statement	884	784

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

Notes (continued)

14 Derivative financial instruments

	31 December 2011 £000	30 June 2011 £000
<i>Derivatives at fair value through profit and loss</i>		
Commodity purchase contracts	(1,321)	255
Split by		
Current assets	409	470
Current liabilities	(1,730)	(215)
	(1,321)	255

Commodity purchase contracts include contracts relating to the purchase of electricity and gas. The contracts meet the definition of Level 1 fair value measurements under IFRS 7 in that the fair values are based on quoted prices in an active market.

15 Trade and other payables

	31 December 2011 £000	30 June 2011 £000
<i>Current</i>		
Amounts due to group undertakings	391	15,682
Trade payables	3,289	394
Social security and other taxes	87	52
Non-trade payables and accrued expenses	2,917	2,087
Deferred income	6,931	7,383
	13,615	25,598

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

As at 31 December 2011, amounts due to Group undertakings are repayable on demand but are only likely to be settled in cash on a net basis with amounts due from Group undertakings.

Notes (continued)

16 Capital and reserves

Share capital and reserves

Share capital authorised on incorporation totalled £100 00 (10,000 ordinary shares of £0 01 each). During the period ended 30 June 2010, the Company issued 2,500 ordinary shares of £0 01 each, for a consideration of £50,000, settled in cash. Therefore at the end of the prior period and at the beginning and end of the current period the authorised share capital totalled £125 00 (12,500 ordinary shares of £0 01 each) with £49,975 share premium reserve.

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

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

No dividends were paid during the period and none were proposed after the balance sheet date.

17 Financial risk

Credit risk

Financial risk management

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

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. Therefore, the maximum exposure to credit risk at the balance sheet date was £4,068,000 (30 June 2011: £20,329,000) 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, with the majority of the balance in the prior year being recoverable from other group undertakings.

The allowance account for trade receivables is used to record impairment losses unless the Company is satisfied that no recovery of the amount owing is possible, at that point the amounts considered irrecoverable are written off against the trade receivables directly. There were no transactions written off in the period. The Company provides for impairment losses based on estimated irrecoverable amounts determined by reference to specific circumstances and the experience of management of debtor default in the energy industry. The credit quality of financial assets and associated impairment losses are disclosed in note 12.

Liquidity risk

Financial risk management

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

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

Exposure to liquidity risk

The biggest threat to the Company's liquidity is the potential for it to have to place margin calls against forward contracts for electricity and gas purchases. Such payments could be required if the wholesale market price of gas and electricity fell below the price of the forward contract. The Company had put in place a surety bond in favour of its main gas supplier which removed the need to place margin calls for the first £5 million of mark to market movements. As explained in note 22, following a change in gas suppliers, the surety was reduced to £2 million in November 2012 and in full shortly thereafter. Margin calls with current suppliers are made out of working capital in the form of cash deposits. The company manages its cash resources to ensure it has sufficient funds to meet all expected demands as they fall due.

Notes (continued)

Liquidity risk (continued)

Exposure to liquidity risk (continued)

The other key threat to liquidity would arise from unusually cold weather or other factors causing customer volumes to be much higher than anticipated. This could place a strain on the Company's working capital as payments due to suppliers could become due before customer collection levels could be adjusted. The director monitors operational working capital requirements very closely and believes that the Company has the ability to respond in a timely manner to any unexpected changes in volumes. Hence the director believes that the Company has adequate financial resources to meet its debts as they fall due.

Commodity risk

Financial risk management

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

Exposure to commodity risk

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

Derivatives are measured at fair value on the contract date and are re-measured to fair value at subsequent reporting dates. Changes in the fair value of derivatives and other financial instruments are recognised in the income statement as they arise. Unrealised net losses on open contracts at the period-end were £1,321,000 and all contracts will be closed within the next year.

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

Capital risk management

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

18 Operating leases

Non-cancellable operating lease rentals are payable as follows

	31 December 2011 £000	30 June 2011 £000
Less than one year	85	88
Between one and five years	220	78
	<hr/>	<hr/>
	305	166
	<hr/>	<hr/>

The Company leased office premises under operating leases. During the period, £43,000 (year to 30 June 2011: £83,000) was recognised as an administrative expense in the income statement in respect of operating leases.

Notes (continued)

20 Ultimate parent company and controlling party

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

21. Commitments

The Company had no capital commitments at the period end (30 June 2011: £nil).

22. Guarantees

On 21st February 2011, a surety bond was arranged by the Ovo Energy Limited between Technical and Guarantee Company S A and the main gas supplier to the company. This bond covered mark to market calls on gas trades to a value of £2,000,000. On 16th April 2012 the expiry date of this bond was extended to 30th April 2013. In addition, a further bond to a value of £3,000,000 was obtained with an expiry date of 30th April 2013.

Ovo Energy Limited had granted fixed and floating charges in favour of Technical and General Guarantee Company SA in respect of these bonds.

The company's gas supplier irrevocably released Ovo Energy Limited from a bond with a value of £3,000,000 on the 22 November 2012 and from a bond with a value of £2,000,000 on 25 January 2013. The fixed and floating charges in favour of Technical and General Guarantee Company SA have also been satisfied.

The company was subject to a rent deposit deed in favour of L S Victoria Properties Limited dated 20 August 2012.

On 29 February 2012 the company granted a fixed and floating charge in favour of HSBC Bank Plc.

On 4 April 2012 the company granted a charge in favour of Macquarie Group Services Australia PTA Limited in respect of a rent deposit deed.