

Registration number: 06890795

# Ovo Energy Ltd

Annual Report and Financial Statements  
for the Year Ended 31 December 2014

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## **Ovo Energy Ltd**

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**Ovo Energy Ltd**  
**Company Information**

<b>Chairman</b>	Stephen Murphy
<b>Directors</b>	Stephen Fitzpatrick Stephen Murphy Christopher Houghton
<b>Company secretary</b>	Vinny Casey
<b>Registered office</b>	1 Rivergate Temple Quay Bristol BS1 6ED
<b>Independent Auditors</b>	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 2 Glass Wharf Bristol BS2 0FR

## Strategic Report

The directors present their strategic report for the year ended 31 December 2014.

### **OVO Energy 2014 Highlights: A Year of Innovation & Growth**

For OVO, the UK's leading independent energy supplier, and the tenth fastest growing private company in the UK, 2014 was a period of intense industry innovation and growth on all fronts, with the growth continuing in 2015.

#### **Surging Customer Growth**

In 2014, OVO tripled its customer numbers, expanding from 137,000 customers at the start of the year to 408,000 by year end, fuelled by a smart hedging strategy to take advantage of falling commodity prices and an aggressive brand marketing campaign. In September 2015, OVO hit the milestone of 500,000 customers and continues to target 1,000,000 customers by the end of 2017. In September 2015, OVO appointed Sarah Calcott to the newly-created role of Chief Operating Officer. Sarah Calcott is charged with being the operational driving force behind the company, ensuring it maintains its record for outstanding, end-to-end customer experience, industry innovation and growth. Sarah Calcott starts her new role in January 2016, joining OVO from eBay where she was most recently COO for the UK.

#### **Increased Revenues Fuel Growth**

Revenues in the period increased 91% from £171.7m at the end of December 2013 to £319.3m in December 2014. The costs associated with the extensive growth in customers (many of whom joined mid-year and had yet to contribute a full year of revenue), and related investments in OVO's industry-leading service levels, staff and technology innovation, resulted in an anticipated loss for the year before tax of £35.7m (31 December 2013: £0.1m).

#### **Pay As You Go Technology Disruption**

Entering the traditionally neglected pay as you go energy market in late 2014, OVO turned it on its head in early 2015 with the launch of its Smart PAYG+ offering. The service consigned the antiquated meter key and corner shop top-up trip to history by giving customers the option to top up via a mobile app, text or phone. As of September 2015 OVO has 69,000 PAYG customers.

#### **Investments**

In August 2015 the Group closed on £31 million of Series A funding from independent investment firm Mayfair Equity Partners.

#### **Power to Communities**

In 2014, Ovo began the process of bringing about a new route to market via OVO Communities, a ground-breaking out-of-the-box package of tools and support to enable local councils, housing associations and community groups to themselves become energy suppliers. OVO held discussions with various councils resulting in the Communities project launching successfully in April 2015. Uptake has been enthusiastic, with five partnership arrangements signed by the end of June 2015. The new model behind the Communities platform has also sparked intense political and industry debate around the democratisation and decentralisation of energy supply as a means of driving competition and bringing down energy bills. A strong pipeline of future projects is currently being progressed.

#### **Which is Best**

Alongside the tripling of customers numbers in 2014, OVO also received two important quality-related industry accolades. Built on a promise of transparency and leading customer service, in early 2015 it became the first and to-date only energy provider to gain Which Recommended status. OVO also places considerable significance on the quality of the employee experience and in 2014 it was ranked the 25th Best Company to Work For in the UK in the annual report by The Sunday Times.

### SMART Leadership

OVO has taken a bullish stance on the smart meter roll out, installing over 47,000 meters during 2014. By the end of June 2015, 109,000 meters had been installed. The Company has also taken the ambitious step of becoming a Meter Operator (MOP), thus securing better control and visibility of meter data, facilitating meter exchange processes and negating the need to outsource this service to third parties.

### Policy Outlook

In 2014, the Competition and Markets Authority ("CMA") began investigations into the practices of the UK energy market releasing Interim Findings in 2015. OVO considers the Interim Findings of the CMA Investigation to be broadly positive for customers and for the Company's business model. Notably:

- The Company has been unwavering in its opposition to the restrictive 'Four Tariff Rule' implemented in 2013. OVO therefore welcomes the CMA findings that the rule will now likely be abolished, creating opportunities to innovate and prove better value to customers.
- The introduction of a form of 'safeguard tariff', which if implemented and set at an appropriate level, could bring down prices for customers on variable rate tariffs. In direct contrast to the Big Six (which have between 50% and 90% of customers on these variable rates), OVO only had 14% of customers on this tariff at the end of 2014.
- Regulation to enforce energy suppliers to implement measures to prompt switching. This could incite mass switching away from incumbent suppliers to challengers such as OVO.

### Doing What's Best for the Customer

In 2014, OVO won its high-profile battle with energy regulator, Ofgem, to be permitted to continue offering 3% interest to customers with accounts in credit. At the same time, the Company made the decision to remove early termination fees in April 2014, preferring to rely on positive brand experience and loyalty (rather than penalty clauses) to retain its customers.

### Creating a Greener Future

OVO is committed to providing an affordable, mainstream green alternative for customers. Throughout 2014 and 2015 it has been reducing the amount of coal in its fuel mix while upping renewable energy. In April 2015, OVO doubled the percentage of energy supplied from renewable sources on its three standard tariffs from 15% to 33% - almost double the renewable content in the total UK fuel mix. In September 2015, it announced an innovative solution that enabled it to completely scrub coal from its fuel mix.

### Team, Systems & Processes

OVO's business model is to continuously invest ahead of growth, developing higher quality, scalable platforms for customers and staff, whilst continuously reducing cost to serve. 2014 and 2015 have seen significant investments in new management and customer support staff (247 people in January 2014 to 742 at the end of 2014), a new Salesforce CRM platform that will drive greater efficiency while enhancing OVO's leading levels of customer service, and a landmark head office in Bristol's regenerated Temple Meads area that was one of Bristol's largest commercial property deals of recent years.

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


	Unit	2014	2013
Customer numbers	No.	408,000	137,000
Cash	£'000	28,550	8,393
Annualised gross profit margin (before unrealised derivative gains/losses)	%	9.7	10.6

### 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 had no borrowing at year end 2014, the Director is careful to manage capital to ensure that the business grows in a sustainable manner. As a result, the group has secured long term debt just after year end which has been used to support the Company's growth plans.

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 24 September 2015 and signed on its behalf by:

  
.....  
Stephen Fitzpatrick  
Director

## Directors' Report

The directors present their report and the audited financial statements for the year ended 31 December 2014.

### Directors of the company

The director of the company who were in office during the year and up to the date of signing the financial statements was as follows:

Stephen Fitzpatrick

The following directors were appointed after the year end:

Stephen Murphy - Chairman (appointed 28 January 2015)

Christopher Houghton (appointed 28 January 2015)

### Dividends

The directors do not propose a dividend for the current year (2013: no dividends proposed).

### Financial instruments

The financial risk management objectives and policies of the Company and the assessment of the Company's exposure to price risk, credit risk, liquidity risk and capital risk management is discussed in note 24 of these financial statements.

### Charitable donations

During the year the company made charitable donations of £604,000 (31 December 2013: £579,000). Individual donations were:

	£
Rainforest protection	<u>600,000</u>

### Employment of disabled persons

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

### Employee involvement

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

### Future developments

The Company's financial performance continues in line with expectations and since the year end customer numbers have grown to excess of 408,000 by the beginning of January 2015. The Company has secured a new trading partner in the year, which is expected to facilitate the growth ambitions that the Group has.

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](http://www.ovoenergy.com).

### **Research and development**

The Company continues to develop its IT infrastructure, investing £5.7m in software development and licences for the year to 31 December 2014 (31 December 2013: £1.3m). The Company did not engage in research during the year (31 December 2013: £nil).

### **Going concern**

Whilst the Company made a loss for the year ending 31 December 2014, and has net liabilities, the financial statements have been prepared on a going concern basis as the director has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Further details are in note 2 of the financial statements.

### **Directors liabilities**

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force.

### **Statement of Directors' Responsibilities**

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the 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. They are 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.

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



**Disclosure of information to the auditor**

Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware.

Approved by the Board on 24 September 2015 and signed on its behalf by:

  
.....  
Stephen Fitzpatrick  
Director

## **Independent Auditors' Report to the members of Ovo Energy Ltd**

### **Report on the financial statements**

#### ***Our Opinion***

In our opinion, Ovo Energy Ltd's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2014 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with the International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### ***What we have audited***

The financial statements comprise:

- the Statement of Financial Position as at 31 December 2014;
- the Income Statement for the year then ended;
- the Statement of Cash Flows for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

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

#### **Opinion on other matter prescribed by the Companies Act 2006**

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

#### **Other matters on which we are required to report by exception**

##### ***Adequacy of accounting records and information and explanations received***

Under the Companies Act 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, 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.

We have no exceptions to report arising from this responsibility.

##### ***Directors' remuneration***

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

## Responsibilities for the financial statements and the audit

### *Our responsibilities and those of the directors*

As explained more fully in the Statement of Directors' Responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

### *What an audit of financial statements involves*

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

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

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

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

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



.....  
Paul Nott (Senior Statutory Auditor)  
For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors

Bristol

30 September 2015

Ovo Energy Ltd  
Income Statement  
For the Year Ended 31 December 2014

**Income Statement**

	Note	2014 £ 000	2013 £ 000
Revenue	3	319,302	171,678
Cost of sales		<u>(295,433)</u>	<u>(153,104)</u>
Gross profit		23,869	18,574
Administration expenses		(58,495)	(18,275)
Other (losses) / gains	4	<u>1,536</u>	<u>13</u>
Operating loss		<u>(33,090)</u>	<u>(96)</u>
Finance income		812	40
Finance costs		<u>(3,453)</u>	<u>(25)</u>
Net finance (costs) / income	6	<u>(2,641)</u>	<u>15</u>
Loss before tax		(35,731)	(81)
Taxation	9	<u>7,308</u>	<u>(179)</u>
Loss for the year		<u><u>(28,423)</u></u>	<u><u>(260)</u></u>

The above results were derived from continuing operations.

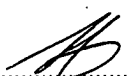
There is no other comprehensive income other than the loss for the year.

The notes on pages 14 to 42 form an integral part of these financial statements.

## Statement of Financial Position

	Note	2014 £ 000	2013 £ 000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	10	5,109	778
Intangible assets	11	5,552	1,854
Deferred tax assets	9	8,861	1,553
		<u>19,522</u>	<u>4,185</u>
<b>Current Assets</b>			
Inventories	15	1,102	-
Trade and other receivables	16	42,860	18,866
Cash and cash equivalents	17	29,618	8,393
		<u>73,580</u>	<u>27,259</u>
Total assets		<u>93,102</u>	<u>31,444</u>
<b>Current Liabilities</b>			
Trade and other payables	18	(46,678)	(14,779)
Derivative financial instruments	14	(623)	-
Deferred income		(81,830)	(24,414)
Provisions	21	(219)	(225)
		<u>(129,350)</u>	<u>(39,418)</u>
Total liabilities		<u>(129,350)</u>	<u>(39,418)</u>
Net liabilities		<u>(36,248)</u>	<u>(7,974)</u>
<b>Equity</b>			
Share capital	19	-	-
Share premium		50	50
Other reserves		152	3
Retained earnings		<u>(36,450)</u>	<u>(8,027)</u>
Total equity		<u>(36,248)</u>	<u>(7,974)</u>

The financial statements on pages 10 to 42 were approved by the Board of Directors on 24 September 2015 and signed on its behalf by:

  
.....  
Stephen Fitzpatrick  
Director

Ovo Energy Ltd  
Statement of Changes in Equity  
For the Year Ended 31 December 2014

**Statement of Changes in Equity**

	Share premium £ 000	Other reserve £ 000	Accumulated losses £ 000	Total equity £ 000
At 1 January 2013	50	2	(7,767)	(7,715)
Loss for the year	-	-	(260)	(260)
Total comprehensive expense	-	-	(260)	(260)
Share based payment transactions	-	1	-	1
At 31 December 2013	50	3	(8,027)	(7,974)

	Share premium £ 000	Other reserves £ 000	Accumulated losses £ 000	Total equity £ 000
At 1 January 2014	50	3	(8,027)	(7,974)
Loss for the year	-	-	(28,423)	(28,423)
Total comprehensive expense	-	-	(28,423)	(28,423)
Share based payment transactions	-	149	-	149
At 31 December 2014	50	152	(36,450)	(36,248)

The notes on pages 14 to 42 form an integral part of these financial statements.

## Statement of Cash Flows

	Note	2014 £ 000	2013 £ 000
<b>Cash flows from operating activities</b>			
Loss for the year		(28,423)	(260)
Adjustments to cash flows from non-cash items			
Depreciation and amortisation	5	2,540	1,074
Financial instrument net gains (losses) through profit and loss		623	(379)
Loss/(profit) on disposal of property plant and equipment	4	175	(13)
Loss on disposal of intangible assets	4	289	-
Finance income	6	(812)	(40)
Finance costs	6	3,453	25
Share based payment transactions		149	1
Income tax (credit)/charge	9	(7,308)	179
		(29,314)	587
Working capital adjustments			
(Increase)/decrease in inventories	15	(1,102)	823
Increase in trade and other receivables	16	(23,994)	(4,712)
Increase in trade and other payables	18	31,899	2,161
(Decrease)/increase in provisions	21	(6)	225
Increase in deferred income, including government grants		57,416	9,247
Net cash flow generated from operating activities		34,899	8,331
<b>Cash flows used in investing activities</b>			
Interest received	6	812	40
Acquisitions of property plant and equipment	10	(5,336)	(704)
Proceeds from sale of property plant and equipment		1	13
Acquisition of intangible assets	11	(5,698)	(1,284)
Net cash flows used in investing activities		(10,221)	(1,935)
<b>Cash flows used in financing activities</b>			
Interest paid	6	(3,453)	(25)
Proceeds from bank borrowing draw downs		8,000	-
Repayment of bank borrowing		(8,000)	-
Net cash flows used in financing activities		(3,453)	(25)
Net increase in cash and cash equivalents		21,225	6,371
Cash and cash equivalents at 1 January		8,393	2,022
Cash and cash equivalents at 31 December		29,618	8,393

The notes on pages 14 to 42 form an integral part of these financial statements.

## Notes to the Financial Statements

### 1 General information

The company is a private company limited by share capital incorporated and domiciled in United Kingdom.

The address of its registered office is:

1 Rivergate  
Temple Quay  
Bristol  
BS1 6ED  
United Kingdom

These financial statements were authorised for issue by the Board on 24 September 2015.

### 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 Company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are discussed in the 'Critical accounting estimates and judgements' section 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 Company's functional and the Company's presentation currency.

#### Going concern

Whilst the Company made a loss for the year ended 31 December 2014, and has net liabilities, the financial statements have been prepared on a going concern basis.

The Company meets its day-to-day working capital requirements through its bank facilities and the Shell facility.

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



## 2 Accounting policies (continued)

### Exemption from preparing group financial statements

The financial statements contain information about Ovo Energy Ltd as an individual company and do not contain consolidated financial information as the parent of a group.

The company is exempt 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 Ltd (previously Ovo Energy (Group) Ltd), a company incorporated in United Kingdom.

### Revenue recognition

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

Revenue from the supply of gas and electricity is a function of end user consumption (according to meter read 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 to the extent it can be matched against specific customer payments.

All revenue arose within the United Kingdom.

### Finance income and costs policy

Financing expense comprises interest payable on loans and is recognised in profit or loss using the effective interest method. Financing income comprises interest receivable on funds invested and on loans to group undertakings.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

### Tax

The tax expense for the period comprises current 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 company operates and generates taxable income.

## 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
IT hardware equipment	3 years straight line

## 2 Accounting policies (continued)

### Intangible assets

#### a) Trademarks and licenses

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

#### b) Computer software and licenses

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

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

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

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

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

### Amortisation

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

Asset class	Amortisation method and rate
IT software and internally developed software costs	3 years straight line
Trademarks and industry accreditation	Indefinite life

### Cash and cash equivalents

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

### Trade receivables

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

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

## 2 Accounting policies (continued)

### Inventories

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

### 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

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

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.

### Provisions

Provisions for environmental obligations, restructuring costs and legal claims are recognised when: the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

## 2 Accounting policies (continued)

### Leases

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

### Defined contribution pension obligation

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

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

### Employee benefits

The 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 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 Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. The Company 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 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.

## 2 Accounting policies (continued)

### Share based payments

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

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

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

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

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

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

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

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

## 2 Accounting policies (continued)

### Financial assets

#### *Classification*

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

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

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

#### (b) Loans and receivables

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

#### *Recognition and measurement*

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

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'Cost of sales' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Company's right to receive payments is established.

## 2 Accounting policies (continued)

### **Impairment**

#### **(a) Assets carried at amortised cost**

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

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

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

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

#### **Impairment of non-financial assets**

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



## 2 Accounting policies (continued)

### Derivatives and hedging

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.

### Changes in accounting policy

None of the standards, interpretations and amendments effective for the first time from 1 January 2014 have had a material effect on the financial statements.

None of the standards, interpretations and amendments which are effective for periods beginning after 1 January 2014 and which have not been adopted early, are expected to have a material effect on the financial statements.

## 2 Accounting policies (continued)

### 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 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.

#### 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 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 Company will generate sustainable profits and therefore a deferred tax asset has been recognised.

### 3 Revenue

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

	2014 £ 000	2013 £ 000
Sale of gas and electricity	<u>319,302</u>	<u>171,678</u>

### 4 Other gains and losses

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

	2014 £ 000	2013 £ 000
(Loss)/gain on disposal of property, plant and equipment	(175)	13
Gain on disposal of intangible assets	(289)	-
Profit from sale of brand	<u>2,000</u>	<u>-</u>
	<u>1,536</u>	<u>13</u>

### 5 Operating loss

Arrived at after charging

	2014 £ 000	2013 £ 000
Depreciation expense	829	392
Amortisation expense	1,711	682
Operating lease expense - property	<u>1,071</u>	<u>538</u>

### 6 Finance income and costs

	2014 £ 000	2013 £ 000
<b>Finance income</b>		
Interest income on bank deposits	812	40
<b>Finance costs</b>		
Interest on bank overdrafts and borrowings	<u>(3,453)</u>	<u>(25)</u>
Net finance (costs)/income	<u>(2,641)</u>	<u>15</u>

## 7 Staff costs

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

	2014 £ 000	2013 £ 000
Wages and salaries	16,541	8,581
Social security costs	1,480	725
Other pension costs	249	30
Share-based payment expenses	149	1
Other employee expense	200	37
	<u>18,619</u>	<u>9,374</u>

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

	2014 No.	2013 No.
Administration and support	108	91
Sales, marketing and distribution	344	156
	<u>452</u>	<u>247</u>

There was one Director during the year (31 December 2013: One). Director's remuneration and salary cost is recognised in the Company up to September 2014 and in Ovo Group Ltd (previously Ovo Energy (Group) Limited) from October 2014 to December 2013. The Director's remuneration for the year ending 31 December 2014 in total was £124,000 (31 December 2013: £121,000).

## 8 Auditors' remuneration

	2014 £ 000	2013 £ 000
Audit of these financial statements	<u>40</u>	<u>34</u>
<b>Other fees to auditors</b>		
Audit-related assurance services	11	-
Taxation compliance services	25	17
All other tax advisory services	12	65
The audit of other companies in the Group	<u>45</u>	<u>16</u>
	<u>93</u>	<u>98</u>

## 9 Income tax

Tax (credited)/charged in the income statement

	2014 £ 000	2013 £ 000
<b>Deferred taxation</b>		
Arising from origination and reversal of temporary differences	<u>(7,308)</u>	<u>179</u>

The tax on profit before tax for the year is higher than the standard rate of corporation tax in the UK (2013 - higher than the standard rate of corporation tax in the UK) of 21.5% (2013 - 23.25%).

The differences are reconciled below:

	2014 £ 000	2013 £ 000
Loss before tax	<u>(35,731)</u>	<u>(81)</u>
Corporation tax at standard rate	(7,682)	(19)
Effect of revenues exempt from taxation	(272)	-
Effect of expense not deductible in determining taxable profit (tax loss)	-	47
Deferred tax expense relating to changes in tax rates or laws	618	151
Decrease in UK and foreign current tax from adjustment for prior periods	(122)	(140)
Corporation tax losses surrendered to fellow group companies	<u>150</u>	<u>140</u>
Total tax (credit)/charge	<u>(7,308)</u>	<u>179</u>

The main rate of UK corporation tax for the year to 31 March 2014 was 23%, reducing to 21% for the year to 31 March 2015.

In addition to the changes in rates of Corporation tax disclosed above, further changes to the UK Corporation tax rates were announced in the March 2013 Budget. These changes have reduced the main rate of corporation tax to 20% from 1 April 2015 and were enacted as part of Finance Act 2013. The relevant deferred tax balances have been remeasured accordingly.

Changes to the UK corporation tax rates were announced in the Chancellor's Budget on 8 July 2015. These include reductions to the main rate to reduce the rate to 19% from 1 April 2017 and to 18% from 1 April 2020. As the changes had not been substantively enacted at the balance sheet date their effects are not included in these financial statements. The overall effect of these changes, if they had applied to the deferred tax balance at the balance sheet date, would be to reduce the deferred tax asset by an additional £443,000.

**9 Income tax (continued)**

**Deferred tax**

Deferred tax assets and liabilities

	Asset £ 000	Liability £ 000	Net deferred tax £ 000
<b>2014</b>			
Tax losses carry-forwards	8,768	-	8,768
Accelerated tax depreciation	-	(48)	(48)
Derivatives	124	-	124
Pension benefit obligations	17	-	17
	<u>8,909</u>	<u>(48)</u>	<u>8,861</u>

	Asset £ 000
<b>2013</b>	
Tax losses carry-forwards	1,534
Accelerated tax depreciation	19
Derivatives	-
Pension benefit obligations	-
	<u>1,553</u>

**9 Income tax (continued)**

Deferred tax movement during the year:

	At 1 January 2014 £ 000	Recognised in income £ 000	At 31 December 2014 £ 000
Tax losses carry-forwards	1,534	7,234	8,768
Accelerated tax depreciation	19	(67)	(48)
Derivatives	-	124	124
Pension benefit obligations	-	17	17
Net tax assets/(liabilities)	<u>1,553</u>	<u>7,308</u>	<u>8,861</u>

Deferred tax movement during the prior year:

	At 1 January 2013 £ 000	Recognised in income £ 000	At 31 December 2013 £ 000
Tax losses carry-forwards	1,521	13	1,534
Accelerated tax depreciation	211	(192)	19
Derivatives	-	-	-
Pension benefit obligations	-	-	-
Net tax assets/(liabilities)	<u>1,732</u>	<u>(179)</u>	<u>1,553</u>

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable.

**10 Property, plant and equipment**

	Leasehold property £ 000	Fixtures, fittings and office equipment £ 000	Total £ 000
<b>Cost or valuation</b>			
At 1 January 2013	254	635	889
Additions	<u>273</u>	<u>431</u>	<u>704</u>
At 31 December 2013	527	1,066	1,593
Additions	4,140	1,196	5,336
Disposals	<u>(380)</u>	<u>(470)</u>	<u>(850)</u>
At 31 December 2014	<u>4,287</u>	<u>1,792</u>	<u>6,079</u>
<b>Accumulated Depreciation</b>			
At 1 January 2013	141	282	423
Charge for year	<u>143</u>	<u>249</u>	<u>392</u>
At 31 December 2013	<u>284</u>	<u>531</u>	<u>815</u>
At 1 January 2014	284	531	815
Charge for the year	397	432	829
Eliminated on disposal	<u>(343)</u>	<u>(331)</u>	<u>(674)</u>
At 31 December 2014	<u>338</u>	<u>632</u>	<u>970</u>
<b>Carrying amount</b>			
At 31 December 2014	<u>3,949</u>	<u>1,160</u>	<u>5,109</u>
At 31 December 2013	<u>243</u>	<u>535</u>	<u>778</u>
At 1 January 2013	<u>113</u>	<u>353</u>	<u>466</u>



**11 Intangible assets**

	IT software and internally generated software costs £ 000	Trademarks and industry accreditation £ 000	Total £ 000
<b>Cost or valuation</b>			
At 1 January 2013	2,045	80	2,125
Additions	862	422	1,284
At 31 December 2013	2,907	502	3,409
Additions	5,696	2	5,698
Disposals	(612)	-	(612)
At 31 December 2014	7,991	504	8,495
<b>Accumulated Amortisation</b>			
At 1 January 2013	873	-	873
Amortisation charge	672	10	682
At 31 December 2013	1,545	10	1,555
Amortisation charge	1,610	101	1,711
Amortisation eliminated on disposals	(323)	-	(323)
At 31 December 2014	2,832	111	2,943
<b>Carrying amount</b>			
At 31 December 2014	5,159	393	5,552
At 31 December 2013	1,362	492	1,854
At 1 January 2013	1,172	80	1,252

## 11 Intangible assets (continued)

The amortisation charge of £1,711,000 (31 December 2013: £682,000) 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.

## 12 Investments

On 31 August 2009, the Company acquired all the ordinary shares of both Ovo Electricity Ltd and Ovo Gas Ltd for nil consideration. The Company owns all 10,000 ordinary shares, of £0.01, in each subsidiary. Pursuant to Section 400 of the Companies Act 2006, the Company is exempt from the obligation to prepare and deliver group accounts as the Company is included in the consolidated accounts of Ovo Group Ltd (previously Ovo Energy (Group) Ltd).

Details of the subsidiaries as at 31 December 2014 and 31 December 2013 are as follows:

Name of subsidiary	Principal activity	Country of incorporation and principal place of business	Proportion of ownership interest and voting rights held	
			2014	2013
Ovo Electricity Ltd	Procurement and sale of electricity from the wholesale markets and renewable sources	UK	100%	100%
Ovo Gas Ltd	Supply of gas and related services	UK	100%	100%

### 13 Exceptional item

The exceptional items recognised in the prior year relate to the closure and relocation of one of the Company's offices, the total costs of £408,000 in the prior year comprises of:

	2014 £ 000	2013 £ 000
Personnel related costs	-	150
Office cost	-	33
Onerous lease provision	-	225
	<u>-</u>	<u>408</u>

### 14 Derivatives

	2014 £ 000	2013 £ 000
<b>Current financial liabilities</b>		
Derivatives	<u>623</u>	<u>-</u>

### 15 Inventories

	2014 £ 000	2013 £ 000
Renewable Obligation Certificates	<u>1,102</u>	<u>-</u>

### 16 Trade and other receivables

	2014 £ 000	2013 £ 000
Trade receivables	13,281	8,194
Provision for impairment of trade receivables	<u>(7,573)</u>	<u>(2,952)</u>
Net trade receivables	5,708	5,242
Receivables from related parties	390	-
Loans to related parties	12,296	2,873
Accrued income	12,151	6,078
Prepayments	635	791
Other receivables	<u>11,680</u>	<u>3,882</u>
Total current trade and other receivables	<u>42,860</u>	<u>18,866</u>

## 16 Trade and other receivables (continued)

The fair value of those trade and other receivables classified as financial instrument loans and receivables are disclosed in note 23 "Financial instruments".

The company's exposure to credit and market risks, including impairments and allowances for credit losses, relating to trade and other receivables is disclosed in note 24 "Financial risk management and impairment of financial assets".

## 17 Cash and cash equivalents

	2014 £ 000	2013 £ 000
Cash at bank	<u>29,618</u>	<u>8,393</u>

## 18 Trade and other payables

	2014 £ 000	2013 £ 000
Trade payables	11,810	2,791
Accrued expenses	31,691	6,386
Amounts due to related parties	3,133	5,588
Social security and other taxes	<u>44</u>	<u>14</u>
	<u>46,678</u>	<u>14,779</u>

The fair value of the trade and other payables classified as financial instruments are disclosed in note 23 "Financial instruments".

The company's exposure to market and liquidity risks, including maturity analysis, related to trade and other payables is disclosed in note 24 "Financial risk management and impairment of financial assets".

## 19 Share capital

### Allotted, called up and fully paid shares

	2014		2013	
	No.	£	No.	£
Ordinary share capital of £0.01 each	12,500	125	12,500	125

## 20 Obligations under leases and hire purchase contracts

### Operating leases

The company leases two offices in Bristol and London under non-cancellable operating lease agreements. The lease terms are between 3 and 4 years.

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

	2014 £ 000	2013 £ 000
Within one year	924	185
In two to five years	2,305	551
	<u>3,229</u>	<u>736</u>

The amount of non-cancellable operating lease payments recognised as an expense during the year was £1,104,000 (2013 - £538,000)

## 21 Provisions

	Onerous contracts £ 000	Dilapidations provisions £ 000	Total £ 000
At 1 January 2014	225	-	225
Additional provisions	-	219	219
Provisions used	<u>(225)</u>	<u>-</u>	<u>(225)</u>
At 31 December 2014	<u>-</u>	<u>219</u>	<u>219</u>
Current liabilities	<u>-</u>	<u>219</u>	<u>219</u>

## 22 Commitments

### Capital commitments

The Company had no capital commitments at the year end (31 December 2013: £nil).

The total amount contracted for but not provided in the financial statements was £Nil (31 December 2013 - £Nil).

## 23 Financial instruments

### Financial assets

#### Loans and receivables

	Carrying value		Fair value	
	2014 £ 000	2013 £ 000	2014 £ 000	2013 £ 000
Cash and cash equivalents	29,618	8,393	29,618	8,393
Trade and other receivables	41,119	16,867	41,119	16,867
	<u>70,737</u>	<u>25,260</u>	<u>70,737</u>	<u>25,260</u>

#### *Valuation methods and assumptions*

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

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

	Carrying value		Fair value	
	2014 £ 000	2013 £ 000	2014 £ 000	2013 £ 000
Power and Gas commodity	<u>623</u>	<u>-</u>	<u>623</u>	<u>-</u>

#### *Valuation methods and assumptions*

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

#### *Financial liabilities at amortised cost*

	Carrying value		Fair value	
	2014 £ 000	2013 £ 000	2014 £ 000	2013 £ 000
Trade and other payables	<u>46,634</u>	<u>14,765</u>	<u>46,634</u>	<u>14,765</u>

#### *Valuation methods and assumptions*

The fair value of the 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 the short maturities, the fair value of the trade and other payables approximates to their book value.

## **24 Financial risk management and impairment of financial assets**

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

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

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

### **Credit risk and impairment**

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

The carrying amount of financial assets represents the maximum credit exposure. Therefore, the maximum exposure to credit risk at the balance sheet date was £70,737,000 (31 December 2013: £25,260,000) being the total of the carrying amount of financial assets, excluding equity investments, which include trade receivables and accrued income, derivative financial assets and cash. All the receivables are with parties in the UK.

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

**24 Financial risk management and impairment of financial assets (continued)**

**Past due and impaired financial assets**

*Allowances for impairment by credit losses*

	<b>Loans and receivables £ 000</b>
<b>2014</b>	
At start of year	2,952
Additional impairment for credit losses	<u>4,621</u>
At end of year	<u><u>7,573</u></u>
	<b>Loans and receivables £ 000</b>
<b>2013</b>	
At start of year	1,610
Additional impairment for credit losses	<u>1,342</u>
At end of year	<u><u>2,952</u></u>



## 24 Financial risk management and impairment of financial assets (continued)

### 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
<b>2014</b>					
Loans and receivables	<u>38,752</u>	<u>4,204</u>	<u>380</u>	<u>380</u>	<u>7,573</u>

	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
<b>2013</b>					
Loans and receivables	<u>16,992</u>	<u>335</u>	<u>1,539</u>	<u>1,539</u>	<u>2,952</u>

### Market risk

#### Commodity price risk

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.

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 year-end were £623,000 (31 December 2013: £nil).

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.

## 24 Financial risk management and impairment of financial assets (continued)

### Liquidity risk

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

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

The biggest threat to the Company's liquidity is the potential for it to have to place margin calls against forward contracts for electricity and gas purchases. Such payments could be required if the wholesale market price of gas and electricity fell below the price of the forward contract. A new gas supplier arrangement requires a fixed cash deposit without the need for additional margin calls against market movements. Margin calls with other suppliers are made out of working capital in the form of cash deposits. The Group manages its cash resources to ensure it has sufficient funds to meet all expected demands as they fall due.

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

### Maturity analysis

	Within 1 year £ 000	Total £ 000
<b>2014</b>		
Trade and other payables	46,678	46,678
	<u>46,678</u>	<u>46,678</u>
	Within 1 year £ 000	Total £ 000
<b>2013</b>		
Trade and other payables	14,779	14,779
	<u>14,779</u>	<u>14,779</u>

### Capital risk management

#### Capital components

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

## 25 Related party transactions

### Key management personnel

Key management includes directors and members of the Group management team. In October 2014, the Group management team were employed in Ovo Group Ltd (previously Ovo Energy (Group) Ltd). The compensation paid or payable to key management for employee services to Ovo Energy Ltd is shown below.

## 25 Related party transactions (continued)

### Key management compensation

	2014 £ 000	2013 £ 000
Salaries and other short term employee benefits	<u>1,742</u>	<u>1,159</u>

### Summary of transactions with key management

The director of the Company directly controls 15% per cent of the voting shares of the Company. The director and his immediate relatives also own 100% of the share capital of Ovo Group Ltd; which owns the remaining 85% of the Company's shares

### Summary of transactions with parent

During the year the Company provided loan funding to Ovo Group Ltd (previously Ovo Energy (Group) Ltd) (immediate parent) of £4,535,000 (31 December 2013: £nil). The loan incurs an interest charge of 10% annually on the capital balance, the total interest receivable for the year was £340,000 (31 December 2013: £nil). As at 31 December 2014, Ovo Group Ltd (previously Ovo Energy (Group) Ltd) owed the Company £4,875,000 (31 December 2013: £nil).

### Summary of transactions with subsidiaries

During the year the Company traded with Ovo Electricity Ltd (subsidiary) and made purchases of electricity totalling £73,749,000 (31 December 2013: £71,501,000). As at 31 December 2014, the balance due to Ovo Electricity Ltd was £2,683,000 (31 December 2013: £3,340,000). During the year the Company also provided management functions to Ovo Electricity Ltd, total charges in the year were £161,000 (31 December 2013: £553,000). As at 31 December 2014 there were no balances due from Ovo Electricity Ltd (31 December 2013: £nil).

During the year the Company traded with Ovo Gas Ltd (subsidiary) and made purchases of gas totalling £2,203,000 (31 December 2013: £1,914,000). As at 31 December 2014, the balance due to Ovo Gas Ltd was £145,000 (31 December 2013: £207,000). During the year the Company also provided management functions to Ovo Gas Ltd, total charges in the year were £161,000 (31 December 2013: £39,000). As at 31 December 2014 there were no balances due from Ovo Gas Ltd (31 December 2013: £nil).

### Summary of transactions with other related parties

During the year the Company provided loan funding to In Home Technology Limited of £641,000 (31 December 2013: £nil). The loan incurs an interest charge of 10% annually on the capital balance, the total interest receivable for the year was £33,000 (31 December 2013: £nil). As at 31 December 2014 In Home Technology Limited owed the Company £674,000 (31 December 2013: £nil). During the year the Company also received services from In Home Technology Limited for the provision of meter related services of £299,000 (31 December 2013: £nil). As at 31 December 2014 the balance owing to In Home Technology Limited by the Company was £56,000 (31 December 2013: £nil).

During the year the Company provided loan funding to Smart Meter Assets 1 Ltd of £6,869,000 (31 December 2013: £nil). The loan incurs an interest charge of 10% annually on the capital balance, the total interest receivable for the year was £313,000 (2013: £nil). As at 31 December 2014, Smart Meter Assets 1 Ltd owed the Company £7,182,000 (31 December 2013: £nil). During the year the Company also received services from Smart Meter Assets 1 Ltd for the rental of smart meters of £466,000 (31 December 2013: £nil). As at 31 December 2014 the balance owing to Smart Meter Assets 1 Ltd by the Company was £466,000 (31 December 2013: £nil).

**26 Parent and ultimate parent undertaking**

The company's immediate parent is Ovo Group Ltd (previously Ovo Energy (Group) Ltd).

The ultimate parent is Imagination Industries Limited. These financial statements are available upon request from the registered office shown in note 1.

The ultimate controlling party is Stephen Fitzpatrick.