

Registration number: 06890795

Ovo Energy Ltd

Annual Report and Financial Statements

for the Year Ended 31 December 2017



Ovo Energy Ltd

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Ovo Energy Ltd
Company Information

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

Strategic Report for the Year Ended 31 December 2017

The directors present their strategic report for the year ended 31 December 2017.

Introduction

OVO grew out of the belief that there was a better way to sell energy. We set out to build a company people could trust; a company that would simplify buying energy and offer fair and transparent pricing, underpinned by unrivaled customer service.

Our work is far from complete, but during the past eight years we have built a brand people value and trust. OVO Group now has more than 1m customers. From humble beginnings in a barn in Gloucestershire we have become the UK's largest independent energy company.

When OVO launched in 2009 it was unheard of for energy companies to offer fair pricing and a straightforward customer experience. Through these simple innovations we challenged the dominance of the Big Six and set the standard for new entrants to the market. But being 'better' is no longer the differentiator it once was and customers now expect more value from their energy company.

The energy industry also faces great changes, driven by the falling cost of renewables and increasing digitisation. As we look forward to further advances in battery technology, the rise of connected devices and the electrification of heat and transport, only companies that offer diversified, smart services will thrive. For this reason we have continued to invest in the future.

Smart homes

At OVO we were quick to see the potential of smart energy services. We championed the smart meter rollout, setting up our own Field Force team to take the OVO brand from the virtual to the physical as our highly-trained engineers to install smart meters in customers' homes. More than 55% of our customers now have a smart meter.

Smart meters are a step on the path to an intelligent and sustainable energy network that will free us from our dependence on fossil fuels. They enable the adoption of game-changing technologies that will transform the way we live and consume energy. We will provide our customers with an effortless transition to smart homes, offering the installation, management and maintenance of smart energy solutions including solar panels, smart boilers, smart thermostats and in-home batteries.

The customer is always in the room

Today OVO is no longer simply an energy retail business: it is a group of dynamic companies that are harnessing technological advances to offer exciting solutions to existing and future customers. We always ask ourselves what our customers value, and how technology can meet their needs and expectations. Our evolution into a smart energy company is ultimately about building lasting and trusted relationships by providing an excellent user experience.

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

Smart Supply - OVO Energy

The global energy market is moving rapidly towards a new era of digitisation, and decentralised clean power generation which will place more control in the hands of consumers. It means that the opportunities to provide greater value to customers - beyond simply supplying kilowatt hours - have increased exponentially, and that the energy retail market will change beyond recognition.

OVO has positioned itself at the forefront of this change and is well placed to capitalise on opportunities as the business evolves from a top-rated energy retailer to a multi-service, multi-brand energy technology company.

As OVO changes, customers will increasingly benefit from new products and services that harness the disruptive power of technology.

Customers already enjoy many of the benefits of rapid digitisation. The 'My OVO' website provides a simple way to manage energy accounts online. Cutting edge products such as OVO Live - a platform that receives data from smart meters every six seconds - provide customers with unprecedented access to information about their own energy consumption. Recent updates to OVO Live include disaggregation monitoring, which pinpoints the energy usage of individual household appliances. This provides a new level of transparency for customers and helps them to manage their energy use accordingly.

The determination to use technology to allow customers to take charge of their energy use, together with fair pricing and unrivalled customer service, has placed OVO Energy at the top of the Which? Customer Satisfaction Survey for the second year in a row. OVO was also named the World's Best Energy Brand at the CHARGE Awards in 2016 and scooped eleven awards at the 2016 USwitch Awards.

Intelligent trading

OVO Energy's trading team has developed a number of tools in-house to purchase commodities as efficiently as possible and reduce trading risks. This helps us to manage the 3.1 Terrawatt hours of electricity and 8.9 Terrawatt hours of gas OVO Energy purchases every year, passing on savings from intelligent trading through reduced customer bills.

The proprietary demand forecasting model combines regression and machine learning algorithms that analyse data on usage and weather patterns to calculate OVO Energy's share of Elexon's standard demand profile, all to a high degree of accuracy. This tool is essential for avoiding volatile and potentially expensive 'cash out' penalties, minimising wholesale costs.

Mass penetration of smart meters and a move towards half hourly settlement has considerably improved both the quantity and quality of data available to suppliers. OVO Energy now has accurate live data of real-time usage, which creates a direct link between the cost of supplying electricity to a customer, and how and when they use it.

Smart ideas - OVO Foundation

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

OVO Foundation is funded partly from customer donations, and partly from the OVO business: at the end of 2017, 81,000 customers donated to OVO Foundation each month.

Key Financial and Performance Indicators

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

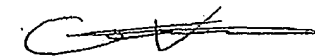
	Unit	2017	2016
Customer numbers	No.	779,000	676,000
Cash	£'000	50,526	25,944
Annualised gross profit margin	%	15.8	14.1

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 2017, the Directors are 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. 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 28 June 2018 and signed on its behalf by:



Vincent Casey
Director

Directors' Report

The directors present their report and the audited financial statements for the year ended 31 December 2017.

Directors' of the company

The directors of the company who were in office during the year and up to the date of signing the financial statements were:

Stephen Fitzpatrick

Stephen Murphy - Chairman

Christopher Houghton

Niall Wass

Sarah Calcott (resigned 20 March 2017)

Jonathan Owen (resigned 25 January 2018)

The following director was appointed after the year end:

Vincent Casey (appointed 8 June 2018)

Dividends

The directors do not propose a dividend for the current year (2016: 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 23 of these financial statements.

Charitable donations

During the year the company made charitable donations of £867,000. Individual donations were:

The OVO Charitable Foundation	£ 867,000
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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 prior year.

Future developments

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

Research and development

The Company continues to develop its IT infrastructure, investing £1.9m in software development and licences for the year to 31 December 2017 (2016: £7.5m). The Company did not engage in research during the year (2016: £nil).

Going concern

The Company made a loss for the year ending 31 December 2017 and has net liabilities. The financial statements have been prepared on a going concern basis as the directors have 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 in respect of the financial statements

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

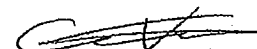
Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the 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. The directors 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. In the case of each director in office at the date the Directors' Report is approved:

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

The financial statements on pages 10 to 39 were approved by the Board of Directors on 28 June 2018 and signed on its behalf by:



Vincent Casey
Director

Independent Auditors' Report to the members of Ovo Energy Ltd

Report on the audit of the financial statements

Our Opinion

In our opinion, Ovo Energy Ltd's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2017; the income statement, the statement of cash flows, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Ovo Energy Ltd
Independent Auditors' Report
Independent Auditors' Report to the members of Ovo Energy Ltd
for the Year Ended 31 December 2017 (continued)

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

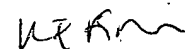
Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



Katharine Finn (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP, Statutory Auditor

2 Glass Wharf
Bristol
BS2 0FR

28 June 2018

Ovo Energy Ltd
Income Statement
For the Year Ended 31 December 2017

Income Statement
For the year ended 31 December 2017

	Note	2017 £ 000	2016 £ 000
Revenue	3	762,521	685,203
Cost of sales		<u>(637,120)</u>	<u>(588,475)</u>
Gross profit		125,401	96,728
Administrative expenses		<u>(119,561)</u>	<u>(113,528)</u>
Operating profit/(loss)	4	<u>5,840</u>	<u>(16,800)</u>
Finance income		213	120
Finance costs		<u>(1,543)</u>	<u>(2,079)</u>
Net finance cost	5	<u>(1,330)</u>	<u>(1,959)</u>
Profit/(loss) before tax		4,510	(18,759)
Income tax (expense)/income	9	<u>(1,274)</u>	<u>1,876</u>
Profit/(loss) for the year		<u><u>3,236</u></u>	<u><u>(16,883)</u></u>

The above results were derived from continuing operations.

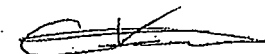
There is no other comprehensive income other than the profit for the year.

Ovo Energy Ltd
(Registration number: 06890795)
Statement of Financial Position as at 31 December 2017

Statement of Financial Position
As at 31 December 2017

	Note	31 December 2017 £ 000	31 December 2016 £ 000
Assets			
Non-current assets			
Property, plant and equipment	10	2,738	4,199
Intangible assets	11	6,811	8,269
Deferred tax assets	9	13,309	14,355
		<u>22,858</u>	<u>26,823</u>
Current assets			
Trade and other receivables	13	86,907	53,814
Cash and cash equivalents	14	50,526	25,944
		<u>137,433</u>	<u>79,758</u>
Total assets		<u>160,291</u>	<u>106,581</u>
Current liabilities			
Trade and other payables		(167,839)	(113,480)
Income tax liability		(228)	-
Deferred income		(70,027)	(74,950)
Provisions	19	(740)	(551)
		<u>(238,834)</u>	<u>(188,981)</u>
Net liabilities		<u>(78,543)</u>	<u>(82,400)</u>
Equity			
Share premium		50	50
Other reserves		1,629	1,008
Accumulated losses		(80,222)	(83,458)
Total equity		<u>(78,543)</u>	<u>(82,400)</u>

The financial statements on pages 10 to 39 were approved by the Board on 28 June 2018 and signed on its behalf by:



.....
Vincent Casey
Director

Ovo Energy Ltd
Statement of Changes in Equity
For the Year Ended 31 December 2017

Statement of Changes in Equity
For the year ended 31 December 2017

	Share premium £ 000	Share based payment reserve £ 000	Accumulated losses £ 000	Total £ 000
At 1 January 2016	50	490	(66,575)	(66,035)
Loss for the year	-	-	(16,883)	(16,883)
Share based payment transactions	-	518	-	518
At 31 December 2016	<u>50</u>	<u>1,008</u>	<u>(83,458)</u>	<u>(82,400)</u>

	Share premium £ 000	Share based payment reserve £ 000	Accumulated losses £ 000	Total £ 000
At 1 January 2017	50	1,008	(83,458)	(82,400)
Profit for the year	-	-	3,236	3,236
Share based payment transactions	-	621	-	621
At 31 December 2017	<u>50</u>	<u>1,629</u>	<u>(80,222)</u>	<u>(78,543)</u>

Ovo Energy Ltd
Statement of Cash Flows
For the Year Ended 31 December 2017

Statement of Cash Flows
for the year ended 31 December 2017

	Note	2017 £ 000	2016 £ 000
Cash flows from operating activities			
Profit/(loss) for the year		3,236	(16,883)
Adjustments to cash flows from non-cash items			
Depreciation and amortisation	4	7,124	10,045
Finance income	5	(213)	(120)
Finance costs	5	1,543	2,079
Share based payment transactions		621	518
Income tax expense / (credit)	9	1,274	(1,876)
		<u>13,585</u>	<u>(6,237)</u>
Working capital adjustments			
Decrease in inventories		-	78
Increase in trade and other receivables	13	(33,093)	(18,512)
Increase in trade and other payables		54,359	29,917
Increase in provisions	19	189	178
Decrease in deferred income, including government grants		<u>(4,923)</u>	<u>(13,195)</u>
Net cash flow generated from/(used in) operating activities		<u>30,117</u>	<u>(7,771)</u>
Cash flows from investing activities			
Interest received	5	213	120
Acquisitions of property plant and equipment		(1,453)	(2,524)
Acquisition of intangible assets	11	<u>(2,752)</u>	<u>(7,471)</u>
Net cash flows used in investing activities		<u>(3,992)</u>	<u>(9,875)</u>
Cash flows from financing activities			
Interest paid	5	<u>(1,543)</u>	<u>(2,079)</u>
Net increase/(decrease) in cash and cash equivalents		24,582	(19,725)
Cash and cash equivalents at 1 January		<u>25,944</u>	<u>45,669</u>
Cash and cash equivalents at 31 December		<u><u>50,526</u></u>	<u><u>25,944</u></u>

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 28 June 2018.

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

The Company made a loss for the year ended 31 December 2017 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 arrangement enables OVO to purchase commodity in advance in the forward markets, providing a hedge against its commitments to customers. The Shell commodity purchasing arrangement gives rise to a variable liability to Shell which is a combination of accounts payable and future purchase commitments secured on some the cash of Ovo Energy Limited.

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)

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.

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, a company incorporated in 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.

Foreign currency transactions and balances

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the respective functional currency of the entity at the rates prevailing on the reporting period date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the initial transaction dates.

Non-monetary items measured in terms of historical cost in a foreign currency are not retranslated.

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

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.

Provisions

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that the group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

Leases

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

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.

2 Accounting policies (continued)

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.

Share based payments

Ovo Group Ltd operates a number of equity-settled, share based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of Ovo Group Ltd. 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, Ovo 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, Ovo 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 Ovo Group Ltd of options over their equity instruments to the employees of subsidiary undertakings in the Group (such as to employees of Ovo Energy Ltd) is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity financial statements.

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.

The Company applies the same accounting treatment for share based payments as Ovo Group Ltd.

2 Accounting policies (continued)

Financial assets

Classification

The Group 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 Group'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 Group 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.

Impairment

(a) Assets carried at amortised cost

The Group 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.

2 Accounting policies (continued)

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 Group 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.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration that may be paid by an acquirer as part of a business combination to which IFRS 3 applies, (ii) held for trading, or (iii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the profit and loss account.

2 Accounting policies (continued)

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

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 2017 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 2017 and which have not been adopted early, are expected to have a material effect on the financial statements.

2 Accounting policies (continued)

New standards, interpretations and amendments not yet effective

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

IFRS 9

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost; fair value through other comprehensive income; and fair value through profit or loss.

The basis of classification depends on the entity's business model and the contractual-cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income, not recycling. An expected credit losses model replaces the incurred loss impairment model used in IAS 39. For financial liabilities, there are no changes to classification and measurement, except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss.

IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright-line hedge effectiveness tests. To qualify for hedge accounting, it requires an economic relationship between the hedged item and hedging instrument, and for the 'hedged ratio' to be the same as the one that management actually uses for risk management purposes. Contemporaneous documentation is still required, but it is different from that currently prepared under IAS 39. There is an accounting policy choice to continue to account for all hedges under IAS 39. IFRS 9 is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted.

The group is working towards the implementation of IFRS 9 on 1 January 2018. Based on a high level review it anticipates that the classification and measurement basis for its financial assets and liabilities will be largely unchanged by adoption of IFRS 9, and expects to take the accounting policy choice to continue to account for all hedges under IAS 39. The main impact of adopting IFRS 9 is likely to arise from the implementation of the expected loss model. Currently the impact on accumulated losses / profit for future periods is not expected to be material.

IFRS 15

IFRS 15, 'Revenue from contracts with customers', deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. Variable consideration is included in the transaction price if it is highly probable that there will be no significant reversal of the cumulative revenue recognised when the uncertainty is resolved.

The standard replaces IAS 18, 'Revenue', and IAS 11, 'Construction contracts', and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018, and earlier application is permitted.

The group is working towards the implementation of IFRS 15 on 1 January 2018 and has carried out a high level review of existing contractual arrangements as part of this process. The directors currently anticipate there will be no material impact for the energy retail revenue streams.

2 Accounting policies (continued)

IFRS 16

IFRS 16, 'Leases', addresses the definition of a lease, recognition and measurement of leases, and it establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet for lessees.

The standard replaces IAS 17, 'Leases', and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2019, and earlier application is permitted, subject to EU endorsement and the entity adopting IFRS 15, 'Revenue from contracts with customers', at the same time.

The group is working towards the implementation of IFRS 16 on 1 January 2019. Management are still reviewing the expected impact of the implementation of this new standard.

Critical estimates and judgements

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

Revenue recognition - 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.

Ovo Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

3 Revenue

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

	2017	2016
	£ 000	£ 000
Sale of gas and electricity	726,110	665,707
Intercompany referral fee	29,905	19,359
Other revenue	6,506	137
	<u>762,521</u>	<u>685,203</u>

4 Operating profit/(loss)

Arrived at after charging

	2017	2016
	£ 000	£ 000
Depreciation expense	2,914	2,780
Amortisation expense	4,210	7,265
Operating lease expense - property	<u>1,903</u>	<u>1,168</u>

5 Finance income and costs

	2017	2016
	£ 000	£ 000
Finance income		
Interest income on bank deposits	213	120
Finance costs		
Interest on bank overdrafts and borrowings	<u>(1,543)</u>	<u>(2,079)</u>
Net finance costs	<u>(1,330)</u>	<u>(1,959)</u>

6 Staff costs

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

	2017	2016
	£ 000	£ 000
Wages and salaries	37,617	32,557
Social security costs	3,635	3,226
Pension costs, defined contribution scheme	784	690
Share-based payment expenses	621	518
Other employee expense	418	495
	<u>43,075</u>	<u>37,486</u>

6 Staff costs (continued)

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

	2017 No.	2016 No.
Administration and support	295	203
Sales, marketing and distribution	804	889
	<u>1,099</u>	<u>1,092</u>

There were seven Directors during the year (2016: Six). Directors' remuneration and salary cost is recognised in Ovo Group Ltd. The Directors' emoluments for the year ending 31 December 2017 were £1,082,000 (2016: £1,019,000). The highest paid Director's emoluments totalled £409,000 (2016: £341,000)

7 Directors' remuneration

The directors' remuneration for the year was as follows:

	2017 £ 000	2016 £ 000
Contributions paid to money purchase schemes	<u>17</u>	<u>19</u>

8 Auditors' remuneration

	2017 £ 000	2016 £ 000
Audit of the financial statements	<u>80</u>	<u>75</u>
Other fees to auditors		
The audit of other companies in the Group	80	51
Audit-related assurance services	13	9
Taxation compliance services	<u>50</u>	<u>27</u>
	<u>143</u>	<u>87</u>

Ovo Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

9 Taxation

Tax charged/(credited) in the income statement

	2017 £ 000	2016 £ 000
Current taxation		
Total tax	<u>1,274</u>	<u>(1,876)</u>

The tax on profit/(loss) for the year is higher than the standard rate of corporation tax in the UK (2016 - higher than the standard rate of corporation tax in the UK) of 19.25% (2016 - 20%).

The differences are reconciled below:

	2017 £ 000	2016 £ 000
Profit/(loss) before tax	<u>4,510</u>	<u>(18,759)</u>
Corporation tax at standard rate	868	(3,752)
Increase (decrease) from effect of expenses not deductible in determining taxable profit (tax loss)	485	358
Increase (decrease) from effect of unrelieved tax losses carried forward	(132)	-
Deferred tax expense relating to changes in tax rates or laws	53	986
Decrease in UK and foreign current tax from adjustment for prior periods	-	(909)
Corporation tax losses surrendered to fellow group companies not payable	<u>-</u>	<u>1,441</u>
Total tax charge/(credit)	<u>1,274</u>	<u>(1,876)</u>

The main rate of UK corporation tax for the year to 31 March 2016 was 20%, reducing to 19% in the year to 31 March 2017.

At Summer Budget 2015, the government announced legislation setting the corporation tax main rate at 19% for the years starting 1 April 2017, 2018 and 2019 and at 18% for the year starting 1 April 2020. At Budget 2016, the government announced a further reduction to the corporation tax main rate (for all profits except ring fenced profits) for the year starting 1 April 2020, setting the rate at 17%. The deferred tax balance has been presented in accordance with these enacted rates.

9 Taxation (continued)

Deferred tax

Deferred tax assets and liabilities

	Asset £ 000
2017	
Tax losses carry-forwards	12,509
Accelerated tax depreciation	800
Pension benefit obligations	-
	<u>13,309</u>

Deferred tax movement during the year:

	At 1 January 2017 £ 000	Recognised in income £ 000	At 31 December 2017 £ 000
Tax losses carry-forwards	13,729	(1,220)	12,509
Accelerated tax depreciation	626	175	800
Pension benefit obligations	-	-	-
Net tax assets/(liabilities)	<u>14,355</u>	<u>(1,045)</u>	<u>13,310</u>

Deferred tax movement during the prior year:

	At 1 January 2016 £ 000	Recognised in income £ 000	At 31 December 2016 £ 000
Tax losses carry-forwards	12,465	1,264	13,729
Accelerated tax depreciation	(8)	634	626
Pension benefit obligations	22	(22)	-
Net tax assets/(liabilities)	<u>12,479</u>	<u>1,876</u>	<u>14,355</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
Cost or valuation			
At 1 January 2016	5,291	2,558	7,849
Additions	976	1,548	2,524
At 31 December 2016	<u>6,267</u>	<u>4,106</u>	<u>10,373</u>
Additions	839	614	1,453
At 31 December 2017	<u>7,106</u>	<u>4,720</u>	<u>11,826</u>
Accumulated Depreciation			
At 1 January 2016	1,964	1,430	3,394
Charge for year	1,778	1,002	2,780
At 31 December 2016	<u>3,742</u>	<u>2,432</u>	<u>6,174</u>
Charge for the year	1,906	1,008	2,914
At 31 December 2017	<u>5,648</u>	<u>3,440</u>	<u>9,088</u>
Carrying amount			
At 31 December 2017	<u>1,458</u>	<u>1,280</u>	<u>2,738</u>
At 31 December 2016	<u>2,525</u>	<u>1,674</u>	<u>4,199</u>
At 1 January 2016	<u>3,327</u>	<u>1,128</u>	<u>4,455</u>

11 Intangible assets

	Internally generated software development costs £ 000	Trademarks and industry accreditations £ 000	Total £ 000
Cost or valuation			
At 1 January 2016	13,860	504	14,364
Additions	7,471	-	7,471
Disposals	(4,568)	-	(4,568)
At 31 December 2016	<u>16,763</u>	<u>504</u>	<u>17,267</u>
Transfers	419	(419)	-
Additions	<u>2,752</u>	<u>-</u>	<u>2,752</u>
At 31 December 2017	<u>19,934</u>	<u>85</u>	<u>20,019</u>
Accumulated Amortisation			
At 1 January 2016	6,157	144	6,301
Amortisation charge	7,232	33	7,265
Amortisation eliminated on disposals	(4,568)	-	(4,568)
At 1 January 2017	<u>8,821</u>	<u>177</u>	<u>8,998</u>
Transfers	177	(177)	-
Amortisation charge	<u>4,210</u>	<u>-</u>	<u>4,210</u>
At 31 December 2017	<u>13,208</u>	<u>-</u>	<u>13,208</u>
Carrying amount			
At 31 December 2017	<u>6,726</u>	<u>85</u>	<u>6,811</u>
At 31 December 2016	<u>7,942</u>	<u>327</u>	<u>8,269</u>
At 1 January 2016	<u>7,703</u>	<u>360</u>	<u>8,063</u>

The amortisation charge of £4,210,000 (31 December 2016: £7,265,000) 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.

Ovo Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

12 Investments in subsidiaries, joint ventures and associates

Details of the subsidiaries as at 31 December 2017 are as follows:

Name of subsidiary	Principal activity	Registered office	Proportion of ownership interest and voting rights held	
			2017	2016
Ovo Electricity Ltd*	Procurement and sale of UK electricity from the wholesale markets and renewable sources	UK	100%	100%
Ovo Gas Ltd*	Supply of gas and related services	UK	100%	100%
OVO Insurance Services Ltd*	Activities auxiliary to financial intermediation not elsewhere classified	UK	100%	0%

* indicates direct investment of Ovo Energy Ltd.

The registered offices of all subsidiaries listed above is the same as for Ovo Energy Ltd.

13 Trade and other receivables

	31 December 2017 £ 000	31 December 2016 £ 000
Trade receivables and accrued income	78,962	60,651
Provision for impairment of trade receivables and accrued income	(40,286)	(24,397)
Net trade receivables	38,676	36,254
Receivables from related parties	29,296	6,149
Loans to related parties	2,979	4,714
Prepayments	4,584	2,603
Other receivables	11,372	4,094
	<u>86,907</u>	<u>53,814</u>

The fair value of those trade and other receivables classified as financial instrument loans and receivables are disclosed in note 22 "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 23 "Financial risk management and impairment of financial assets".

Ovo Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

14 Cash and cash equivalents

	31 December 2017	31 December 2016
	£ 000	£ 000
Cash at bank	<u>50,526</u>	<u>25,944</u>

15 Trade and other payables

	31 December 2017	31 December 2016
	£ 000	£ 000
Trade payables	53,225	30,584
Accrued expenses	76,556	57,712
Amounts due to related parties	36,140	25,184
Social security and other taxes	985	-
Other payables	933	-
	<u>167,839</u>	<u>113,480</u>

The fair value of the trade and other payables classified as financial instruments are disclosed in note 22 "Financial instruments".

The company's exposure to market and liquidity risks, including maturity analysis, related to trade and other payables is disclosed in note 23 "Financial risk management and impairment of financial assets".

16 Share capital and reserves

Allotted, called up and fully paid shares

	31 December 2017	31 December 2016
	No.	No.
	£	£
Ordinary share capital of £0.01 each	<u>12,500</u>	<u>12,500</u>
	<u>125.00</u>	<u>125.00</u>

Nature and purpose of reserves

Share-based payments

The share-based payments reserve is used to recognise the value of equity-settled share-based payments provided to employees, including key management personnel, as part of their remuneration.

All other reserves are as stated in the statement of changes in equity.

17 Obligations under leases and hire purchase contracts

Operating leases

The company leases five offices, all in Bristol and London, under non-cancellable operating lease agreements. The lease terms are between 2 and 3 years.

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

	31 December 2017 £ 000	31 December 2016 £ 000
Within one year	2,230	1,823
In two to five years	7,089	9,318
	<u>9,319</u>	<u>11,141</u>

The amount of non-cancellable operating lease payments recognised as an expense during the year was £1,902,976 (2016 - £1,540,000)

18 Pension and other schemes

Defined contribution pension scheme

The company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the company to the scheme and amounted to £784,000 (2016 - £690,000).

19 Provisions

	Dilapidations provisions £ 000	Total £ 000
At 1 January 2017	551	551
Additional provisions	189	189
At 31 December 2017	<u>740</u>	<u>740</u>
Current liabilities	<u>740</u>	<u>740</u>

20 Commitments

Capital commitments

The total amount contracted for but not provided in the financial statements was £Nil (2016 - £Nil).

21 Contingent liabilities

Ofgem has launched an investigation into OVO's estimation of customers' energy usage during winter 2016-17 and the general accuracy of its annual consumption figures in customers' annual statements. This investigation was launched in February 2018 and Ofgem has led OVO to believe that it may take over a year to complete. OVO has recently completed the first round of information requests and is waiting to hear further from Ofgem. OVO anticipates that if it is found to be at fault then the remedy will most likely be a financial penalty. OVO does not anticipate this investigation impacting its ability to supply energy or grow its customer base in any way.

22 Financial instruments

Financial assets

Loans and receivables

	Carrying value		Fair value	
	31 December 2017 £ 000	31 December 2016 £ 000	31 December 2017 £ 000	31 December 2016 £ 000
Cash and cash equivalents	50,526	25,944	50,526	25,944
Trade and other receivables	47,581	29,167	47,581	29,167
	<u>98,107</u>	<u>55,111</u>	<u>98,107</u>	<u>55,111</u>

Valuation methods and assumptions

Loans and receivables:

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

Financial liabilities

Financial liabilities at amortised cost

	Carrying value		Fair value	
	31 December 2017 £ 000	31 December 2016 £ 000	31 December 2017 £ 000	31 December 2016 £ 000
Trade and other payables	<u>167,839</u>	<u>121,189</u>	<u>167,839</u>	<u>121,189</u>

Valuation methods and assumptions

Financial liabilities at amortised cost

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.

23 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 Directors and the 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 £98,107,000 (31 December 2016: £55,111,000) 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.

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

Past due and impaired financial assets

Allowances for impairment by credit losses

	Loans and receivables £ 000
2017	
At start of year	24,397
Additional impairment for credit losses	15,889
At end of year	<u>40,286</u>
	Loans and receivables £ 000
2016	
At start of year	11,886
Additional impairment for credit losses	12,511
At end of year	<u>24,397</u>

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
2017					
Loans and receivables	<u>16,127</u>	<u>20,901</u>	<u>40,286</u>	<u>78,734</u>	<u>40,286</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
2016					
Loans and receivables	<u>15,499</u>	<u>16,836</u>	<u>24,397</u>	<u>56,733</u>	<u>24,397</u>

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

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 £nil (31 December 2016: £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.

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 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.

The Company manages its cash resources to ensure it has sufficient funds to meet all expected demands as they fall due.

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.

24 Related party transactions

Key management personnel

Key management includes directors and members of the Group management team. Their remuneration is paid by Ovo Group Ltd whom recharge a management charge to the Company.

Summary of transactions with parent entities

During the year the Company received loan funds from its immediate parent, OVO Group Ltd, of £1,974,000 (2016 - £4,400,000). The loan incurred an interest charge on the capital balance of 7% (2016: 10%); the total interest paid in the year was £1,181,000 (2016: £1,465,000). As at 31 December 2017, the balance outstanding was £19,587,000 (2016: £16,433,000).

During the year the Company was charged management charges by OVO Group Ltd for the provision of management personnel of £2,019,000 (2016 - £2,036,000). The costs are included in the balance outstanding above.

During the year Imagination Industries Limited (ultimate parent company) charged OVO Energy Ltd brand royalty fees totalling £3,625,000 (2016 - £3,333,000). As at 31 December 2017 the Company owed Imagination Industries Limited £1,266,000 (2016: £444,000). In the year the Company has surrendered tax losses to Imagination Industries Limited of £nil (2016 - £2,423,000).

Summary of transactions with subsidiaries

During the year the Company traded with Ovo Electricity Ltd (subsidiary) and made sales of electricity totalling £129,089,000 (2016 - £118,437,000) and made purchases of electricity totalling £132,321,000 (2016 - £121,647,000). The Company also provided management services to Ovo Electricity Ltd of £284,000 (2016 - £279,000). As at 31 December 2017, the total balance due to Ovo Electricity Ltd was £10,514,000 (2016 - £7,608,000).

During the year the Company traded with Ovo Gas Ltd (subsidiary) and made sales of gas of £15,206,000 (2016 - £11,865,000) and made purchases of gas totalling £15,662,000 (2016 - £12,221,000). The Company also provided management services to Ovo Gas Ltd of £142,000 (2016 - £139,000). As at 31 December 2017 the total amount owing to Ovo Gas Ltd was £664,000 (2016 - £350,000).

24 Related party transactions (continued)

Summary of transactions with other related parties

During the year In Home Technology Limited repaid the net funding the Company provided to it and provided net loan funding to the Company. This was a total movement of £8,061,000 (2016 - £4,560,000). The loan incurred interest charges at 7% annually on the capital balance at the end of each month (2016: 10%), the total interest charged by In Home Technology Limited in the year was £46,000 (2016: Interest receivable - £621,000).

Due to the sale of Smart Meter Assets 1 Ltd in 2016, the Company didn't pay for any provision related services to In Home Technology Ltd in the year (2016: £50,000).

In the current year, the Company charged In Home Technology Limited a fee for each customer referred for a smart meter installation totalling £29,905,000 (2016 - £19,359,000).

During the year the Company provided loan funding to Ovo Technology Limited. This was for £1,966,000 (2016 - £nil). The loan incurred interest charges at 7% annually on the capital balance at the end of each month. The total interest charged by in the year was £54,000 (Interest receivable 2016 - £nil).

25 Parent and ultimate parent undertaking

The company's immediate parent is Ovo 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 smallest consolidated statements that incorporate Ovo Energy Ltd are those of Ovo Group Ltd, which are available upon request from the registered office shown in Note 1.

The largest consolidated statements that incorporate Ovo Energy Ltd are those of Imagination Industries Limited, which are available upon request from the registered office shown in Note 1.

The ultimate controlling party is Stephen Fitzpatrick.