

Registration number: 06890468

Imagination Industries Ltd

Annual Report and Consolidated Financial Statements

for the Year Ended 31 December 2020

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Imagination Industries Ltd

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Imagination Industries Ltd

Company Information

Directors	Stephen Fitzpatrick Vincent Casey
Registered office	140-142 Kensington Church Street London United Kingdom W8 4BN
Independent Auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 2 Glass Wharf Bristol BS2 0FR

Imagination Industries Ltd

Strategic Report for the Year Ended 31 December 2020

The Directors present their strategic report for the year ended 31 December 2020.

Strategic Report

Business Overview

The Imagination Industries Group comprises the OVO Group and other non-energy related investments. Non-energy related investments include Vertical Aerospace and Just 3 Things which were both disposed of during the year. The OVO Group makes up 100% of the revenue of the Imagination Industries Group, and 99% of the Imagination Industries Group's Total assets.

OVO Group are a collection of companies with a single vision: to power human progress with clean affordable energy for everyone. Guided by Plan Zero, we are transforming our business in order to create a world without carbon. We commit to achieving net zero carbon emissions across our own operations by 2030 and building the UK's best place to work. We also commit to helping our customers halve their total lifestyle carbon emissions and eliminate their household emissions completely by 2030.

Since our foundation in 2009, OVO became symbolic of a new model in retail energy - promising cheaper, greener, simpler energy. This position was dramatically boosted in 2020 with the acquisition of SSE's energy retail business, increasing overall customer numbers across our Group's brands to 4.5 million.

At the same time as we have been building our customer base, we have been heavily investing in energy technologies that will be central to a zero carbon future. In Kaluza, we have built a world-leading software platform that fundamentally redesigns how we can manage energy, centred around the customer, while at the same time transitioning to net zero.

Today, OVO is a digitally native technology and services company enabling consumer energy decarbonisation on a national scale.

2020 Strategic update

2020 has been a transformational year for OVO Group, achieving a 221% growth in our customer base from 1.4m to 4.5m due to the acquisition of SSE Energy Services.

During the period, OVO Group turnover increased by 208% from £1,449m to £4,460m and our gross margin increased by 4 from 10% to 14%.

OVO Group's principal strategy for the year focused on customer retention as we integrated SSE Energy Services into the OVO family. The coronavirus meant we had to navigate lockdown restrictions whilst seeking to optimise SMART installs and maintain service for customers to support them through the pandemic.

The coronavirus pandemic has changed the way consumers engage with their energy providers and think about their homes. Many of our customers have permanently changed their behaviour and are increasingly going online and using digital tools to serve themselves. During 2020 we saw an increase in the number of our members engaging with us online through digital channels.

Many have also learnt that they can work from home and may be considering how to work more flexibly in the future. Their appreciation of a safe, low carbon home has never been greater.

The Group plans to continue investing through system capability and enhancing the operating model to support a larger customer base in the future.

Imagination Industries Ltd

Strategic Report for the Year Ended 31 December 2020 (continued)

Zero carbon homes

Creating carbon cutting technology for our homes is crucial in the fight against climate change, which is why we're on a mission to engage our members on how this technology can add value to their homes whilst reducing their carbon emissions and their bills too.

Momentum in SMART stalled slightly due to the coronavirus, despite continuing to install in all regions in line with regulations to take all reasonable steps to roll out smart meters to our customers.

OVO was chosen by the UK Government to lead one of the UK's largest Zero Carbon Heating trials to demonstrate a practical and low cost solution to creating net-zero homes in the UK. OVO Energy and partners - Kaluza, Sunamp, Retrofit Works and Parity Projects were granted £4.2m of government funding to install up to £15,000 worth of technology in customers' homes. The trial aims to help the UK reduce emissions from residential heating, the largest single source of emissions at over 20% of the UK's total carbon emissions.

Kaluza

Energy companies across the world are racing to solve how to decarbonise their systems. They're simultaneously solving how to store and manage the abundance of low cost renewable power, and navigate the market volatility of demand spikes.

2020 saw the Kaluza platform continue to power some of OVO Energy's customer operations in the UK, bringing their decarbonisation journey to life and helping them understand the power they have to make positive change.

Working to support the energy transition to a renewable, more flexible zero carbon grid, the platform is now providing residential flexibility services to Western Power Distribution through intelligent charging of sonnen batteries.

With the UK Government agreeing to ban the sale of new Internal Combustion Engine (ICE) vehicles from 2035, Kaluza has also been investing in EV charging technology, securing partnerships with Bosch and Fiat Chrysler Automobiles to bring direct-to-car smart charging to the EV industry.

International

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

OVO has established business units supplying energy to customers in France, Spain and Australia. Each business has continued to grow well, delivering green energy to thousands of customers at low cost, and with exceptional customer service ratings. We have also begun to offer innovative new technology offerings adapted to each market, such as OVO Spain's solar + battery proposition. We have also started to develop international partnerships, with ENI's investment in OVO France, and AGL's investment in OVO Australia (described below).

Imagination Industries Ltd

Strategic Report for the Year Ended 31 December 2020 (continued)

Key Financial and Performance Indicators

The Group made a loss of £142m for the year ended 31 December 2020 (2019: loss of £113m) and has net liabilities of £187m (2019: net liabilities of £38m).

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

	Unit	2020	2019
Customer numbers	No.	4,500,000	1,377,000
Cash	£ m	54	32
Annualised gross profit margin	%	14	10
EBITDA*	£ m	99	(82)

*EBITDA is defined as operating loss, after adjusting for depreciation, amortisation, impairment and exceptional items (i.e. expenses or credits that are deemed unusual by nature and/or scale and significance). See below for reconciliation of EBITDA to statutory results.

The Company's net assets at 31 December 2020 were £32m (2019: £29m). The Company recognised a profit of £3m in the year (2019: profit of £20m).

Reconciliation to statutory results	2020	2019
	£m	£m
Group operating loss	(115)	(111)
Add: Exceptional items*	110	-
Add: Depreciation and non-exceptional impairment of property, plant and equipment and right-of-use assets	24	7
Add: Amortisation and impairment of intangible assets	80	22
Adjusted EBITDA	99	(82)

Subsequent events since the end of the reporting period

Sale of Large Power Metering business

On 25 February 2021, the Group publicly announced the decision of its Board of Directors to sell its Large Power Metering business, which was a line of business within OVO (S) Metering Limited, a wholly owned subsidiary.

The sale completed on 6 April 2021, within a year from the reporting date. At 31 December 2020, the Large Power Metering business was classified as a disposal group held for sale. See Note 20.

Partnership with AGL Energy

In March 2021 we announced a joint venture with AGL, Australia's largest energy retailer and generator to bring digital energy services to Australia.

As part of the agreement, AGL will invest in OVO Energy Australia to adapt the Kaluza platform for Australia and serve a growing customer base with innovative products and services. The companies will work together, drawing on their expertise in low-carbon innovation and energy retail, to develop digital customer experiences that may ultimately help support AGL's customers who are looking to reduce their costs and carbon emissions through innovative products and services.

Imagination Industries Ltd

Strategic Report for the Year Ended 31 December 2020 (continued)

Streamlined Energy and Carbon Reporting Framework Regulations

OVO Group is subject to the Streamlined Energy and Carbon Reporting Framework Regulations (SECR). We therefore report our energy consumption and associated greenhouse gas emissions figures for the year ended 31 December 2019 (prior year) and the year ended 31 December 2020 (current year), an intensity ratio and information relating to our energy and greenhouse gas emissions reduction actions.

Energy consumption figures - OVO Group

Area	Energy source	Unit	2019 energy consumption		2020 energy consumption	
			UK	Group*	UK	Group*
Building energy consumption	Natural gas	kWh	5,930,884	5,944,536	5,713,972	5,717,284
	Diesel	kWh	628,063	628,063	527,471	527,710
	Electricity	kWh	11,458,112	11,493,165	9,184,680	9,199,692
	District heating and cooling	kWh	-	5,741	-	-
Fleet energy consumption	Diesel	kWh	38,752,377	38,752,377	22,158,509	22,158,509
	Petrol	kWh	2,218,608	2,218,608	2,079,611	2,079,611
	Electric	kWh	82,693	82,693	178,170	178,170
Business travel energy consumption**	Diesel	kWh	N/A	N/A	750,801	750,801
	Petrol	kWh	N/A	N/A	544,129	544,129
	Hybrid	kWh	N/A	N/A	4,083	4,083
	Plug-in hybrid	kWh	N/A	N/A	80	80
	Unspecified	kWh	N/A	N/A	210,391	210,391
Total energy consumption		kWh	59,070,737	59,125,183	41,351,897	41,370,460

During the 2020 reporting period, OVO Group Ltd underwent a significant structural change following the acquisition of OVO (S) Energy Services Ltd (trading as 'SSE Energy Services'). In line with GHG protocol guidance, the base year (2018) energy data were recalculated to include SSE Energy Services for the entire year. The prior year (2019) and current year (2020) energy data were also recalculated for the entire year to maintain consistency with the base year recalculation.

* Group inclusive of UK and International.

** Business travel data was collected from 1st January 2020 onwards.

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Strategic Report for the Year Ended 31 December 2020 (continued)

Greenhouse gas emissions figures

Emissions scope	Area	Emissions source	Unit	2019 greenhouse gas emissions		2020 greenhouse gas emissions	
				UK	Group*	UK	Group*
Scope 1 emissions	Building energy consumption	Natural gas	Tonnes CO2e	1,090	1,093	1,051	1,051
		Diesel	Tonnes CO2e	159	159	133	133
	Fugitive emissions	R410A	Tonnes CO2e	14	14	124	124
		R407C	Tonnes CO2e	4	4	8	8
	Fleet energy consumption	Diesel	Tonnes CO2e	9,502	9,502	5,332	5,332
		Petrol	Tonnes CO2e	518	518	477	477
	Total Scope 1 emissions		Tonnes CO2e	11,287	11,290	7,125	7,125
Scope 2 emissions	Building energy consumption	Electricity (Location-based)	Tonnes CO2e	2,933	2,948	2,141	2,144
		Electricity (Market-based)	Tonnes CO2e	424	442	275	277
		District heating and cooling (Location-based)	Tonnes CO2e	-	3	-	3
		District heating and cooling (Market-based)	Tonnes CO2e	-	3	-	3
	Fleet energy consumption	Electricity	Tonnes CO2e	21	21	42	42
	Total Scope 2 emissions (Location-based)		Tonnes CO2e	2,954	2,972	2,183	2,186
	Total Scope 2 emissions (Market-based)		Tonnes CO2e	445	466	317	322
Total Scope 1 and Scope 2 emissions	Total Scope 1 and Scope 2 emissions (Location-based)		Tonnes CO2e	14,241	14,262	9,308	9,311^
	Total Scope 1 and Scope 2 emissions (Market-based)		Tonnes CO2e	11,732	11,755	7,442	7,444^
	Total Scope 1 and Scope 2 emissions intensity relative to revenue (Location-based)		Tonnes CO2e/£ m	N/A	N/A	2	2
	Total Scope 1 and Scope 2 emissions intensity relative to revenue (Market-based)		Tonnes CO2e/£ m	N/A	N/A	1.67	1.67

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Strategic Report for the Year Ended 31 December 2020 (continued)

Emissions scope	Area	Emissions source	Unit	2019 greenhouse gas emissions		2020 greenhouse gas emissions	
				UK	Group*	UK	Group*
Scope 3 emissions	Building energy consumption**	Diesel	Tonnes CO2e	N/A	N/A	191	191
		Petrol	Tonnes CO2e	N/A	N/A	131	131
		Hybrid	Tonnes CO2e	N/A	N/A	1	1
		Plug-in hybrid	Tonnes CO2e	N/A	N/A	-	-
		Unspecified	Tonnes CO2e	N/A	N/A	52	52
		Total Scope 3 emissions	Tonnes CO2e	N/A	N/A	375	375
Revenue	OVO Group Ltd revenue***		£ m	N/A	N/A	4,455	4,459

During the 2020 reporting period, OVO Group Ltd underwent a significant structural change following the acquisition of OVO (S) Energy Services Ltd (trading as 'SSE Energy Services'). In line with GHG protocol guidance, the base year (2018) emissions data were recalculated to include SSE Energy Services for the entire year. The prior year (2019) and current year (2020) emissions data were also recalculated for the entire year to maintain consistency with the base year recalculation.

* Group inclusive of UK and International.

** Business travel data was collected from 1st January 2020 onwards.

*** 2019 revenue and carbon intensity data have not been reported due to a lack of comparable SSE Energy Services revenue data for reporting periods prior to the acquisition.

^ PricewaterhouseCoopers LLP (PwC) was engaged to provide independent limited assurance over selected information in the Annual Accounts for the year ended 31 December 2020. Information that is within PwC's limited assurance scope is marked with the symbol ^. See PwC's Assurance Statement here: www.ovo.com/sustainability-assurance-report/.

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Strategic Report for the Year Ended 31 December 2020 (continued)

Performance

Our absolute Scope 1 and Scope 2 market-based emissions and location-based emissions decreased by 37% and 35% respectively between 2019 and 2020.

Energy and greenhouse gas emissions reduction actions

2020 was a challenging year in which we had to rapidly adjust our operations as a result of the SSE Energy Services acquisition and coronavirus pandemic.

Our operations grew significantly with the acquisition of SSE Energy Services in January 2020. In 2020, our main focus was integrating SSE Energy Services operations into our operations and establishing a complete energy consumption and greenhouse gas data set including our newly acquired business. We have recalculated our 2018 baseline, 2019 and 2020 data and started updating our energy and science-based carbon reduction targets to include SSE Energy Services operations. Now that we have a view of SSE Energy Services' energy and greenhouse gas emissions impact, we are developing a roadmap for improvement.

Our operations were further impacted by the coronavirus pandemic. Due to the national lockdown restrictions, we moved the vast majority of our people to remote working from home and temporarily closed some of our offices, resulting in changes in building energy use patterns. Energy reductions from site closures and low occupancy were partially offset by energy use to maintain temperatures and meet coronavirus CIBSE ventilation guidance. During the year, we also reduced smart-meter installations and field engineering operations to emergency works only to keep our customers and our people safe, resulting in a decrease in fleet energy use.

Although disruption to our operations had a knock-on effect on our ability to roll out some of our energy efficiency and vehicle electrification initiatives (which are part of our Plan Zero sustainability strategy), we took some important steps forward in developing our strategies and building capacity to reinvigorate action in 2021.

Property

We have continued shifting our offices where we have control over supply to renewable electricity tariffs. We also rolled out a new building energy management platform, which provides us with active and continuous building energy use data to help us identify and drive efficiencies.

We joined The Climate Group's EP100 initiative, a coalition of companies committed to improving energy productivity. We have set ourselves an ambitious target to double energy productivity across our operations by 2030.

Fleet

In 2020 our fleet grew from approximately 300 to 2,000 vehicles with the acquisition of SSE Energy Services. All the vehicles inherited from SSE were diesel, which has significantly expanded the scale of our electrification challenge - something that we're determined to make progress on, in line with our goal to fully electrify the fleet by 2025. Despite disruption to field operations caused by the pandemic, we made solid progress on electrifying OVO Energy's fleet, with the addition of 40 new electric vehicles (EVs), bringing OVO Energy's fleet to 43% electric by the end of 2020. In our combined OVO SSE fleet, we have 8.6% EVs.

In parallel, we introduced enhanced telematics tracking across both our OVO Energy and SSE Energy Services fleet. Our new telematics system gives us visibility of vehicle analytics data such as utilisation and mileage - which will help us identify drivers who would benefit from fuel-efficient driver training or switching to an EV.

We also joined two important industry initiatives to help accelerate the shift from internal combustion engines to EVs. We became a signatory of The Climate Group's EV100 initiative, joining over 100 other companies worldwide who are committed to going fully electric in their vehicle fleet. As part of our EV100 commitment, we also committed to installing EV charging points at all of our offices by 2030 to enable more of our people to commute using their own electric vehicles. We also became a member of the UK Electric Fleets Coalition - a group of leading companies advocating for accelerating the transition to EVs in the UK.

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Strategic Report for the Year Ended 31 December 2020 (continued)

Business travel

There has been a significant reduction in business travel in 2020 and 2021 as a result of the coronavirus pandemic. As the lockdown eases, we will ensure that business travel resumes in a sustainable way, in line with the sustainability clause in our Travel and Expenses Policy.

Customers

Our most significant source of carbon emissions is the energy we sell to customers. We will include an update on our emissions from customer home energy use in our Plan Zero 2020 progress report due to be published in late 2021.

Corporate governance statement

In early 2020, OVO Group Ltd acquired OVO (S) Electricity Limited as part of the acquisition of SSE's household retail business. In this reporting period, OVO (S) Electricity Limited met the qualifying conditions for providing a statement of corporate governance arrangements as set out in The Companies (Miscellaneous Reporting) Regulations 2018. As an investment holding company, Imagination Industries Ltd have delegated the corporate governance arrangements and day to day management to an OVO Group Board in which the Imagination Industries Ltd directors make recommendations.

Prior to the acquisition of OVO (S) Electricity Limited, the approach to corporate governance taken by OVO Group Ltd was felt to be appropriate for its size and scope. As part of the steps to integrate SSE's household retail business, the Group corporate governance approach has been reviewed.

The OVO Group Ltd Board (the "OVO Group Board") recognises the need to develop and enhance its corporate governance framework to reflect the changes to the business following the SSE acquisition, and the Board will apply The Wates Corporate Governance Principles For Large Private Companies from 2021 and in subsequent years.

Purpose and leadership

OVO's vision is to power human progress with clean, affordable energy for everyone. Plan Zero sets out our purpose - to drive progress to zero carbon living - and our strategy for achieving this. We recognise our role in leading the transition from fossil fuels to renewable energy, and in building an energy system fit for a more sustainable and renewable future. The Board of Directors is committed to fulfilling our purpose, and overseeing OVO's strategy to achieve it in a way that is ethical, responsible and creates long term value for all of our stakeholders.

OVO has a set of three values which underpin our culture and that help our business grow, prosper and successfully deliver on the ambitions set out in Plan Zero.

- **Find a Better Way** - We always look for a better way, whether that's by delivering a better service, employing brilliant people or improving our products and processes.
- **Do What's Right** - Being open, honest and fair is one of the values which applies to everything we do. We take pride in talking to our customers and delivering exceptional work.
- **Build Something Great** - Simple solutions aren't quick or easy to find. They take time and tenacity. Our people work to find an answer that helps us 'build something great'.

Imagination Industries Ltd

Strategic Report for the Year Ended 31 December 2020 (continued)

Director responsibilities

As an investment holding company, Imagination Industries Ltd have delegated the corporate governance arrangements and day to day management to an Ovo Group Board on which the Imagination Industries Ltd directors make recommendations.

OVO has a governance and leadership structure in place which provides a clear framework for oversight and decision making for commercial and functional leaders, that ensures we can deliver on the ambitions set out in Plan Zero, drive commercial performance and oversee the operations of each of our businesses.

Directors are aware of their responsibilities under The Companies Act 2006 as well as their wider legal obligations and the requirements of sector specific regulation in the markets which OVO does business in.

During 2020, to promote good governance across OVO, the OVO Group Board established a Combined Risk and Audit Committee attended by 5 non-executive Directors and chaired by Stacey Cartwright, the OVO Retail Chair. The work of the Combined Risk and Audit Committee is focused on the soundness of financial statements and the effectiveness of risk management and internal controls. The committee oversees the relationship with our external auditors and receives regular reports on the risk management and internal controls across all OVO companies from our Risk & Compliance and Internal Audit teams. In 2020, the committee reviewed OVO's principal risks, received detailed assessments on OVO's management of Information Security, Energy Regulation, Tax, and Health and Safety, and reviewed OVO's approach to whistleblowing and investigations. The committee also reviewed internal and external assurance reports on Financing, Financial Reporting and Energy Trading and the external audit approach for 2020.

In 2020, a steering committee was established to oversee progress against OVO's Plan Zero strategy, chaired by the CEO of OVO Retail, with progress reported to the Board on a quarterly basis. This provided the Board with oversight of key elements of OVO's performance relating to Plan Zero and management of environmental, social and governance risks, opportunities and impacts.

Reporting to the OVO Group Board, the OVO Leadership team is in place to: set group-wide strategy and track performance against it, oversee the 'how' of the combined business, make decisions / resolve issues that have group-wide impact, and make investment / resource allocation decisions.

Opportunity and risk

The OVO Group Board is responsible for OVO's strategic direction and making sure risk is effectively managed. The Combined Risk and Audit Committee has considered OVO's key operational risks and identified seven principal risks:

- Financial and Commodity
- People & Culture
- Customer Proposition
- Customer Operations
- Regulation, Compliance and Reporting
- Change Delivery
- Security and Resilience

These principal risks are those which could stop OVO from offering the best customer service, delivering Plan Zero and staying financially healthy. OVO's Leaders are responsible for setting the tolerable level of risk which OVO are willing to take for each principal risk.

The OVO Risk Policy defines OVO's approach to risk management. An enterprise wide view is achieved through the combination of bottom up and top down assessments, with alignment of risks to Principal Risk categories - providing meaningful information to enable informed decision making. OVO's Risk Team helps its leaders understand which risks are too high and need further action.

OVO's Risk Framework, provides a centralised governance approach that defines the processes, systems and tools for effective risk management.

Imagination Industries Ltd

Strategic Report for the Year Ended 31 December 2020 (continued)

Financial risks

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

Risk management is carried out by the OVO Combined Risk and Audit Committee, under policies approved by the Directors and the Group management team.

OVO Group manages credit risk relating to trade receivables and accrued income by monitoring the ageing of outstanding balances regularly and, depending on the business units, assessing the creditworthiness of a new customer before trade commences. As the Group's customer base is residential and therefore diverse, there is limited concentration of risk.

OVO Group borrows to finance its operations and growth. Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates. The Group aims to minimise interest rate risk in order to optimise cost of capital.

OVO Group manages commodity price risk by securing gas and electricity under forward contracts and by supplying the majority of customers on fixed price contracts.

OVO Group manages cashflow and liquidity risk through a combination of short and long range forecasting tools. This enables cash to be managed responsibly through our capital allocation process.

Section 172 statement

Stakeholders are at the heart of our strategy and business model. Engaging with them helps us to understand their evolving needs and informs our strategic decision-making.

In light of our purpose and our strategy to create a world without carbon and create long term-value for customers, our Directors take steps to understand the needs and priorities of each stakeholder group and do so via a number of mediums, including by direct engagement or via committees and forums. The relevance of each stakeholder may change depending on the matter at hand. In line with requirements of the UK Companies Act 2006, we provide a high-level summary of how our Directors engaged with our stakeholders and had regard to their interests when setting OVO's strategy and taking decisions concerning the business in 2020.

Stakeholders

In an increasingly complex, changing and competitive market environment, our Board recognises that the business will only grow, prosper and successfully deliver on the ambitions set out in Plan Zero if it understands, respects and responds to the views and needs of our key stakeholders.

Our people

Without talented and committed employees, we could never deliver on our ambitions. We aspire to create the UK's best place to work in order for our people to better serve our customers and partner with them on their journey to zero carbon living. Our quarterly employee survey gives employees at all levels the chance to share views with line managers, colleagues and leadership. Our Board also engages regularly with our people through a number of employee forums, companywide town halls and smaller village halls. Our Chief People Officer attends OVO Group Board meetings regularly in order to communicate and make recommendations following employee feedback.

Our customers

OVO was founded with the ambition to make energy cheaper, greener and simpler and with the commitment to make every decision as if the customer was in the room. Our communications to customers are designed to mobilise a community around our Plan Zero objective to drive progress to zero carbon living and to support all of our customers in reducing their individual carbon footprint by 50% by 2030. Our Board receives direct updates from each of OVO's customer facing businesses and regularly discusses customer performance, Net Promote Scores and feedback.

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Strategic Report for the Year Ended 31 December 2020 (continued)

Our planet

The climate crisis is the greatest challenge we face and awareness of the environmental impact of human activity on the planet is growing. Key concerns include air pollution, climate change and the destruction of nature and biodiversity. We're seeing growing movements for change around the world, as well as a real desire for businesses to limit their impact on the planet and take bold action on climate. Since the launch of Plan Zero, we have committed to reporting quarterly to the OVO Group Board - with a summary of each Plan Zero Steering Committee meeting.

Governments and regulators

Our Board members engage regularly with key stakeholders within the UK Government, devolved administrations, respective Parliaments and Ofgem. They also share platforms at conferences and roundtables, discussing and obtaining feedback on regulatory, policy and political priorities. We also have a dedicated Policy and Public Affairs team who regularly update Board members on policy developments and coordinate a regular engagement programme to discuss issues such as Plan Zero, market design, consumer protection and the decarbonisation of heat.

Our communities

The OVO Charitable Foundation ("OVO Foundation") was created in 2014 with the mission of ensuring all children and young people have equitable access to a sustainable future. OVO Foundation invests in projects that address a real and genuine need, can demonstrate measurable and meaningful impact, and provide a high return on investment. It is also committed to funding projects that have potential to bring about long-term systemic change and can be scaled wherever possible.

Our suppliers

Building trusted partnerships with our suppliers is important in enabling us to provide the best products at the best prices for our customers. Suppliers are engaged with Plan Zero by adhering to our Supplier Code of Conduct and we have plans to further engage suppliers by including sustainability assessments as part of the procurement process and ensuring sustainability criteria forms a minimum part of weighted assessment scoring when new suppliers are being selected.

Approved by the Board on 3 December 2021 and signed on its behalf by:



Vincent Casey
Director

Imagination Industries Ltd

Directors' Report for the Year Ended 31 December 2020

The Directors present their report and the audited consolidated financial statements for the year ended 31 December 2020.

Principal activities

The principal activity of the Group is a retail energy provider whilst investing in new technologies that support the decarbonisation of energy. For more information, refer to the Strategic Report.

Directors of the Group

The Directors, who held office during the year and up to the date of signing the financial statements, were as follows:

Stephen Fitzpatrick

Vincent Casey

Dividends

The Directors do not propose a dividend for the year ended 31 December 2020 (31 December 2019: no dividends proposed).

Financial instruments

Financial risk management objectives and policies have been established making use of financial instruments for the purpose of managing the exposure of the company to price risk, credit risk, liquidity risk and cash flow risk is discussed in note 30 of the financial statements.

Charitable donations

During the year the Group made charitable donations of £812,000.

The OVO Charitable Foundation	<u>£</u> <u>812,000</u>
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Employee involvement

We aspire to be the leading place to work for people who will change the world. In pursuit of this goal, we regularly engage with our people, and have regard for their interests in our decision making. Employee engagement is further discussed in the Strategic Report under the heading 'Stakeholders'.

Other stakeholder engagement

We have regard for our business relationships with suppliers, customers and other stakeholders, and take formal consideration of any stakeholders which are relevant to any major decisions taken by the Board throughout the year. Other stakeholder engagement is further discussed in the Strategic Report under the heading 'Stakeholders'.

Employment of disabled persons

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

Future developments

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

Research and development

The Group continues to develop its IT infrastructure, investing £54m in software development and licences for the year to 31 December 2020. The Group incurred costs of £3m engaging in research during the year.

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Directors' Report for the Year Ended 31 December 2020 (continued)

Branches outside the United Kingdom

Kaluza Ltd, an indirect subsidiary of Imagination Industries Ltd, has a branch, Kaluza Limited Sucursal em Portugal, located in Lisbon, Portugal. Its principal activity is to provide engineering services to other group companies.

Going concern

The Group has a series of financial covenants with its key financial and trading creditors. The financial covenants in place over the forecast period relate to liquidity, key earnings ratios and the net worth of the Group.

The Group also has a number of arrangements with its creditors which allow for extended payment terms through the seasonal cycle, in order to manage its working capital commitments. These arrangements have associated financial covenants, against which the Group has been compliant during the period. These facilities were not drawn at the end of the financial year.

The Directors have performed a detailed assessment of the Group's ability to continue as a going concern. As part of this assessment they considered both the liquidity position and compliance with financial covenants. The forecast takes account of the following:

- The Directors expectation of the continued effect of COVID-19 on the Group,
- Unemployment due to COVID-19 rising above 6.5% in Q4 2021 impacting expected credit losses expense; and
- Localised restrictions and requirements for social distancing being in place up to H1 2021 impacting our ability to mobilise parts of our workforce.

However, the forecast includes uplifted variable unit revenue, in line with Ofgem's revised SVT rates, allowing for recovery of COVID related incremental bad debt.

The wholesale energy market is currently experiencing high and volatile prices. The Group manages commodity price risk by securing gas and electricity under forward contracts. Cash flow and liquidity risks are managed through a combination of short and long range forecasting tools.

In the event of a severe downside scenario, the Group has a range of mitigating factors under their direct control to protect the Group's earnings and liquidity. The Group also has a number of arrangements with its creditors which allow for extended payment terms through the seasonal cycle in order to manage working capital commitments.

In addition, the forecast has been subject to a set of plausible downside stress tests, including a further increase in bad debt, a reduction in smart meter installs, an increase in customer churn, and cold/warm weather scenarios. In the case of downside stress tests the Directors took into account the potential mitigating factors (within their direct control) to protect the Group's earnings and liquidity.

Under the forecast, and the severe downside scenarios considered, the Group has sufficient liquidity to continue as a going concern, and is compliant with all financial covenants throughout 2021 to at least September 2022. Accordingly the Directors have a reasonable expectation that the Group has adequate liquidity, and resources to continue operating for a period of at least 12 months from the date of approval of the financial statements, and therefore the financial statements have been prepared on a going concern basis.

Management also considered the cashflows outside of the OVO Group which relate to the Group. Management produced cashflow forecasts and assessed the compliance with loan covenants. There was nothing that would affect the ability of the Group and Company to continue as a going concern.

Having considered these matters, the Directors do not believe there are any material uncertainties to disclose in relation to the Group's ability to continue as a going concern.

Imagination Industries Ltd

Directors' Report for the Year Ended 31 December 2020 (continued)

Directors liabilities

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

Disclosure of information to the auditors

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 auditors are aware of that information. The Directors confirm that there is no relevant information that they know of and of which they know the auditors are unaware.

Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with international accounting standards in conformity with the Companies Act 2006. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and 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 Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approved by the Board on 3 December 2021 and signed on its behalf by:



.....
Vincent Casey
Director

Independent auditors' report to the members of Imagination Industries Ltd

Report on the audit of the financial statements

Opinion

In our opinion, Imagination Industries Ltd's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2020 and of the group's loss and the group's and company's cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Consolidated Financial Statements (the "Annual Report"), which comprise: the Consolidated and Company statements of financial position as at 31 December 2020; the Consolidated Income Statement, the Consolidated Statement of Other Comprehensive Income, the Consolidated and Company Statements of Changes in Equity and the Consolidated and Company Statements of Cash flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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 our work undertaken in the course of the audit, the Companies Act 2006 requires 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 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to Ofgem licence conditions, the Coronavirus Job Retention Scheme and UK tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the posting of inappropriate journal entries to manipulate financial performance, and management bias in accounting estimates and judgements. Audit procedures performed by the engagement team included:

- Discussions with management, in house legal counsel and the members of the Combined Risk and Audit Committee, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Review of Ofgem's website for details of any enforcement action or open investigations;
- Assessing the risk that amounts claimed under the Coronavirus Job Retention Scheme were inappropriate;
- Testing whether tax provisions reflect relevant tax legislation, including consideration of any uncertain tax positions;
- Challenging assumptions and judgements made by management in their significant accounting estimates;
- Identifying and testing journal entries that met our predefined risk criteria, in particular journal entries posted with unusual account combinations; and
- Incorporating an element of unpredictability to our testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

We have no exceptions to report arising from this responsibility.

KE FM

Katharine Finn (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
3 December 2021

Imagination Industries Ltd

Consolidated Income Statement for the Year Ended 31 December 2020

	Note	2020 £ m	2019 £ m
Revenue	4	4,460	1,449
Cost of sales		<u>(3,816)</u>	<u>(1,297)</u>
Gross profit		644	152
Administrative expenses		(654)	(218)
Impairment of financial assets		(122)	(51)
Other operating income	5	18	3
Other (losses)/gains	6	<u>(1)</u>	<u>3</u>
Operating loss	7	<u>(115)</u>	<u>(111)</u>
Finance income		3	1
Finance costs		<u>(62)</u>	<u>(4)</u>
Net finance cost	8	(59)	(3)
Share of loss of equity accounted investees	17	<u>-</u>	<u>(1)</u>
Loss before tax		(174)	(115)
Income tax credit	13	<u>32</u>	<u>2</u>
Loss for the financial year		<u><u>(142)</u></u>	<u><u>(113)</u></u>
Loss attributable to:			
Owners of the parent		(89)	(74)
Non-controlling interests		<u>(53)</u>	<u>(39)</u>
Loss for the financial year		<u><u>(142)</u></u>	<u><u>(113)</u></u>

The above results were derived from continuing operations.

Imagination Industries Ltd

Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2020

	Note	2020 £ m	2019 £ m
Loss for the financial year		<u>(142)</u>	<u>(113)</u>
Other comprehensive expense			
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of post-employment benefit surplus	27	(10)	-
Deferred tax on defined benefit pension surplus	13	<u>2</u>	<u>-</u>
Total other comprehensive expense		<u>(8)</u>	<u>-</u>
Total comprehensive expense for the year		<u><u>(150)</u></u>	<u><u>(113)</u></u>
Total comprehensive expense attributable to:			
Owners of the parent		(94)	(74)
Non-controlling interests		<u>(56)</u>	<u>(39)</u>
		<u><u>(150)</u></u>	<u><u>(113)</u></u>

Imagination Industries Ltd

(Registration number: 06890468)

Consolidated Statement of Financial Position as at 31 December 2020

			Restated*	Restated*
		2020	2019	As at 1 January
	Note	£ m	£ m	2019 £ m
Assets				
Non-current assets				
Property, plant and equipment	14	9	6	4
Right of use assets	15	58	21	24
Intangible assets	16	562	122	111
Deferred tax assets	13	99	12	13
Investments accounted for using the equity method	17	1	2	-
Defined benefit pension asset	27	13	-	-
		<u>742</u>	<u>163</u>	<u>152</u>
Current assets				
Inventories	19	18	10	5
Trade and other receivables	20	1,130	145	92
Income tax asset		12	4	1
Cash and cash equivalents	22	54	32	85
		<u>1,214</u>	<u>191</u>	<u>183</u>
Assets classified as held for sale	21	8	-	-
Total assets		<u>1,964</u>	<u>354</u>	<u>335</u>
Current liabilities				
Trade and other payables	23	(823)	(267)	(207)
Deferred income		(678)	(90)	(112)
Loans and borrowings	24	(91)	-	(12)
Lease Liabilities	25	(15)	(3)	(3)
Provisions	26	(76)	(12)	(3)
		<u>(1,683)</u>	<u>(372)</u>	<u>(337)</u>
Non-current liabilities				
Loans and borrowings	24	(415)	-	(34)
Lease liabilities	25	(53)	(20)	(21)
		<u>(468)</u>	<u>(20)</u>	<u>(55)</u>
Total liabilities		<u>(2,151)</u>	<u>(392)</u>	<u>(392)</u>
Net (liabilities)/assets		<u>(187)</u>	<u>(38)</u>	<u>(57)</u>

The notes on pages 29 to 95 form an integral part of these financial statements.

Imagination Industries Ltd

(Registration number: 06890468)

Consolidated Statement of Financial Position as at 31 December 2020 (continued)

		2020	Restated*	Restated*
	Note	£ m	2019	As at 1 January
			£ m	2019
				£ m
Equity				
Share capital	28	-	-	-
Share premium		4	4	4
Share based payment reserve		3	2	2
(Accumulated losses)/Retained earnings		(120)	(27)	(48)
Equity attributable to owners of the parent		(113)	(21)	(42)
Non-controlling interests		(74)	(17)	(15)
Total equity		(187)	(38)	(57)

*Refer to Note 2 Accounting policies for details of the restatement.

Approved by the Board on 3 December 2021 and signed on its behalf by:



Vincent Casey
Director

Imagination Industries Ltd

(Registration number: 06890468)

Company Statement of Financial Position as at 31 December 2020

	Note	2020 £ m	2019 £ m
Assets			
Non-current assets			
Intangible assets	16	2	2
Investments in subsidiaries	17	17	16
Investments accounted for using the equity method	17	1	1
		<u>20</u>	<u>19</u>
Current assets			
Trade and other receivables	20	22	5
Cash and cash equivalents	22	4	7
		<u>26</u>	<u>12</u>
Total assets		<u>46</u>	<u>31</u>
Current liabilities			
Trade and other payables	23	(2)	(2)
Income tax liability		<u>(2)</u>	<u>-</u>
		(4)	(2)
Non-current liabilities			
Loans and borrowings	24	<u>(10)</u>	<u>-</u>
Total liabilities		<u>(14)</u>	<u>(2)</u>
Net (liabilities)/assets		<u>32</u>	<u>29</u>
Equity			
Share capital	28	-	-
Share premium		4	4
(Accumulated losses)/Retained earnings		<u>28</u>	<u>25</u>
Equity attributable to owners of the parent		<u>32</u>	<u>29</u>
Total equity		<u>32</u>	<u>29</u>

No income statement is presented for the Company as permitted by Section 408 of the Companies Act 2006. Its profit for the year was £3m (2019: profit of £20m).

Approved by the Board on 3 December 2021 and signed on its behalf by:



Vincent Casey
Director

Imagination Industries Ltd

Consolidated Statement of Changes in Equity for the Year Ended 31 December 2020

	Attributable to owners of the parent				Non-controlling interests £ m	Total equity £ m
	Share premium £ m	Share based payment reserve £ m	Accumulated losses £ m	Total £ m		
At 1 January 2019	33	2	(77)	(42)	(15)	(57)
Prior period adjustment	(29)	-	29	-	-	-
At 1 January 2019 (As restated) **	4	2	(48)	(42)	(15)	(57)
Loss for the year	-	-	(74)	(74)	(39)	(113)
Movement in non-controlling interest*	-	-	95	95	37	132
At 31 December 2019	4	2	(27)	(21)	(17)	(38)

* Refer to Note 17 Investments in subsidiaries and associates.

** As restated - please refer to Note 2 Accounting policies.

	Attributable to owners of the parent				Non-controlling interests £ m	Total equity £ m
	Share premium £ m	Share based payment reserve £ m	Accumulated losses £ m	Total £ m		
At 1 January 2020	4	2	(27)	(21)	(17)	(38)
Loss for the year	-	-	(89)	(89)	(53)	(142)
Other comprehensive expense	-	-	(5)	(5)	(3)	(8)
Total comprehensive expense	-	-	(94)	(94)	(56)	(150)
Movement in non-controlling interest	-	-	1	1	(1)	-
Share based payment transactions	-	1	-	1	-	1
At 31 December 2020	4	3	(120)	(113)	(74)	(187)

The notes on pages 29 to 95 form an integral part of these financial statements.

Imagination Industries Ltd

Company Statement of Changes in Equity for the Year Ended 31 December 2020

	Share premium £ m	Retained earnings £ m	Total £ m
At 1 January 2019	4	5	9
Profit for the year	-	20	20
Total comprehensive income	-	20	20
At 31 December 2019	4	25	29
	Share premium £ m	Retained earnings £ m	Total £ m
At 1 January 2020	4	25	29
Profit for the year	-	3	3
Total comprehensive income	-	3	3
At 31 December 2020	4	28	32

Imagination Industries Ltd

Consolidated Statement of Cash Flows for the Year Ended 31 December 2020

	Note	2020 £ m	2019 £ m
Cash flows from operating activities			
Loss for the year		(142)	(113)
Adjustments to cash flows from non-cash items			
Depreciation and impairment of property, plant and equipment	7	9	4
Amortisation and impairment of intangible assets		82	22
Depreciation and impairment of right of use assets		24	4
Loss/(profit) from disposal of subsidiary	6	1	(2)
Defined benefit pension transactions		3	-
Finance income	8	(3)	(1)
Finance costs	8	62	4
Research and development expenditure credit		(1)	(3)
Income tax expense/(credit)	13	(32)	(2)
		3	(87)
Working capital adjustments			
Increase in inventories	19	(8)	(5)
Decrease/(increase) in trade and other receivables	20	90	(52)
(Decrease)/increase in trade and other payables	23	(156)	43
(Decrease)/increase in provisions	26	(19)	9
Decrease in deferred income		(42)	(22)
Net cash flow generated from/(used in) operating activities		(132)	(114)
Cash flows from investing activities			
Interest received	8	3	1
Acquisitions of property plant and equipment	14	(3)	(6)
Acquisition of intangible assets	16	(54)	(12)
Proceeds from sale of intangible assets		1	-
Acquisition of investments in associates	17	-	(2)
Acquisition of subsidiary, net of cash acquired		(227)	(1)
Proceeds from disposal of shares in subsidiaries		-	30
Net cash flows (used in)/generated from investing activities		(280)	10

The notes on pages 29 to 95 form an integral part of these financial statements.

Imagination Industries Ltd

Consolidated Statement of Cash Flows for the Year Ended 31 December 2020 (continued)

	Note	2020 £ m	2019 £ m
Cash flows from financing activities			
Interest paid	8	(18)	(4)
Proceeds from issue of shares in subsidiary, net of issue costs		-	103
Proceeds from bank borrowing draw downs		410	-
Repayment of bank borrowing		-	(46)
Proceeds from other borrowing draw downs		100	-
Payments to lease liabilities		(21)	(2)
Capitalised finance costs		(37)	-
Net cash flows generated from/(used in) financing activities	31	<u>434</u>	<u>51</u>
Net increase/(decrease) in cash and cash equivalents		22	(53)
Cash and cash equivalents at 1 January		<u>32</u>	<u>85</u>
Cash and cash equivalents at 31 December		<u>54</u>	<u>32</u>

Imagination Industries Ltd

Company Statement of Cash Flows for the Year Ended 31 December 2020

	Note	2020 £ m	2019 £ m
Cash flows from operating activities			
Profit for the year		3	20
Adjustments to cash flows from non-cash items			
Profit from disposals of investments	6	-	(28)
Finance income	8	(3)	(1)
Finance costs	8	1	-
Income tax (credit)/charge	13	2	-
Bad debt charge on related party receivables		18	16
		21	7
Working capital adjustments			
Increase in trade and other receivables	20	(8)	(3)
Decrease in trade and other payables	23	-	(2)
Net cash flow generated from/(used in) operating activities		13	2
Cash flows from investing activities			
Acquisition of shares in subsidiaries	17	(1)	-
Proceeds from sale of shares in subsidiaries		-	29
Advances of loans to related parties		(24)	(14)
Acquisition of investments in associates	17	-	(1)
Net cash flows (used in)/generated from investing activities		(25)	14
Cash flows from financing activities			
Interest paid	8	(1)	-
Proceeds from bank borrowing draw downs		10	-
Repayment of bank borrowing		-	(12)
Net cash flows generated from/(used in) financing activities		9	(12)
Net (decrease)/increase in cash and cash equivalents		(3)	4
Cash and cash equivalents at 1 January		7	3
Cash and cash equivalents at 31 December		4	7

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020

1 General information

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

The address of its registered office is:

140-142 Kensington Church Street

London

W8 4BN

United Kingdom

These financial statements were authorised for issue by the Board on 3 December 2021. Please see the Strategic Report for a description of principal activities.

2 Accounting policies

All accounting policies noted below relate to the Group and Company, except for those that explicitly state that they relate to the Company only.

Summary of significant accounting policies and key accounting estimates

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

Basis of preparation

The Group financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 ('IFRS'). The financial statements have been prepared under the historical cost convention except for the following:

- assets held for sale - measured at fair value less costs to sell; and
- defined benefit pension plans - plan assets measured at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

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

The financial statements are rounded to the nearest million (£ m) except where otherwise stated.

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

Going concern

The Group has a series of financial covenants with its key financial and trading creditors. The financial covenants in place over the forecast period relate to liquidity, key earnings ratios and the net worth of the Group.

The Group also has a number of arrangements with its creditors which allow for extended payment terms through the seasonal cycle, in order to manage its working capital commitments. These arrangements have associated financial covenants, against which the Group has been compliant during the period. These facilities were not drawn at the end of the financial year.

The Directors have performed a detailed assessment of the Group's ability to continue as a going concern. As part of this assessment they considered both the liquidity position and compliance with financial covenants. The forecast takes account of the following:

- The Directors expectation of the continued effect of COVID-19 on the Group,
- Unemployment due to COVID-19 rising above 6.5% in Q4 2021 impacting expected credit losses expense; and
- Localised restrictions and requirements for social distancing being in place up to H1 2021 impacting our ability to mobilise parts of our workforce.

However, the forecast includes uplifted variable unit revenue, in line with Ofgem's revised SVT rates, allowing for recovery of COVID related incremental bad debt.

The wholesale energy market is currently experiencing extremely high and volatile prices. The Group manages commodity price risk by securing gas and electricity under forward contracts. Cash flow and liquidity risks are managed through a combination of short and long range forecasting tools.

In the event of a severe downside scenario, the Group has a range of mitigating factors under their direct control to protect the Group's earnings and liquidity. The Group also has a number of arrangements with its creditors which allow for extended payment terms through the seasonal cycle in order to manage working capital commitments.

In addition, the forecast has been subject to a set of plausible downside stress tests, including a further increase in bad debt, a reduction in smart meter installs, an increase in customer churn, and cold/warm weather scenarios. In the case of downside stress tests the Directors took into account the potential mitigating factors (within their direct control) to protect the Group's earnings and liquidity.

Under the forecast, and the severe downside scenarios considered, the Group has sufficient liquidity to continue as a going concern, and is compliant with all financial covenants throughout 2021 to at least November 2022. Accordingly the Directors have a reasonable expectation that the Group has adequate liquidity, and resources to continue operating for a period of at least 12 months from the date of approval of the financial statements, and therefore the financial statements have been prepared on a going concern basis.

Management also considered the cashflows outside of the OVO Group which relate to the Group. Management produced cashflow forecasts and assessed the compliance with loan covenants. There was nothing that would affect the ability of the Group and Company to continue as a going concern.

Having considered these matters, the Directors do not believe there are any material uncertainties to disclose in relation to the Group's ability to continue as a going concern.

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 31 December 2020.

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

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

The purchase method of accounting is used to account for business combinations that result in the acquisition of subsidiaries by the Group. Corporate restructuring, which does not meet the definition of a business combination, are accounted for through the application of predecessor accounting, where applicable. The cost of a business combination is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Any excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised is recorded as goodwill.

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

Intra-group losses are also eliminated but may indicate an impairment that requires recognition in the consolidated financial statements.

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

Changes in accounting policy

New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2020:

- Definition of Material - amendments to IAS 1 and IAS 8
- Definition of a Business - amendments to IFRS 3
- Interest Rate Benchmark Reform - amendments to IFRS 9, IAS 39 and IFRS 7
- Revised Conceptual Framework for Financial Reporting

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

Prior period adjustments

The Group has recorded a prior period restatement of its share premium, retained earnings and non-controlling interest as presented in the Consolidated Statement of Changes in Equity to correct a prior period error whereby share premium in a subsidiary was not eliminated on consolidation. The impact of the restatement is a decrease to share premium of £29m, an increase to retained earnings of £18m and an increase to equity attributable to non-controlling interests of £11m. This restatement has no impact on assets or liabilities or profit for the year.

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

Revenue recognition

Recognition

The Group earns the majority of its revenue from the supply of electricity and gas to customers. Revenue is recognised "over time" consistent with the delivery of electricity and gas to the customer, as the Group considers the receipt and consumption of the benefits of the electricity and gas to be simultaneous. Further information is included in Note 3.

Revenue is measured on the applicable customer tariff rate and after deduction of discounts for direct debits, paperless billing, or government schemes such as the "Warm Home Discount".

Installation and rental of smart meters

Installation and rental of smart meter revenue is earned from the provision of services relating to the supply, maintenance and installation of smart meters in the UK. This revenue is recognised in the accounting period when the services are rendered at an amount that reflects the consideration to which the Group expects to be entitled in exchange for fulfilling its performance obligations to customers.

Voiceline and broadband revenue

Voiceline and broadband revenue is earned from the provision of services relating to the sale of telephone and broadband connectivity and associated services to consumers within the telecommunications market. The revenue is recognised in the accounting period when the services are rendered at an amount that reflects the consideration to which the Group expects to be entitled in exchange for fulfilling its performance obligations to customers.

Sale of home and emergency cover

Revenue from the sale of home and energy cover relates to revenue from insurance intermediary commission and claims handling fulfilment. The Group introduces customers to an underwriter and carries out services for which it earns commission as an agent. The Group also provides claims fulfilment, claims handling and premium collection from the customers on behalf of the agent. Commissions are recognised on a straight line basis over the contract term life whilst all other revenue is recognised at the point the underlying service is completed.

The principles in IFRS are applied to revenue recognition criteria using the following 5 step model:

1. Identify the contracts with the customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when or as the entity satisfies its performance obligations

Transaction price

In determining the transaction price, the Group considers the effects of variable consideration, the existence of significant financing components, non-cash consideration, and consideration payable to the customer (if any).

(i) Variable consideration

If the consideration in a contract includes a variable amount, revenue is only recognised in an amount at which a significant reversal is improbable in the future.

(ii) Consideration payable to a customer

If the contract contains consideration payable to a customer, the consideration payable is accounted for as a reduction of the transaction price.

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

Accrued income and receivables

Accrued income is the right to consideration in exchange for goods or services provided to the customer. If the Group provides goods or services to a customer before the customer pays consideration or before payment is due, accrued income is recognised for the earned consideration that is conditional.

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

Contract liabilities

A contract liability is the obligation to provide goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group provides goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Net basis of measurement of contract balances

Accrued income and contract liability positions are determined for each contract on a net basis. This is because the rights and obligations within each contract are considered inter-dependent. Where two contracts are with the same or related entities, an assessment is made of whether accrued income and contract liabilities are inter-dependent and if so, contract balances are reported net.

Capitalisation of costs to obtain or fulfil a contract

The incremental costs of obtaining a contract are recognised as an asset if certain criteria are met. The Group incurs broker commissions for customers who have signed-up through broker sites. The Group has elected to apply the optional practical expedient for costs to obtain a contract which allows the Group to immediately expense customer acquisition costs because the amortisation period of the asset that the Group otherwise would have used is one year or less.

Exceptional items

Exceptional items are those expenses or credits that are deemed unusual by nature and/or scale and of such significance that separate disclosure is required for the financial statements to be properly understood.

Classification of expenses or credits as exceptional items will generally be non-recurring, although exceptional expenses may impact the same financial statement line over time.

Government grants

Grants from the government are recognised in the income statement over the period in which the related costs are recognised and once the Group complies with all the attached conditions.

Finance income and costs policy

Financing expense comprises interest payable on loans and leases. Finance 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.

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

Financial statements of foreign operations

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

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

The assets and liabilities of foreign operations are translated into sterling at exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated into sterling at rates approximating to the exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation of foreign operations are recognised in the foreign currency translation reserve.

Tax

The tax expense for the period comprises current tax and deferred tax. Tax is recognised in profit or loss, except that a charge (or credit) attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Group operates and generates taxable income.

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 and fittings	3 years straight line
Office equipment	3 years straight line
Meter assets and miscellaneous equipment	4 to 10 years straight line

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

Goodwill

Goodwill arising on the acquisition of an entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of identifiable assets, liabilities and contingent liabilities of the entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill is held in the currency of the acquired entity and revalued to the closing rate at each reporting period date.

Goodwill is not subject to amortisation but is tested for impairment.

Negative goodwill arising on an acquisition is recognised directly in the income statement. On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss recognised in the income statement on disposal.

Intangible assets

Customer-related intangible assets acquired in a business combination are recognised at fair value at the acquisition date.

Customer-related intangible assets have a finite useful life and are carried at cost less accumulated amortisation and any accumulated impairment losses.

Separately acquired trademarks and licences are shown at historical cost. Trademarks and licences acquired in a business combination are recognised at fair value at the acquisition date. Trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation.

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

Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognised as intangible assets when the following criteria are met:

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

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

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

Computer software and licences acquired in a business combination are recognised at fair value at the acquisition date.

Amortisation

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

Asset class

Contractual customer relationships

Amortisation method and rate

Over the expected life of the contract

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

Other intangible assets

3-5 years straight line

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.

Investments

The Company only policy is that investments in subsidiaries are carried at cost, less any impairment.

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 the sale of electricity and gas or other services performed in the ordinary course of the Group's 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 do not carry any interest and are held at transaction price less an appropriate impairment recognised where the loss is probable. The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected credit loss allowance for all trade receivables and accrued income. Further detail on this model and application within these accounts can be found within the Critical accounting estimates note.

Inventories

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

Smart meter inventory is stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable selling expenses.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

Borrowings

All borrowings are initially recorded at the amount of proceeds received, net of transaction costs. Borrowings are subsequently carried at amortised cost, with the difference between the proceeds, net of transaction costs, and the amount due on redemption being recognised as a charge to the income statement over the period of the relevant borrowing.

Interest expense is recognised on the basis of the effective interest method and is included in finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Provisions

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

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

Leases

Definition

A lease is a contract, or a part of a contract, that conveys the right to use an asset or a physically distinct part of an asset ("the underlying asset") for a period of time in exchange for consideration. Further, the contract must convey the right to the Group to control the asset or a physically distinct portion thereof. A contract is deemed to convey the right to control the underlying asset if, throughout the period of use, the Group has the right to:

- Obtain substantially all the economic benefits from the use of the underlying asset; and
- Direct the use of the underlying asset (e.g., direct how and for what purpose the asset is used).

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

Initial recognition and measurement

The Group initially recognises a lease liability for the obligation to make lease payments and a right-of-use asset for the right to use the underlying asset for the lease term.

The lease liability is measured at the present value of the lease payments to be made over the lease term. The lease payments include fixed payments, purchase options at exercise price (where payment is reasonably certain), expected amount of residual value guarantees, termination option penalties (where payment is considered reasonably certain) and variable lease payments that depend on an index or rate.

The right-of-use asset is initially measured at the amount of the lease liability, adjusted for lease prepayments, lease incentives received, the Group's initial direct costs (e.g., commissions) and an estimate of restoration, removal and dismantling costs.

Subsequent measurement

After the commencement date, the Group measures the lease liability by:

- (a) Increasing the carrying amount to reflect interest on the lease liability;
- (b) Reducing the carrying amount to reflect the lease payments made; and
- (c) Re-measuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in substance fixed lease payments or on the occurrence of other specific events.

Interest on the lease liability in each period during the lease term is the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability. Interest charges are presented separately as non-operating/included in finance cost in the income statement, unless the costs are included in the carrying amount of another asset applying other applicable standards. Variable lease payments not included in the measurement of the lease liability, are included in operating expenses in the period in which the event or condition that triggers them arises.

The related right-of-use asset is accounted for using the Cost model in IAS 16 and depreciated and charged in accordance with the depreciation requirements of IAS 16 Property, Plant and Equipment as disclosed in the accounting policy for Property, Plant and Equipment. Adjustments are made to the carrying value of the right-of-use asset where the lease liability is re-measured in accordance with the above. Right-of-use assets are tested for impairment in accordance with IAS 36 Impairment of assets as disclosed in the accounting policy in impairment.

Lease modifications

If a lease is modified, the modified contract is evaluated to determine whether it is or contains a lease. If a lease continues to exist, the lease modification will result in either a separate lease or a change in the accounting for the existing lease.

The modification is accounted for as a separate lease if both:

- (a) The modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- (b) The consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

If both of these conditions are met, the lease modification results in two separate leases, the unmodified original lease and a separate lease. The Group then accounts for these in line with the accounting policy for new leases.

If either of the conditions are not met, the modified lease is not accounted for as a separate lease and the consideration is allocated to the contract and the lease liability is re-measured using the lease term of the modified lease and the discount rate as determined at the effective date of the modification.

For a modification that fully or partially decreases the scope of the lease (e.g., reduces the square footage of leased space), IFRS 16 requires a lessee to decrease the carrying amount of the right-of-use asset to reflect partial or full termination of the lease. Any difference between those adjustments is recognised in profit or loss at the effective date of the modification.

For all other lease modifications which are not accounted for as a separate lease, IFRS 16 requires the lessee to recognise the amount of the re-measurement of the lease liability as an adjustment to the corresponding right-of-use asset without affecting profit or loss.

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

Short term and low value leases

The Group has made an accounting policy election, by class of underlying asset, not to recognise lease assets and lease liabilities for leases with a lease term of 12 months or less (i.e., short-term leases).

The Group has made an accounting policy election on a lease-by-lease basis, not to recognise lease assets on leases for which the underlying asset is of low value.

Lease payments on short term and low value leases are accounted for on a straight line bases over the term of the lease or other systematic basis if considered more appropriate. Short term and low value lease payments are included in operating expenses in the income statements.

Share based payments

The Group operates a number of equity-settled share based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of OVO Group Ltd, Vertical Aerospace Ltd or Imagine Just 3 Things Ltd. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

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

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

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

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. They recognise the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When the share awards are granted, the relevant subsidiary company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

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

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

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

Employee benefits

The Group operates a flexible benefit scheme for qualifying employees whereby in addition to their salary, those employees are invited to select certain benefits with a value of up to 4% of their base pay. All costs related to the scheme are expensed in the income statement in the years which services are rendered by employees. One of the available benefits is payment to a defined contribution pension plan. This is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. The Group has enrolled in the automatic pension scheme since November 2013.

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

Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

Defined contribution pension obligation

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

For defined contribution plans contributions are paid to 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.

Defined benefit pension obligation

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The asset recognised in the statement of financial position in respect of defined benefit pension plans is the fair value of the plan assets minus the present value of the defined benefit obligation at the reporting date. The defined benefit obligation is measured using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future payments by reference to market yields at the reporting date on high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses are charged or credited to other comprehensive income in the period in which they arise.

Past-service costs are recognised immediately in profit or loss.

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

Financial instruments

Initial recognition

Financial assets and financial liabilities comprise cash and cash equivalents, trade and other receivables, trade and other payables and borrowings.

The Group recognises financial assets and financial liabilities in the statement of financial position when, and only when, the Group becomes party to the contractual provisions of the financial instrument.

Financial assets are initially recognised at fair value. Financial liabilities are initially recognised at fair value, representing the proceeds received net of premiums, discounts and transaction costs that are directly attributable to the financial liability.

All regular way purchases and sales of financial assets and financial liabilities classified as fair value through profit or loss ("FVTPL") are recognised on the trade date, i.e. the date on which the Group commits to purchase or sell the financial assets or financial liabilities. All regular way purchases and sales of other financial assets and financial liabilities are recognised on the settlement date, i.e. the date on which the asset or liability is received from or delivered to the counterparty. Regular way purchases or sales are purchases or sales of financial assets that require delivery within the time frame generally established by regulation or convention in the market place.

Subsequent to initial measurement, financial assets and financial liabilities are measured at either amortised cost or fair value.

Classification and measurement

Financial instruments are classified at inception into one of the following categories, which then determine the subsequent measurement methodology:-

Financial assets are classified into one of the following three categories:-

- financial assets at amortised cost;
- financial assets at fair value through other comprehensive income (FVTOCI); or
- financial assets at fair value through the profit or loss (FVTPL).

Financial liabilities are classified into one of the following two categories:-

- financial liabilities at amortised cost; or
- financial liabilities at fair value through the profit or loss (FVTPL).

The classification and the basis for measurement are subject to the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets, as detailed below:-

At 31 December 2020 the Group had no assets measured at FVTPL or FVTOCI.

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

Financial assets at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:-

- the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

If either of the above two criteria is not met, the financial assets are classified and measured at fair value through the profit or loss (FVTPL).

If a financial asset meets the amortised cost criteria, the Group may choose to designate the financial asset at FVTPL. Such an election is irrevocable and applicable only if the FVTPL classification significantly reduces a measurement or recognition inconsistency.

Financial liabilities at amortised cost

All financial liabilities, other than those classified as financial liabilities at FVTPL, are measured at amortised cost using the effective interest rate method.

Commodity derivatives

Within its regular course of business, the Group routinely enters into sale and purchase transactions for physical delivery of electricity and gas. Where the contract was entered into and continues to be held for the purpose of meeting forecast customer usage, the contracts are designated as "Own Use" contracts and are measured at cost. These contracts are not within the scope of IFRS 9.

3 Critical accounting judgements and key sources of estimation uncertainty

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

Revenue recognition - energy supplied but not yet measured (estimation uncertainty)

Revenue from energy supplied to OVO customers includes an estimate of the value of electricity or gas supplied to customers between the date of the latest meter reading and the financial year end.

This estimate comprises both billed revenue (trade receivables) and unbilled revenue (accrued income) and is calculated with reference to the tariffs and contractual rates applicable to customers against estimated customer consumption. Estimated customer consumption takes into account various factors including usage patterns, weather trends and notified aggregated volumes supplied to the customers from national settlements bodies.

A change in the assumptions underpinning the calculation would have an impact on the amount of revenue recognised in any given period.

This estimate is subject to an internal validation process which compares calculated unbilled volumes to a theoretical real-time billing benchmark measure of unbilled volumes with reference to historical consumption patterns adjusted for seasonality/weather and aggregated metering data used in industry reconciliation processes. Unbilled revenue recognised on the Group Balance Sheet was £543m. A 1% change in variable unit unbilled revenue would have a £5m impact on the unbilled revenue recognised.

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

3 Critical accounting judgements and key sources of estimation uncertainty (continued)

Deferred tax assets (accounting judgement and uncertainty)

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences giving rise to deferred tax assets where the Directors believe it is probable that these assets will be recovered, i.e. that future taxable amounts (e.g. taxable profits) will be available to utilise those temporary differences and losses. The carrying amount of the deferred tax assets are reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered. The recoverability of deferred tax assets relating to losses is based on forecasts of future taxable profits which are, by their nature, uncertain.

The Group prepares medium-term forecasts based on Board-approved budgets. These are used to support judgements made in the preparation of the Group's financial statements including the recognition of deferred tax assets.

Having assessed the level profits made by the Group since the year end and forecasts of revenue and costs for the coming years, the Directors believe it is probable that the Group will generate sustainable profits and therefore a deferred tax asset has been recognised. Deferred tax assets in respect of tax losses are expected to reverse over the next 6 to 8 years.

The Group remains exposed to the risk of changes in law that impact the Group's ability to carry forward and utilise tax attributes recognised as deferred tax assets.

Impairment of trade receivables (estimation uncertainty)

Impairments against trade receivables are recognised where the loss is expected. The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected credit loss allowance for all trade receivables and accrued income. For energy customers the impairment is calculated by splitting the portfolio into segments and the Directors have based their assessment of the level of impairment on collection rates experienced within each segment 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.

The assumption that future performance of customer debt settlement will be a reflective of past performance is the most significant assumption within the expected credit loss provisioning model. To address this risk, the Group reviews the provision rates for each segment on a regular basis to ensure they include the most up to date assumptions and use forward looking information. In order to test the sensitivity of the impairment of the Group's trade receivables balance, the Group has considered the impact of an addition aging of Trade Receivables which requires an extra 0.5% of Revenue being provided for. This would lead to a £23m increase in the expected credit loss provision in 2020.

Derivative financial instruments (accounting judgement)

Within its regular course of business, the Group routinely enters into sale and purchase derivative contracts for electricity and gas. Where the contract was entered into and continues to be held for the purpose of receipt or delivery in accordance with the Group's expected sale, purchase or usage requirements, the contracts are designated as "own use" contracts and are measured at cost.

During the course of the year the Group has assessed all forward contracts for securing gas and electricity and determined that all such contracts were entered into for the purpose of "own use". As such, no derivatives have been accounted for in relation to these contracts.

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

3 Critical accounting judgements and key sources of estimation uncertainty (continued)

Business combination (accounting judgement)

There is significant judgement in relation to the fair value of a company's assets on acquisition.

Management perform valuations of assets acquired and liabilities assumed on each acquisition accounted for as a business combination and allocate the purchase price to the tangible and Intangible assets acquired and liabilities assumed based on the best estimates and data available. In making these determinations, management are required to make estimates and assumptions that affect the recorded amounts, including future revenue growth, customer attrition rates, and discount rates impacting the valuation of intangible assets. Management engage third party valuation specialists to assist in making these fair value determinations, when deemed necessary.

4 Revenue

The analysis of the Group's revenue for the year from continuing operations is set out below.

	2020	2019
	£ m	£ m
Sale of gas and electricity	4,178	1,362
Rendering of services	133	46
Sale of home and emergency cover	43	17
Voiceline and broadband revenue	51	-
Other revenue	55	24
	<u>4,460</u>	<u>1,449</u>

Revenue generated outside of the UK in 2020 was £4m (2019: £nil), and is included within 'Sale of gas and electricity'.

Other revenue relates primarily to Home Energy Solutions services of £26m (2019: £nil), Metering services of £6m (2019: £nil), Insurance Claims and Boiler Install services of £7m (2019: £6m) and line rental income £3m (2019: £4m).

5 Other operating income

The analysis of the Group's other operating income for the year is as follows:

	2020	2019
	£ m	£ m
Government grants	17	-
Research and development expenditure credit	1	3
	<u>18</u>	<u>3</u>

Government grants relate to grants in respect of furloughed employees under the Coronavirus Job Retention Scheme. During the period, the Company received government grants under the Coronavirus Job Retention Scheme, a scheme introduced by the UK government to support organisations during the COVID-19 pandemic. The scheme offers grants to cover a proportion of the salaries of furloughed staff.

The grants were recognised as other operating income to the extent that management considers the grants will be received.

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

6 Other (losses)/gains

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

	2020 £ m	2019 £ m
Gain on disposal of property, plant and equipment	1	-
Gain on bargain purchase	-	1
(Loss)/gain on disposal of subsidiary	(2)	2
	<u>(1)</u>	<u>3</u>

7 Operating loss

Arrived at after charging

	2020 £ m	2019 £ m
Depreciation expense	9	1
Depreciation on right of use assets	15	4
Impairment loss - Property, plant and equipment	-	2
Impairment loss - right of use assets - property	9	-
Amortisation expense	76	18
Impairment loss - intangible assets	4	4
Research and development cost	3	9
Impairment loss - Assets held for sale	2	-
	<u>2</u>	<u>-</u>

8 Net finance costs

	2020 £ m	2019 £ m
Finance income		
Interest income on bank deposits	1	1
Interest on loans to related parties	2	-
Total finance income	<u>3</u>	<u>1</u>
Finance costs		
External finance interest and charges	(57)	(3)
Interest expense on leases	(5)	(1)
Total finance costs	<u>(62)</u>	<u>(4)</u>
Net finance costs	<u>(59)</u>	<u>(3)</u>

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

9 Staff costs

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

	2020	2019
	£ m	£ m
Wages and salaries	212	74
Social security costs	17	6
Pension costs, defined contribution scheme	11	3
Pension costs, defined benefit scheme	9	-
Other employee expense	6	6
	<u>255</u>	<u>89</u>

Payroll costs of £28m have been capitalised in the current year (2019: £5m). These are not included in the table above.

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

	2020	2019
	No.	No.
Administration and support	3,682	1,114
Sales, marketing and distribution	<u>4,827</u>	<u>1,024</u>
	<u>8,509</u>	<u>2,138</u>

Company

The Company had no employees in the year (2019: no employees). Salary recharges from subsidiaries amounted to £nil (2019: £45,833) with an additional £nil (2019: £4,539) of social security costs and £nil (2019: £2,042) of contributions to a defined contribution pension scheme.

10 Directors' remuneration

There were a total of two (2019: two) Directors during the year. The remuneration reflects the remuneration received from any company within the Imagination Industries Ltd Group.

Total Directors' remuneration for the year was £385,000 (2019: £371,000) with pension contributions of £13,000 (2019: £10,850).

The highest paid Director in the year received remuneration of £384,000 (2019: £345,000) and contributions to the pension scheme of £13,000 (2019: £nil).

Retirement benefits were accruing to 1 of the Directors (2019: 1). The total company contributions to defined contribution pension schemes for the highest paid Director was £13,000 (2019: £11,000).

The highest paid Director received benefits through long term incentive schemes.

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

11 Exceptional items

	2020	2019
	<i>£m</i>	<i>£m</i>
Restructuring costs	55	-
Acquisition related costs	22	-
Integration costs	15	-
Right-of-use asset impairment	9	-
Onerous lease costs	9	-
Exceptional items included within Group operation profit/(loss)	110	-
Exceptional items included within Group profit/(loss) before tax	110	-
Net taxation on exceptional items	(17)	-

Restructuring costs

Following the acquisition of SSE Energy Services Group Limited, the Group has initiated an integration programme which has resulted in the redundancy of a number of employees. The restructuring plan was announced to the employees of the affected group companies in May 2020. The restructuring is expected to be completed during 2021.

Acquisition related costs

This relates to transaction costs related to the acquisition of SSE Energy Services Group Limited and consists of legal, due diligence, merger and acquisition advisory, tax advisory and stamp duty tax.

Integration costs

This primarily relates to costs incurred for consultancy on the integration of SSE Energy Services Group Limited following its acquisition.

Right-of-use asset impairment

In May 2020, OVO announced the closure of several offices alongside its redundancy programme. Certain right-of-use assets were impaired as a result of office closures.

Onerous lease costs

The property leases for the closed offices have not terminated and the Group continues to incur business rates and service charges relating to the property leases. A provision has been recognised for the unavoidable costs under the leases.

Income statement classification

£15m of the exceptional restructuring costs related to items classified in cost of sales. The remaining total of £95m exceptional costs related to items classified in administrative expenses.

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

EBITDA

Management report adjusted EBITDA in the financial statements as management considers it provides additional useful information on business performance and underlying trends. It is also the primary measure management use to monitor performance internally and is also reported to our lenders as part of covenants reporting.

EBITDA is a non-GAAP measure and is not defined by IFRS. The presentation of alternative performance measures is a judgement and policy choice made by management and therefore, not comparable. Adjusted EBITDA is reported for the first time in the current period as a result of the acquisition of SSE Energy Services Group Limited. Following the acquisition, the Group incurred a significant amount of non-operating expenses and management considers the inclusion of these items do not reflect the underlying business performance and trends.

Adjusted EBITDA is defined as operating profit, after adjusting for depreciation and amortisation and items that are deemed unusual in nature and of significance.

A reconciliation of the adjusted performance measure to Group operating profit is shown below:

	2020	2019
	£m	£m
Group operating loss	(115)	(111)
Exceptional items	110	-
Depreciation and non-exceptional impairment of property, plant and equipment and right-of-use assets	33	7
Amortisation and impairments of intangible assets	80	22
Adjusted EBITDA	108	(82)

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

12 Auditors' remuneration

	2020 £'000	2019 £'000
Audit of these financial statements	20	20
Audit of the financial statements of subsidiary companies	1,210	274
Total audit fees	1,230	294
Other fees to auditors		
Audit-related assurance services	63	10
Taxation compliance services	138	32
Services related to corporate finance transactions	949	3,010
Other non-audit services	431	-
Total non-audit services	1,581	3,052
Total auditors' remuneration	2,811	3,346

13 Taxation

Tax charged/(credited) in the income statement

	2020 £ m	2019 £ m
Current taxation		
UK corporation tax	2	(1)
UK corporation tax adjustment to prior periods	-	2
Total current taxation	2	1
Deferred taxation		
Arising from origination and reversal of temporary differences	(25)	(4)
Arising from changes in tax rates and laws	(8)	-
Adjustment in respect of prior periods	(1)	1
Total deferred taxation	(34)	(3)
Tax credit in the income statement	(32)	(2)

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

13 Taxation (continued)

The tax on loss before tax for the year is the same as the standard rate of corporation tax in the UK (2019 - higher than the standard rate of corporation tax in the UK) of 19% (2019 - 19%).

The differences are reconciled below:

	2020 £ m	2019 £ m
Loss before tax	(174)	(115)
Corporation tax at standard rate	(33)	(16)
Adjustments in respect of prior periods	(1)	3
Decrease from effect of revenues exempt from taxation	-	(8)
Increase from effect of expenses not deductible in determining taxable profit (tax loss)	7	3
Increase from deferred tax not recognised	3	16
Deferred tax credit relating to changes in tax rates or laws	(8)	-
Total tax credit	(32)	(2)

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

13 Taxation (continued)

Deferred tax

Group

Deferred tax movement during the year:

	At 1 January 2020 £ m	Recognised in income £ m	Recognised in other comprehensive income £ m	Recognised on business combinations £ m	At 31 December 2020 £ m
Accelerated tax depreciation	1	7	-	22	30
Tax losses carry-forwards	22	11	-	86	119
Revaluation of intangible assets	(11)	3	-	(51)	(59)
Pension benefit obligations	-	-	2	(5)	(3)
Other items	-	12	-	-	12
Net tax assets/(liabilities)	<u>12</u>	<u>33</u>	<u>2</u>	<u>52</u>	<u>99</u>

Other items consist of deferred tax on restricted interest deductions carried forward.

Deferred tax movement during the prior year:

	At 1 January 2019 £ m	Recognised in income £ m	Recognised on business combinations £ m	At 31 December 2019 £ m
Accelerated tax depreciation	1	-	-	1
Tax losses carry-forwards	23	(1)	-	22
Revaluation of intangible assets	(10)	3	(4)	(11)
Pension benefit obligations	-	-	-	-
Other items	-	-	-	-
Net tax assets/(liabilities)	<u>14</u>	<u>2</u>	<u>(4)</u>	<u>12</u>

Deferred tax assets have been recognised in respect of carried forward losses on the basis that there will be future profits available against which to offset them. There are no time limits on the recovery of such losses.

Refer to Note 3, critical accounting judgements, for further discussion on the basis for recognition of deferred tax assets.

Deferred tax of £16m has not been recognised in relation to an element of tax losses for which it is not considered probable that the losses will be utilised based on assessment of available evidence.

A change to the main UK corporation tax rate announced in the Budget on 11 March 2020 was substantively enacted on 17 March 2020 by a Budget resolution. The rate effective from 1 April 2020 now remains at 19% rather than the previously enacted reduction to 17%. Deferred tax balances are now remeasured to 19% from the previous rate of 17%.

In the Spring Budget 2021, the UK Government announced that the UK corporation tax rate will increase to 25% from 1 April 2023. The net deferred tax asset has been calculated at 19% as this rate has been substantively enacted at the Balance Sheet date. Had the 25% rate been substantively enacted on or before 31 December 2020 it would have had the effect of increasing the net deferred tax asset by £31m.

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

14 Property, plant and equipment

Group

	Leasehold property £ m	Fixtures and fittings £ m	Office equipment £ m	Meter assets and miscellaneous equipment £ m	Total £ m
Cost or valuation					
At 1 January 2019	7	2	5	-	14
Additions	2	2	2	-	6
At 31 December 2019	9	4	7	-	20
Additions	-	-	3	-	3
Acquired through business combinations	-	-	-	19	19
Disposals	-	(1)	(2)	-	(3)
Transfers to assets held for sale	-	-	-	(8)	(8)
At 31 December 2020	9	3	8	11	31
Accumulated depreciation					
At 1 January 2019	6	1	3	-	10
Charge for year	1	1	-	-	2
Impairment	-	-	2	-	2
At 31 December 2019	7	2	5	-	14
Charge for the year	1	-	1	7	9
Transfers to assets held for sale	-	-	-	(1)	(1)
At 31 December 2020	8	2	6	6	22
Carrying amount					
At 31 December 2020	1	1	2	5	9
At 31 December 2019	2	2	2	-	6
At 1 January 2019	1	1	2	-	4

The depreciation charge of £9m (2019: £2m) is recognised in administrative expenses.

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

15 Right-of-use assets

Group

The balance sheet shows the following asset amounts relating to leases:

	Property £ m	Other £ m	Total £ m
Cost or valuation			
At 1 January 2019	22	2	24
Additions	<u>1</u>	<u>-</u>	<u>1</u>
At 31 December 2019	<u>23</u>	<u>2</u>	<u>25</u>
Additions	41	21	62
Disposals	(1)	-	(1)
Modification	<u>1</u>	<u>(1)</u>	<u>-</u>
At 31 December 2020	<u>64</u>	<u>22</u>	<u>86</u>
Accumulated depreciation			
At 1 January 2019	-	-	-
Charge for year	<u>3</u>	<u>1</u>	<u>4</u>
At 31 December 2019	<u>3</u>	<u>1</u>	<u>4</u>
Charge for the year	9	6	15
Impairment	<u>9</u>	<u>-</u>	<u>9</u>
At 31 December 2020	<u>21</u>	<u>7</u>	<u>28</u>
Carrying amount			
At 31 December 2020	<u>43</u>	<u>15</u>	<u>58</u>
At 31 December 2019	<u>20</u>	<u>1</u>	<u>21</u>
As at 1 January 2019	<u>22</u>	<u>2</u>	<u>24</u>

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

16 Intangible assets

Group

	Goodwill £ m	Contractual customer relationships £ m	Other intangible assets £ m	Total £ m
Cost or valuation				
At 1 January 2019	41	57	37	135
Additions	-	-	11	11
Acquired through business combinations	1	22	-	23
Disposals	(1)	-	-	(1)
At 31 December 2019	<u>41</u>	<u>79</u>	<u>48</u>	<u>168</u>
Additions	-	-	54	54
Acquired through business combinations	109	259	99	467
Disposals	(1)	(1)	(2)	(4)
At 31 December 2020	<u>149</u>	<u>337</u>	<u>199</u>	<u>685</u>
Accumulated amortisation				
At 1 January 2019	-	2	22	24
Amortisation charge	-	13	5	18
Impairment	-	4	-	4
At 31 December 2019	<u>-</u>	<u>19</u>	<u>27</u>	<u>46</u>
Amortisation charge	-	45	31	76
Amortisation eliminated on disposals	(1)	-	(2)	(3)
Impairment	4	-	-	4
At 31 December 2020	<u>3</u>	<u>64</u>	<u>56</u>	<u>123</u>
Carrying amount				
At 31 December 2020	<u>146</u>	<u>273</u>	<u>143</u>	<u>562</u>
At 31 December 2019	<u>41</u>	<u>60</u>	<u>21</u>	<u>122</u>
At 1 January 2019	<u>41</u>	<u>55</u>	<u>15</u>	<u>111</u>

The amortisation charge of £77m (2019: £18m) is recognised in administrative expenses.

The carrying amount of internally developed software, supporting a supplier contract has been reduced to its recoverable amount through recognition of an impairment loss against Internally generated software development costs. This loss has been included in administrative expenses in the income statement.

At each reporting period end date, an annual impairment test is undertaken. This test compares the carrying value of the non-financial assets of the cash-generating unit (CGU) to their recoverable amount. Where the recoverable amount is less than the carrying value, an impairment occurs.

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

16 Intangible assets (continued)

The carrying value of the CGUs has been determined using a value in use calculation in line with IAS 36. The methodology applied to the value in use calculation reflects past experience and external sources of information including:

UK energy retail business

- the combined UK energy retail business has been considered to be a single CGU;
- cash flows for the business for the following year derived from budgets for 2021. The Directors believe these to be reasonably achievable;
- subsequent cash flows for four additional years increased in line with growth expectations of the business;
- cash flows beyond the five-year period extrapolated using a long-term nominal growth rate of 2.0%; and
- a post-tax discount rate of 12.3% and a pre-tax discount rate of 15.2%.

This testing did not identify any instances where the carrying value was in excess of the recoverable amount for the UK energy retail business and therefore no impairment charge has been recorded. No reasonable possible change in any of the above assumptions would result in the elimination of the recoverable amount headroom over the assets carrying values. Further, management consider that Plan Zero will create opportunities and financial value for the UK energy retail business and has not had a negative impact on our impairment assessments.

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

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

Company

	Brand £ m
Cost or valuation	
At 1 January 2019	2
At 31 December 2019	<u>2</u>
At 31 December 2020	<u>2</u>
Carrying amount	
At 31 December 2020	<u>2</u>
At 31 December 2019	<u>2</u>
At 1 January 2019	<u>2</u>

17 Investments in subsidiaries and associates

Group subsidiaries

Details of the Company's subsidiaries as at 31 December 2020 are as follows:

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

17 Investments in subsidiaries and associates (continued)

Name of subsidiary	Principal activity	Registered office	Proportion of ownership interest/voting rights held	
			2020	2019
OVO Group Ltd*	Management entity	1 Rivergate, Temple Quay, Bristol, BS1 6ED, UK	62% / 66%	62% / 66%
OVO Energy Ltd	Sale of electricity and gas to customers in the UK	1 Rivergate, Temple Quay, Bristol, BS1 6ED, UK	62% / 66%	62% / 66%
OVO Electricity Ltd	Procurement and sale of UK electricity from the wholesale markets and renewable sources	1 Rivergate, Temple Quay, Bristol, BS1 6ED, UK	62% / 66%	62% / 66%
OVO Gas Ltd	Supply of gas and UK related services	1 Rivergate, Temple Quay, Bristol, BS1 6ED, UK	62% / 66%	62% / 66%
ONI Energy Limited	Dissolved	Murray House, Murray Street, Belfast, Northern Ireland, BT1 6DN, UK	0% / 0%	62% / 66%
ONI Electricity Limited	Dissolved	Murray House, Murray Street, Belfast, Northern Ireland, BT1 6DN, UK	0% / 0%	62% / 66%
ONI Gas Limited	Dissolved	Murray House, Murray Street, Belfast, Northern Ireland, BT1 6DN, UK	0% / 0%	62% / 66%
OVO Field Force Ltd	Smart meter installation business	1 Rivergate, Temple Quay, Bristol, BS1 6ED, UK	62% / 66%	62% / 66%
Intelligent Energy Technology Ltd	Product development and provision of trading services	1 Rivergate, Temple Quay, Bristol, BS1 6ED, UK	62% / 66%	62% / 66%
OVO Holdings Ltd	Holding company	1 Rivergate Temple Quay, Bristol, England, BS1 6ED, UK	62% / 66%	62% / 66%
OVO Finance Ltd	Holding company	1 Rivergate Temple Quay, Bristol, England, BS1 6ED, UK	62% / 66%	62% / 65%
Corgi Homeplan Ltd	Provider of boiler and home care cover	1 Masterton Park, South Castle Drive, Dunfermline, Fife, KY11 8NX, UK	62% / 66%	62% / 66%
Corgi Homeheat Limited	Dormant	1 Masterton Park, South Castle Drive, Dunfermline, Fife, KY11 8NX, UK	62% / 66%	62% / 66%

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

17 Investments in subsidiaries and associates (continued)

Name of subsidiary	Principal activity	Registered office	Proportion of ownership interest/voting rights held	
			2020	2019
Hybrid Energy Solutions Ltd	Dissolved	Unit 1b Silver House Adelphi Way, Ireland Industrial Estate, Staveley, Chesterfield, Derbyshire, England, S43 3LJ, UK	0% / 0%	62% / 66%
ETP Assets 1 Ltd	Dissolved	140-142 Kensington Church Street, London, England, W8 4BN UK	0% / 0%	62% / 66%
Lumo Online Ltd	Dissolved	140-142 Kensington Church Street, London, England, W8 4BN UK	0% / 0%	62% / 66%
Spark Energy Ltd	Sale of electricity and gas to customers in the UK	Ettrick Riverside, Dunsdale Road, Selkirk, United Kingdom, TD7 5EB UK	62% / 66%	62% / 66%
Spark Gas Shipping Ltd	Supply of gas and related services	1 Rivergate, Temple Quay, Bristol, England, BS1 6ED UK	62% / 66%	62% / 66%
Spark Energy Finance Plc	Dissolved	Ettrick Riverside, Dunsdale Road, Selkirk, Scotland, TD7 5EB UK	0% / 0%	62% / 66%
OVO Energy Pty Ltd	Sale of electricity and gas to customers in Australia	19/181 William Street, Melbourne, VIC Australia	62% / 66%	62% / 66%
OVO Energy (France) SAS	Sale of electricity and gas to customers in France	231 rue Saint-Honore 75001 Paris France	47% / 50%	62% / 66%
OVO Energy (Netherlands) B.V.	Dormant	Netherlands	62% / 66%	62% / 66%
OVO Energy (Italy) S.r.l	Dormant	Via dell'Annunciata n. 23/4, Avv. Francesco Dagnino c/o LEXIA Avvocati, 20121, Milan, Italy	62% / 66%	62% / 66%
OVO Energy Spain S.L.L	Sale of electricity and gas to customers in Spain	C. Muntaner 328 Entresuelo 1a, 08021 Barcelona, España	62% / 66%	62% / 66%

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

17 Investments in subsidiaries and associates (continued)

Name of subsidiary	Principal activity	Registered office	Proportion of ownership interest/voting rights held	
			2020	2019
OVO Energy Japan GK	Dormant	Level 11, Aoyama Palacio Tower 3-6-7 Kita-Aoyama Minato-ku, Tokyo	62% / 66%	62% / 66%
OVO Energy Germany GmbH	Dormant	CO23 Berlin UG, Stresemannsr. 23, 10963 Berlin, Germany	62% / 66%	62% / 66%
Kantan Ltd	Information technology	140 – 142 Kensington Church Street, London, W8 4BN	62% / 66%	62% / 66%
Kaluza Ltd	Information technology	140-142 Kensington Church Street, London, England, W8 4BN	62% / 66%	62% / 66%
OVO Insurance Services Ltd.	Insurance services	PO Box 155, Mill Court, La Charroterie, St Peter Port, Guernsey, GY1 4ET	62% / 66%	62% / 66%
Imagination Industries Incubator Ltd*	Provider of intragroup support services and start up incubator	140 - 142 Kensington Church Street, London, W8 4BN UK	100% / 100%	100% / 100%
Imagination Industries Aero Ltd (formerly Vertical Aerospace Ltd)*	Research and development of aerospace technology	140 -142 Kensington Church Street, London, W8 4BN UK	100% / 100%	85% / 100%
Imagine Just 3 Things Ltd*	Commercial software developer	140 - 142 Kensington Church Street, London, W8 4BN UK	0% / 0%	85% / 85%
Vertical Advanced Engineering Ltd	Engineering consultancy	140-142 Kensington Church Street London W8 4BN	100% / 100%	85% / 100%
OVO (S) Energy Services Limited	Intermediate holding company	1 Rivergate, Temple Quay, Bristol, BS1 6ED	62% / 66%	0% / 0%
OVO (S) Electricity Limited	Supply of electricity to domestic customers in the UK	1 Rivergate, Temple Quay, Bristol, BS1 6ED	62% / 66%	0% / 0%
OVO (S) Gas Limited	The licensed marketing and sale of natural gas to domestic customers in the UK	1 Rivergate, Temple Quay, Bristol, BS1 6ED	62% / 66%	0% / 0%

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

17 Investments in subsidiaries and associates (continued)

Name of subsidiary	Principal activity	Registered office	Proportion of ownership interest/voting rights held	
			2020	2019
OVO (S) Energy Solutions Limited	Manages the installation of energy efficiency measures in domestic properties, mainly social housing	Grampian House, 200 Dunkeld Road, Perth, PH1 3GH	62% / 66%	0% / 0%
OVO (S) Home Services Limited	Provision of a range of boiler, central heating and electrical wiring services, breakdown cover and installation services	Grampian House, 200 Dunkeld Road, Perth, PH1 3GH	62% / 66%	0% / 0%
OVO (S) Metering Limited	Meter reading operations and meter operator work throughout the UK	Grampian House, 200 Dunkeld Road, Perth, PH1 3GH	62% / 66%	0% / 0%
OVO (S) Retail Telecoms Limited	The sale of telephone and broadband connectivity and associated services to consumers in the UK	1 Rivergate, Temple Quay, Bristol, BS1 6ED	62% / 66%	0% / 0%
Kensington RG Ltd*	Licensed clubs	140-142 Kensington Church Street, London, England, W8 4BN United Kingdom	100% / 100%	0% / 0%

* indicates direct investment of Imagination Industries Ltd

In June 2020, the Company disposed of its shares in Imagine Just 3 Things Ltd for £1. During 2020, Imagine Just 3 Things Ltd contributed a net loss of £1m and a gain on disposal of £3m was recognised.

In June 2020, the Company's subsidiary, Imagination Industries Aero Ltd, disposed of the trade and assets of its eVTOL business to Vertical Aerospace Group Ltd for £1. During 2020, Imagination Industries Aero Ltd contributed a net loss of £8m and a loss on disposal of £2m was recognised.

In February 2019, OVO Group Ltd issued Mitsubishi Corporation 1,658,282 A Ordinary Shares for a consideration of £109m, being £103m net of transaction costs. The net income from the new issue shares has been split between owners of the parent and non-controlling interest in the Consolidated Statement of Changes in Equity and is included in "Movement in non-controlling interest". Additionally, Imagination Industries Ltd sold A Ordinary shares to Mitsubishi Corporation for a cash consideration of £28m, realising a gain of £28m. The gain is included in "Movement in non-controlling interest" in the Consolidated Statement of Changes in Equity under "Accumulated losses".

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

17 Investments in subsidiaries and associates (continued)

Group associates

Details of the group associates as at 31 December 2020 are as follows:

Name of associate	Principal activity	Registered office	Proportion of ownership interest and voting rights held by the group	
			2020	2019
Indra Renewable Technologies Limited	Engineering design activities for industrial process and production	Sentinel House, Sparrowhawk Close, Malvern, England, WR14 1GL UK	15% / 16%	15% / 16%
Della Vite Trading Ltd *	Sales of Prosecco	11 Latimer Studios Latimer Road, London, England, W10 6RQ UK	17.5% / 17.5%	16% / 16%
Chaddenwyth Limited	Services Energy information technology service activities	86-90 Paul Street, London, England, EC2A 4NE UK	18% / 19%	18% / 19%
The Renewable Exchange Limited	Trade of renewable energy	Desk Lodge House, Redcliffe Way, Bristol, England, BS1 6NJ UK	27% / 29%	27% / 29%
Akili Partners Limited *	Investment fund	140 - 142 Kensington Church Street, London, United Kingdom, W8 4BN United Kingdom	33.3% / 33.3%	50% / 50%

* indicates direct investment of Imagination Industries Ltd

Following the year end, Intelligent Energy Technology Ltd, an indirect subsidiary of Imagination Industries Ltd, increased its shareholding in Indra Renewable Technologies Limited by 15.1%, taking the proportion of ownership interest and voting rights held by the Group to 25% and 26% respectively.

Summary of the Company investments

	31 December 2020 £ m	31 December 2019 £ m
Investments in subsidiaries	17	16
Investments in associates	1	1
	<u>18</u>	<u>17</u>

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

17 Investments in subsidiaries and associates (continued)

	Company £ m
Subsidiaries	
Cost or valuation	
At 1 January 2019	17
Disposals	<u>(1)</u>
At 31 December 2019	16
Additions	<u>1</u>
At 31 December 2020	<u>17</u>
Carrying amount	
At 31 December 2020	<u>17</u>
At 31 December 2019	<u>16</u>
At 1 January 2019	<u>17</u>

On 30 June 2020, Imagination Industries Ltd disposed of its interest in Imagine Just 3 Things Ltd. The carrying value prior to disposal was £1.

	Group £ m
Associates	
Cost or valuation	
At 1 January 2019	-
Additions	<u>2</u>
At 31 December 2019	<u>2</u>
At 31 December 2020	<u>2</u>
Carrying amount	
At 31 December 2020	<u>2</u>
At 31 December 2019	<u>2</u>
At 1 January 2019	<u>-</u>

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

18 Acquisition of subsidiary

Acquisition of SSE Energy Services Group Limited

On 15 January 2020, OVO Energy Ltd, an indirect subsidiary of OVO Group Ltd (a subsidiary of Imagination Industries Limited), acquired 100% of the issued share capital in SSE Energy Services Group Limited. The principal activity of SSE Energy Services Group and its subsidiaries is the supply of domestic energy and energy-related services in the UK. SSE Energy Services Group was acquired to increase the Group's market share and reduce costs through economies of scale.

The acquisition was financed through a combination of a new £400m term loan between OVO Finance Limited and Barclays Bank plc, and £100m in loan notes issued by OVO Holdings Limited. The term loan has subsequently been syndicated into two separate instruments, a £300m term loan and a secondary loan of £100m. Further detail on borrowings is included in Note 24.

There is significant judgement of the fair value of the acquired group's net assets, and the best available data has therefore been used.

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

	31 December 2020 £ m
Assets and liabilities acquired	
Identifiable intangible assets	358
Property, plant and equipment	19
Right-of-use assets	55
Defined benefit pension asset	26
Inventory	1
Cash and cash equivalents	180
Trade and other receivables	1,085
Income tax asset	9
Deferred tax asset	52
Trade and other payables	(722)
Deferred income	(630)
Lease liabilities	(55)
Provisions	(80)
Total identifiable assets	298
Goodwill	109
Total consideration	407
Satisfied by:	
Cash	407

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

18 Acquisition of subsidiary (continued)

	31 December 2020 £ m
Cash flow analysis:	
Cash consideration	407
Less: cash and cash equivalent balances acquired	<u>(180)</u>
Net cash outflow arising on acquisition	<u>227</u>

Intangible assets of £358m have been recognised on acquisition. This relates to customer relationships, customer contracts, and brands and licences acquired.

The fair value of the trade receivables and contract assets amounts to £953m. The gross amount of trade receivables and contract assets amounts is £1,064m. It is expected that £111m of the total trade receivables and contract assets is not recoverable, and this amount has therefore not been included in the fair value recognised.

The fair value and the gross amount of other receivables are £132m. It is expected the full contractual cash flows can be collected.

The Group measured the acquired lease liabilities using the present value of the remaining lease payments at the date of acquisition. The right-of-use assets were measured at an amount equal to the lease liabilities and adjusted to reflect the favourable terms of the lease liabilities relative to market terms.

The goodwill of £109m arising from the acquisition represents the value of expected synergies arising from the acquisition, as follows:

- Significant benefits around integration to OVO's wider business, its low cost-to-serve business model and technology platform;
- The potential to integrate wider solutions such as Electric Vehicle and renewables offerings into the customer base; and
- The fact that the business is reliant upon a proportion of customers renewing on a consistent basis and also attracting as yet unknown customers.

None of the goodwill amount is expected to be deductible for tax purposes.

From the date of acquisition, the SSE Energy Services Group (now renamed OVO (S) Energy Services Limited) contributed £3,258m revenue and £87m profit before tax from continuing operations of the Group. If the acquisition had taken place at the beginning of the year, revenue from continuing operations would have been £4,627m and loss before tax from continuing operations would have been £174m.

Transaction costs of £22m were expensed and are included within administrative expenses.

The attributable costs of issuance of debts of £22m were recognised as part of the carrying amount of debts and are amortised over the term of the loans.

Prior year acquisition of customer base of Economy Energy Limited

On 12 January 2019, the Group entered into a transaction via the Supplier of Last Resort ("SOLR") which resulted in the acquisition of the customer base of Economy Energy Limited ("Economy Energy"), along with a commitment to repay other liabilities to its customers. The principal activity of Economy Energy was the supply of gas and electricity.

The amounts recognised in 2019 in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below:

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

18 Acquisition of subsidiary (continued)

	31 December 2020 £ m
Assets and liabilities acquired	
Identifiable intangible assets	22
Financial liabilities	(17)
Deferred tax liability	(4)
	<hr/>
Total identifiable assets	<u>1</u>

The total consideration transferred was £nil.

This business combination resulted in a bargain purchase transaction because the provisional fair value of assets acquired and liabilities assumed exceeded the total of the fair value of consideration paid by £1m.

Intangible assets of £22m were recognised in 2019 on acquisition of Economy Energy Ltd's customer base. This was for the recognition of existing relationships with approximately 360,000 customer accounts.

Prior year acquisition of Vertical Advanced Engineering Ltd

On 29 July 2019, the Group purchased 100% of the share capital of Vertical Advanced Engineering Ltd ('VAE'). The principal activity of VAE is engineering consultancy. The fair value of the consideration was £1.8m, paid in cash over 3 years.

Management concluded that there were no fair value adjustments to be made on acquisition.

The business combination resulted in goodwill of £1m and was fully impaired in 2020.

19 Inventories

	Group		Company	
	31 December 2020 £ m	31 December 2019 £ m	31 December 2020 £ m	31 December 2019 £ m
Finished goods and goods for resale	<u>18</u>	<u>10</u>	<u>-</u>	<u>-</u>

The costs of ROCs recognised as an expense in the year amounted to £322m (2019: £109m). This is included within cost of sales.

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

20 Trade and other receivables

	Group		Company	
	31 December 2020 £ m	31 December 2019 £ m	31 December 2020 £ m	31 December 2019 £ m
Trade receivables and accrued income	1,155	187	-	-
Provision for impairment of trade receivables and accrued income	(257)	(78)	-	-
Net trade receivables	898	109	-	-
Receivables from related parties	16	5	22	5
Prepayments	38	8	-	-
Other receivables	178	23	-	-
	<u>1,130</u>	<u>145</u>	<u>22</u>	<u>5</u>

Accrued income of £543m (net of provision of impairment) included in the trade receivables and accrued income disclosed above, has increased from £39m (net of provision of impairment) in 2019, driven primarily by the impact of the acquisition of the SSE Energy Services Group in the current year.

The fair value of those trade and other receivables classified as financial assets are disclosed in the financial instruments note.

The Group's exposure to credit and market risks, including impairments and allowances for credit losses, relating to trade and other receivables is disclosed in Note 32.

21 Assets classified as held for sale

Assets classified as held for sale relating to the consolidated entity

On 25 February 2021, the Group publicly announced the decision of its Board of Directors to sell its Large Power Metering business, which was a line of business within OVO (S) Metering Limited, an indirect subsidiary of Imagination Industries Ltd.

The sale completed on 6 April 2021, within a year from the reporting date. At 31 December 2020, the Large Power Metering business was classified as a disposal group held for sale.

The major classes of assets and liabilities of the Large Power Metering business classified as held for sale as at 31 December 2020 were as follows:

	2020 £ m	2019 £ m
Property, plant and equipment	5	-
Inventories	1	-
Trade and other receivables	3	-
Trade and other payables	(1)	-
Assets held for sale	<u>8</u>	<u>-</u>

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

21 Assets classified as held for sale (continued)

Group - Assets classified as held for sale (continued)

Write-down of property, plant and equipment

Immediately before the classification of the Large Power Metering business as an asset held for sale, the recoverable amount was estimated for certain property, plant and equipment and no impairment loss was identified. Following the classification, a write-down of £2m was recognised on 31 December 2020 to reduce the carrying amount in the disposal group to the fair value less costs to sell. This was recognised in the Income Statement.

22 Cash and cash equivalents

	Group		Company	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
	£ m	£ m	£ m	£ m
Cash at bank	<u>54</u>	<u>32</u>	<u>4</u>	<u>7</u>

23 Trade and other payables

	Group		Company	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
	£ m	£ m	£ m	£ m
Trade payables	221	103	-	-
Accrued expenses	528	139	-	-
Amounts due to related parties	-	2	-	1
Social security and other taxes	10	2	1	-
Other payables	<u>64</u>	<u>21</u>	<u>1</u>	<u>1</u>
	<u>823</u>	<u>267</u>	<u>2</u>	<u>2</u>

Deferred income of £678m has increased from £90m in 2019, primarily driven by the impact of the acquisition of the SSE Energy Services Group in the current year.

All of the opening deferred income balance has been recognised as revenue during the year, with the closing balance relating to new liabilities where the associated performance obligation has not yet been satisfied.

The Group's exposure to market and liquidity risks, including maturity analysis, related to trade and other payables is disclosed in Note 32.

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 the cash and debtors of OVO Energy Ltd. As at the year end there was no outstanding liability on the extended credit facility.

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

24 Loans and borrowings

	Group		Company	
	31 December 2020 £ m	31 December 2019 £ m	31 December 2020 £ m	31 December 2019 £ m
Current loans and borrowings				
Bank borrowings	91	-	-	-
	Group	Group	Company	Company
	31 December 2020 £ m	31 December 2019 £ m	31 December 2020 £ m	31 December 2019 £ m
Non-current loans and borrowings				
Bank borrowings	302	-	10	-
Other borrowings	113	-	-	-
	415	-	10	-

Group

Bank borrowings

Bank borrowings consist of a £300m term loan facility, a £100m second lien term loan facility and a £10m revolving credit facility.

Term loan facilities

Both facilities are repayable by 14 January 2025. The second lien loan facility is subordinated to the first facility.

The term loan facilities were restructured in the current period and the original term loan facility of £400m was syndicated into two separate instruments. Prior to the loan syndication interest was payable at 7.75% plus LIBOR on the £400m facility. Following syndication, interest is payable at 8.25% plus LIBOR on the first lien facility and at 0% plus LIBOR from 1 October 2020 to 14 January 2021; 8.625% plus LIBOR from 15 January 2021 to 14 January 2022; and 9.75% plus LIBOR from 15 January 2022 on the second lien facility. Interest on the second lien is capitalised, compounded and added to the unpaid principal amount of the loan.

Costs incurred in raising finance of £39m are being amortised over the life of the facilities.

Revolving credit facility

The Company secured a revolving credit facility of up to £20m in the year ended 31 December 2020. As of 31 December 2020, £10m is drawn down. The facility is repayable in March 2023 and is secured over OVO Group Ltd shares. Interest is payable at 8.75% plus LIBOR on the drawn amount and 1.75% on the undrawn amount. Since the year end, this facility has been extended to £30m and is repayable in March 2023.

Other borrowings

Other borrowings consist of loan notes issued. Loan notes are unsecured and repayable in full on 31 December 2029. Interest is payable at 13.25%.

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

24 Loans and borrowings (continued)

Company

Bank borrowings

Revolving credit facility

The Company secured a revolving credit facility of up to £20m in the year ended 31 December 2020. As of 31 December 2020, £10m is drawn down. The facility is repayable in March 2023 and is secured over OVO Group Ltd shares. Interest is payable at 8.75% plus LIBOR on the drawn amount and 1.75% on the undrawn amount. Since the year end, this facility has been extended to £30m and is repayable in March 2023.

The loans and borrowings classified as financial instruments are disclosed in the financial instruments note.

The Group's exposure to market and liquidity risk; including maturity analysis, in respect of loans and borrowings is disclosed in the financial risk management and impairment note.

25 Leases

Group

The balance sheet shows the following amounts relating to lease liabilities:

	31 December 2020 £ m	31 December 2019 £ m
Lease liability - Current	15	3
Lease liability - Non-current	53	20
Total lease liability	<u>68</u>	<u>23</u>

Lease liabilities maturity analysis

A maturity analysis of lease liabilities based on undiscounted gross cash flow is reported in the table below:

	31 December 2020 £ m	31 December 2019 £ m
Less than one year	18	4
Between one and five years	40	20
Greater than five years	25	6
Total lease liabilities (undiscounted)	<u>83</u>	<u>30</u>

The Group leases various offices and vehicles. The balance sheet amounts relating to leases are shown within Note 15 - *Right-of-use assets*.

The current period interest expense on lease liabilities (included in finance cost) was £5m (2019: £1m).

The total cash outflow for leases for the year ended 31 December 2020 was £22m (2019: £3m).

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

26 Provisions

Group

	Ofgem settlement provision £ m	Restructuring provision £ m	Onerous contracts provision £ m	Other provisions £ m	Total £ m
At 1 January 2020	9	-	-	3	12
Additional provisions	-	50	8	1	59
Increase through business combinations	-	-	76	4	80
Provisions used	(9)	(42)	(23)	(4)	(78)
Increase due to passage of time or unwinding of discount	-	-	3	-	3
At 31 December 2020	-	8	64	4	76

	Ofgem settlement provision £ m	Other provisions £ m	Total £ m
At 1 January 2019	-	3	3
Additional provisions	9	-	9
At 31 December 2019	9	3	12

Ofgem settlement agreement provision

Ofgem's investigation into OVO Electricity Limited's and OVO Gas Limited's compliance with Standard Licence Condition(s) 0, 22C, 25C, 26, 27, 28A and 31A of their gas and electricity supply licence was concluded in April 2020. OVO Group Limited agreed a settlement with Ofgem in accordance with which a Penalty and Consumer Redress package totalling £9m was provided in full at 31 December 2019. This was settled in 2020.

Restructuring provision

Following the acquisition of SSE Energy Services Group Limited, the Group has initiated an integration programme which has resulted in the redundancy of a number of employees. The restructuring plan was announced to the employees of the affected group companies in May 2020. The restructuring is expected to be completed during 2021.

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

26 Provisions (continued)

Onerous contracts provision

Onerous leases:

In May 2020, OVO announced the closure of several offices alongside its redundancy programme. These property leases have not been terminated and the Group continues to incur business rates and service charges relating to the property leases. The provision does not include rental costs which were accounted for as part of right-of-use assets. An impairment has instead been recognised. The costs will be incurred over the term of the leases.

Master Services Agreement:

As part of the acquisition of SSE Energy Services Group Limited, the Group entered into a Master Services Agreement (MSA) with SSE plc (specifically SSE Telecommunications) in connection with the supply of telephony services. The agreement was deemed an unfavourable contract as the Group considered the costs of meeting the obligations under the contract exceed the economic benefits expected to be received from it. It is management's intention to terminate the MSA at the earliest possible period, which will be on the third anniversary of the agreement date. The costs will be incurred over the lifespan of the contract.

Other provisions

Other provisions comprise £2m relating to a facility agreement exit fee provision, £1m dilapidation provision and £1m other provisions.

Facility agreement exit fee provision

Upon the occurrence of an exit event for a fully repaid facility agreement, the Group is required to make an exit fee payment based on the enterprise value of the Group at the date of the event. The recognised provision reflects the Director's best estimate of the fair value of this fee at 31 December 2020.

Dilapidation provision

The Group is required to restore the leased premises of its offices to their original condition at the end of the respective lease terms. A provision has been recognised for the present value of the estimated expenditure required to remove any leasehold improvements. These costs have been capitalised as part of the cost of leasehold improvements and are amortised over the shorter of the term of the lease or the useful life of the assets.

Note	2013 £ m	2019 £ m
	-	-

27 Pension and other schemes

Defined contribution pension scheme

The Group operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the Group to the scheme and amounted to £11m (2019: £2m).

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

27 Pension and other schemes (continued)

Defined benefit pension schemes

The Group sponsors a funded defined benefit pension plan for qualifying UK employees – the Ovo Energy Group of the ESPS. The scheme was established on 14 January 2020 following the acquisition of SSE Energy Services Group by the Ovo Group in order to provide retirement benefits for eligible company employees.

The scheme is sectionalised with separate sections for former members of the Southern Electricity Group of the ESPS and former members of the Scottish Hydro-Electric Pension Scheme. The assets in each section are ringfenced to provide benefits solely for the members of that section.

The scheme is administered by an independent trustee, which is legally separate from the Group. The trustee is required by law to act in the interest of all relevant beneficiaries, and is responsible for the investment policy for the assets and day-to-day administration of the benefits. Under the scheme, employees are entitled to annual pensions, and in some cases also lump sum benefits, on retirement at age 60 or 63 calculated with reference to pensionable service and final pensionable salary. Benefits are also payable on death and following other events such as withdrawing from active service. No other post-retirement benefits are provided to these employees.

Profile of the scheme

The Defined Benefit Obligation (DBO) includes benefits for current employees, former employees and current pensioners. The vast majority of the DBO is attributable to current employees.

The scheme duration is an indicator of the weighted-average time until benefit payments are made. For the scheme as a whole, the duration is approximately 23 years.

Funding requirements

UK legislation requires that pension schemes are funded prudently. The first funding valuation of the scheme since inception on 14 January 2020 has an effective date of 31 March 2020. The Group and the trustees are using this funding valuation to review the funding arrangements for the scheme.

The Group and the members are paying contributions to meet the expected cost of the benefits being built up by the members. These contributions are being reviewed as part of the funding valuation at 31 March 2020.

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

27 Pension and other schemes (continued)

Risks

Risks associated with the scheme

The scheme exposes the Group to some risks, the most significant of which are:

Asset volatility

The DBO is calculated using a discount rate set with reference to corporate bond yields. If assets underperform this yield, this will create a deficit.

The scheme holds approximately a third of its assets in equities which, though expected to outperform corporate bonds in the long-term, create volatility and risk in the short-term. The allocation to growth assets is monitored to ensure it remains appropriate given the scheme's long-term objectives.

Changes in bond yields

A decrease in corporate bond yields will increase the value placed on the scheme's DBO for accounting purposes, although this will be partially offset by an increase in the value of the scheme's bond holdings.

Inflation risk

The majority of the scheme's DBO is linked to inflation, and higher inflation leads to a higher DBO (although, in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation).

Most of the assets are either unaffected by or only loosely correlated with inflation, meaning that an increase in inflation will also increase the deficit.

Life expectancy

The majority of the scheme's obligations are to provide benefits for the lifetime of the member, so increases in life expectancy will result in an increase in the DBO.

Risk management

The Group and trustees have agreed a long-term strategy for reducing investment risk as and when appropriate. This includes an asset-liability matching policy which aims to reduce the volatility of the funding level of the scheme. By investing in assets such as leveraged index-linked gilts, which perform in line with the liabilities of the scheme, the scheme is protected against inflation being higher than expected.

The trustees insure certain benefits which are payable on death before retirement.

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

The amounts recognised in the statement of financial position are as follows:

	31 December 2020 £ m	31 December 2019 £ m
Fair value of scheme assets	108	-
Present value of scheme liabilities	(95)	-
Defined benefit pension scheme surplus	13	-

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

27 Pension and other schemes (continued)

Scheme assets

Changes in the fair value of scheme assets are as follows:

	2020 £ m	2019 £ m
Net increase in assets from bulk transfers		
Fair value at start of year	-	-
Interest income on scheme assets	1	-
Remeasurement gains on scheme assets	16	-
Net increase in assets from bulk transfers	87	-
Employer contributions	7	-
Net benefits paid out	(3)	-
Fair value at end of year	<u>108</u>	<u>-</u>

Analysis of assets

The major categories of scheme assets are as follows:

	31 December 2020 £ m	31 December 2019 £ m
Equities	35	-
Index-linked gilts	35	-
Corporate bonds	37	-
Cash/net current assets	<u>1</u>	<u>-</u>
	<u>108</u>	<u>-</u>

Actual return on scheme's assets

	2020 £ m	2019 £ m
Actual return on scheme assets	<u>17</u>	<u>-</u>

The pension scheme has not invested in any of the Group's own financial instruments or in properties or other assets used by the Group.

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

27 Pension and other schemes (continued)

Scheme liabilities

Changes in the present value of scheme liabilities are as follows:

	2020 £ m	2019 £ m
Present value at start of year	-	-
Current service cost	6	-
Past service cost (including curtailments)	4	-
Actuarial gains and losses arising from changes in financial assumptions	26	-
Net increase in liabilities from bulk transfers	61	-
Interest expense	1	-
Net benefits paid out	(3)	-
Present value at end of year	95	-

Principal actuarial assumptions

The significant actuarial assumptions used to determine the present value of the defined benefit obligation at the statement of financial position date are as follows:

	31 December 2020 %	31 December 2019 %
Discount rate	1.40	-
RPI inflation	2.80	-
CPI inflation	2.40	-
Rate of general long-term increase in salaries	2.90	-
Pension increases in payment (RPI max 5% pa)	2.70	-
Pension increases in payment (RPI max 3% pa)	2.20	-

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

27 Pension and other schemes (continued)

Post retirement mortality assumptions

	31 December 2020 Years	31 December 2019 Years
Life expectancy for males currently aged 60	26.30	-
Life expectancy for females currently aged 60	27.80	-
Life expectancy at 60 for males currently aged 40	28.20	-
Life expectancy at 60 for males currently aged 40	29.80	-

31 December 2020

SAPS S3 Tables	
Mortality base table adopted	"All" for males and "Middle" for females Scaled by 105% for the SSE Section and by 109% for the SSE Hydro Section
Mortality figure improvements aligned	CMI 2019 projections model with Sk parameter of 7.0 and A parameter of 0.25, and long-term improvement rate of 1.25% pa
GMP equalisation	Cost of equalising benefits for differences in GMPs between males and females taken to be around 0.2% liabilities
Cash commutation	Allowance made for members to take maximum permitted lump sum at retirement by commuting pension based on current commutation terms

Amounts recognised in the income statement

	2020 £ m	2019 £ m
Amounts recognised in operating loss		
Current service cost	6	-
Past service cost (including curtailments)	4	-
Recognised in arriving at operating profit	10	-
Amounts recognised in finance income or costs		
Recognised in other finance cost	-	-
Total recognised in the income statement	10	-

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

27 Pension and other schemes (continued)

Amounts taken to the Statement of Comprehensive Income

	2020 £ m	2019 £ m
Return on scheme assets in excess of that recognised in net interest	(16)	-
Actuarial gains and losses arising from changes in financial assumptions	26	-
Amounts recognised in the Statement of Comprehensive Income	<u>10</u>	<u>-</u>

Sensitivity analysis

A sensitivity analysis for the principal assumptions used to measure scheme liabilities is set out below:

	Change	Value
	£m	£m
DBO at 31 December 2020	-	95
0.25% pa decrease in the discount rate	5	100
0.25% pa increase in the inflation assumptions	5	100
One-year increase in life expectancy	4	99

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

28 Share capital

Allotted, called up and fully paid shares

	31 December 2020		31 December 2019	
	No.	£	No.	£
Ordinary share capital of £0.0001 each	<u>950,000</u>	<u>95.00</u>	<u>950,000</u>	<u>95.00</u>

Rights, preferences and restrictions

Ordinary share have the following rights, preferences and restrictions:

The shares have attached to them full voting, dividend and capital distribution (including on winding up) rights; they do not confer any rights of redemption.

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

29 Share-based payments

Ovo Group Ltd Share Scheme

Scheme details and movements

In July 2014, OVO Group Ltd established a new employee share plan. Under the terms of the scheme, OVO Group Ltd awarded its own employees and employees of other group companies class B, C, D and E ordinary shares in OVO Group Ltd.

B shares ('Employee Shareholder Scheme') are free shares awarded to employees in line with the UK government's employee shareholder status rules. B shares initially had a three year vesting period, however this has been changed to a four year "rolling vesting" period, with a portion of the shares vesting annually, rather than all at the end of the scheme. The vesting period has been modified to give greater control and flexibility to employees.

Employees are given the option to purchase C shares from their bonus. They have a one year vesting period.

D shares are also awarded as part of the LTIP scheme. They have a vesting period based on performance conditions.

E shares are also awarded as part of the LTIP scheme. They have a vesting period based on performance conditions.

The scheme is equity settled and a fair value liability was calculated on grant date. The expense is charged to the income statement on a straight line basis over the expected vesting period of the awards.

Analysis of charge to the consolidated income statement

£000	2020	2019
'B' Shares	350	166
'C' Shares	-	-
'D' Shares	-	-
'E' Shares	-	48
	<hr/> 350	<hr/> 214

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

29 Share-based payments (continued)

Reconciliation of movements in awards

<i>Thousands of shares</i>	'B' Shares	'C' Shares	'D' Shares	'E' Shares
As at 1 January 2020	75	27	408	530
Issued January 2020	7	-	-	-
Forfeited June 2020	(7)	-	-	-
Issued August 2020	59	-	-	-
Issued September 2020	2	-	-	-
Issued at 31 December 2020	136	27	408	530
Weighted average vesting period (months)	4	-	-	-

<i>Thousands of shares</i>	'B' Shares	'C' Shares	'D' Shares	'E' Shares
As at 1 January 2019	85	87	1,845	605
Issued March 2019	-	-	-	-
Issued June 2019	75	-	-	-
Issued December 2019	-	-	-	-
Cancelled	(85)	(60)	(1,437)	(75)
Issued at 31 December 2019	75	27	408	530
Weighted average vesting period (months)	36	-	-	12

Pricing

For the purpose of valuing the awards, to calculate the share-based payment charge all shares issued were valued based on observable market multiples of competitors, discounted cash flow and where available transaction data.

'B' Shares

Upon issuance, the 'B' Shares awarded in June 2017 were valued at £12.10 per share, September 2017 shares were valued at £15.30 per share and December 2017 shares were valued at £15.30 per share. 'B1' Shares issued June 2019 were valued at £14.30 and 'B2' Shares at £2.60. 'B2' and 'B3' Shares issued in 2020 were all valued at £2.07 per share.

'C' Shares

Upon issuance, the 'C' Shares awarded in June 2017 were valued at £17.00 per share and September 2017 shares were valued at £17.00 per share. The 'C' Shares awarded in 2018 were all valued at £17.00 per share. The 'C' Shares awarded in 2018 were all valued at £17.00 per share.

'D' Shares

Upon issuance, the 'D' Shares awarded in June 2017 were valued at £0.31 per share and September 2017 shares were valued at £0.31 per share. There were no 'D' Shares awarded in 2018.

'E' Shares

Upon issuance, the 'E' Shares awarded in 2017 had no fair value. The 'E' Shares awarded in 2018 were valued at £0.20 per share.

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

29 Share-based payments (continued)

Imagine Just 3 Things share scheme

Scheme details and movements

In 2018, Imagine Just 3 Things Ltd established a new employee share plan. Under the terms of the scheme, Imagine Just 3 Things Ltd awarded its own employees class B ordinary shares in Imagine Just 3 Things Ltd.

B shares are free shares awarded to employees. The vesting period is 2 years.

The scheme is equity settled. The shares awarded had a fair value of £Nil on the grant date. No expense has been charged to the income statement.

Reconciliation of movements in awards

<i>Thousands of shares</i>	'B' Shares
As at 1 January 2020	1
Issued	-
Forfeited during the period	-
Derecognised on transfer of business	(1)
As at 31 December 2020	-
Weighted average vesting period (months)	-

<i>Thousands of shares</i>	'B' Shares
As at 1 January 2019	2
Issued	-
Forfeited during the period	1
As at 31 December 2019	1
Weighted average vesting period (months)	6

Vertical Aerospace Share Scheme

Scheme details and movements

In 2018, Vertical Aerospace Ltd established a new employee share plan. Under the terms of the scheme, Vertical Aerospace Ltd awarded its own employees class B1 ordinary shares in Vertical Aerospace Ltd.

B1 shares are free shares awarded to employees. The vesting period ranged from immediate to 4 years.

The scheme is equity settled. The shares awarded had a fair value of £Nil on the grant date. No expense has been charged to the income statement.

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

29 Share-based payments (continued)

Reconciliation of movements in awards

<i>Thousands of shares</i>	'B1' Shares
As at 1 January 2020	13
Issued	-
Forfeited	-
Derecognised on transfer of business	(13)
As at 31 December 2020	-
Weighted average vesting period (months)	-

<i>Thousands of shares</i>	'B1' Shares
As at 1 January 2019	11
Issued	5
Forfeited	(3)
As at 31 December 2019	13
Weighted average vesting period (months)	24

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

30 Financial instruments

Group

Financial assets

	Carrying value		Fair value	
	31 December 2020 £ m	31 December 2019 £ m	31 December 2020 £ m	31 December 2019 £ m
Cash and cash equivalents	54	32	54	32
Trade and other receivables	1,083	136	1,083	136
	<u>1,137</u>	<u>168</u>	<u>1,137</u>	<u>168</u>

Valuation methods and assumptions

Financial assets:

The fair value of financial assets is based on the expectation of recovery of balances. Impaired receivables mainly relate to customers from whom it is unlikely that full payment will ever be received. There have been no historic defaults over the other receivables balance, therefore the full balance is expected to be received. The primary inputs used to impair the receivable balances are not based on observable market data.

Financial liabilities

Financial liabilities at amortised cost

	Carrying value		Fair value	
	31 December 2020 £ m	31 December 2019 £ m	31 December 2020 £ m	31 December 2019 £ m
Trade and other payables	812	266	812	266
Loans, borrowings and leases	574	23	591	23
	<u>1,386</u>	<u>289</u>	<u>1,403</u>	<u>289</u>

Valuation methods and assumptions

Financial liabilities at amortised cost

The fair value of trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material. Due to their short maturities, the fair value of the trade and other payables approximates to their book value. The inputs used to determine the liability are not based on observable market data.

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

30 Financial instruments (continued)

Forward contracts

During the course of the year the Group has assessed all forward contracts for securing gas and electricity and determined that the contracts are entered into for the purpose of "own use". As such, no derivatives have been accounted for in relation to these contracts.

Company

Financial assets

	Carrying value		Fair value	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
	£ m	£ m	£ m	£ m
Cash and cash equivalents	4	7	4	7
Trade and other receivables	22	5	22	5
	<u>26</u>	<u>12</u>	<u>26</u>	<u>12</u>

Valuation methods and assumptions

Trade and other receivables:

The fair value of loans and receivable is based on the expectation of recovery of balances. The individually impaired receivables mainly relate to related parties and more information is given in the related parties note. The primary inputs used to impair the receivable balances are not based on observable market data.

Financial liabilities

Financial liabilities at amortised cost

	Carrying value		Fair value	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
	£ m	£ m	£ m	£ m
Trade and other payables	1	3	1	3
Loans and borrowings	10	-	10	-
	<u>11</u>	<u>3</u>	<u>11</u>	<u>3</u>

Valuation methods and assumptions

Financial liabilities at amortised cost

The fair value of trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material. Due to their short maturities, the fair value of the trade and other payables approximates to their book value. The inputs used to determine the liability are not based on observable market data.

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

31 Reconciliation of liabilities arising from financing activities

Group

	At 1 January 2020 £ m	Financing cash flows £ m	Non-cash changes New finance leases £ m	Other changes £ m	At 31 December 2020 £ m
Long term borrowings	-	455	-	(40)	415
Short term borrowings	-	-	-	91	91
Lease liabilities	23	(21)	45	21	68
	<u>23</u>	<u>434</u>	<u>45</u>	<u>72</u>	<u>574</u>

'Other changes' column includes the effect of accrued but not yet paid interest on interest-bearing loans and borrowings, including lease liabilities, and reclassification of amounts between long term and short term borrowings.

Company

	Financing cash flows £ m	At 31 December 2020 £ m
Long term borrowings	<u>10</u>	<u>10</u>

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

32 Financial risk management and impairment of financial assets

Group

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

Risk management is carried out by the Combined Risk and Audit Committee, under policies approved by the Directors and the Group management team.

Credit risk and impairment

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and from security deposits held by suppliers as collateral (totalling £52m) and distributors and deposits with the Group's bank.

The carrying amount of financial assets represents the maximum credit exposure. Therefore, the maximum exposure to credit risk at the balance sheet date was £1,083m (2019: £136m) being the total of the carrying amount of financial assets, excluding equity investments and cash, which include trade receivables and accrued income.

The Group manages credit risk relating to trade receivables and accrued income by monitoring the ageing of outstanding balances regularly and, depending on the business units, assessing the creditworthiness of a new customer before trade commences. As the Group's customer base is residential and therefore diverse, there is limited concentration of risk.

The Group measures expected credit loss by performing an impairment analysis at each reporting date. Expected credit losses are recognised unless the Group is satisfied that no recovery of the amount owing is possible, at that point the amounts considered irrecoverable are written off against the trade receivable directly. The Group 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 industry. Trade receivables are written off only after a period of time has elapsed since the final bill. Enforcement activity continues in respect of these balances unless there is specific known circumstances that removes any value in further action.

The credit quality of financial assets that are neither due or impaired can be assessed by reference to historical information about counterparty default rates. Impaired receivables mainly relate to customers from whom it is unlikely that full payments will be received. The simplified approach of measuring lifetime expected credit losses has been adopted to measure expected credit loss on trade receivables and accrued income. The provision rates are based on days past due for groupings of outstanding receivables based on brands, whether the receivables is billed or unbilled; and whether the customer has left.

COVID-19

As a result of the pandemic, management evaluates that the credit risk on the trade receivables and accrued income have increased since recognition. Management has taken into account unemployment and other economic factors when measuring expected credit losses.

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

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

Allowances for impairment by credit losses

	Trade receivables and accrued income £ m
2020	
At start of year	78
Additional impairment for credit losses recognised in the year	122
Amounts written off	(48)
Increase arising via acquisition of subsidiary	111
At end of year	263
	Trade receivables and accrued income £ m
2019	
At start of year	53
Additional impairment for credit losses recognised in the year	25
At end of year	78

All credit impairment losses recognised within the Group related to contracts with customers.

Set out below is the information about the credit risk exposure on the Group's trade receivables and accrued income using a provision matrix:

		Days past due				
	Accrued income & non-customer receivables	Current	31-60 days	61-90 days	>90 days	Total
	£ m	£ m	£ m	£ m	£ m	£ m
Expected credit loss rate	8.5%	45%	16%	33%	47%	22%
Estimated total gross carrying amount at default	653	113	77	61	252	1,156
Expected credit loss	56	51	12	20	118	257

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

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

2019		Days past due				
	Accrued income & non-customer receivables	Current	31-60 days	61-90 days	>90 days	Total
	£ m	£ m	£ m	£ m	£ m	£ m
Expected credit loss rate	46%	10%	24%	45%	61%	42%
Estimated total gross carrying amount at default	77	38	11	8	53	187
Expected credit loss	35	4	3	4	32	78

Market risk

Interest rate risk

The Group borrows to finance its operations and growth. Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates. The Group aims to minimise interest risk in order to optimise cost of capital.

Sensitivity analysis

The Group has performed an analysis of the sensitivity of the Group's financial position and performance to changes in interest rates. The Group deems a one percentage point move in UK interest rates to be reasonably possible. The Group's loss before tax is affected through the impact on floating rate borrowings as follows:

	Increase/decrease in basis points	Effect on loss before tax
Term loan facilities	+100	3
	(100)	(3)

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

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

Commodity price risk

Commodity risk is the exposure that the Group has to price movements in the wholesale gas and electricity 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 Group 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 Group's exposure to commodity risk is managed through the use of derivative financial instruments. The Group does not use derivatives and other financial instruments for speculative purposes.

The 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 Group's expected purchase and sale requirements and are therefore out of scope of IFRS 9. Energy contracts that are not financial instruments under IFRS 9 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 IFRS 9 is monitored for internal risk management purposes, only those energy contracts within the scope of IFRS 9 are within the scope of the IFRS 7 disclosure requirements.

Liquidity risk

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

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

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

Maturity analysis

	Within 1 year	Between 1 and 5 years	After more than 5 years	Total
	£ m	£ m	£ m	£ m
2020				
Trade and other payables	812	-	-	812
Loans and borrowings	-	10	513	523
Lease liabilities	18	40	25	83
	<u>830</u>	<u>50</u>	<u>538</u>	<u>1,418</u>
		Within 1 year	After 1 year	Total
		£ m	£ m	£ m
2019				
Trade and other payables		266	-	266
Lease liabilities		3	20	23
		<u>269</u>	<u>20</u>	<u>289</u>

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

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

Capital risk management

Capital risk is managed to ensure the Group continues as a going concern and grows in a sustainable manner.

The Group maintains a consolidated financial model to monitor the development of the Group's capital structure, which has the ability to model various scenarios and sensitivities. Key outputs from this model are regularly presented to the board.

Net debt is calculated as total loans and borrowings plus lease liabilities less cash and cash equivalents. Total capital is calculated as net debt plus total equity. Gearing ratio is calculated as net debt as a percentage of total capital.

	31 December 2020 £ m
Loans and borrowings	506
Lease liabilities	68
Less: cash and cash equivalents	<u>(54)</u>
Net debt	520
Total equity/(deficit)	<u>(113)</u>
Total capital	407
Gearing ratio	128%

The Group's borrowings are subject to meeting its financial covenants attached to the Group's credit facilities. The Group complied with all external borrowing covenants during the period ended 31 December 2020. Compliance with these covenants is monitored by management on a monthly basis.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2020 and 2019.

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

33 Related party transactions

Key management personnel

Key management includes Directors and members of the OVO Group management team. The compensation paid or payable to key management for employee services to the Group's subsidiaries is shown below.

Key management compensation - Group

	31 December 2020 £'000	31 December 2019 £'000
Salaries and other short term employee benefits	1,249	2,169
Post-employment benefits	37	-
Share-based payments	109	-
	<u>1,395</u>	<u>2,169</u>

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

33 Related party transactions (continued)

Summary of transactions with key management

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

Other transactions with directors

In 2020, the Company loaned the key management personnel of the Group the following amounts:

	2020 £ m	2019 £ m
At 1 January	-	1
Advanced	7	7
Repaid	-	(8)
At 31 December	<u>7</u>	<u>-</u>

Summary of transactions with entities controlled by the same ultimate controlling party

During the year, the Company provided loan funds to Vertical Aerospace Group Ltd of £5,600,000 (2019: £Nil). The loan incurred an interest charge at 30% (2019: £Nil) of £709,000 (2019: £Nil). As at 31 December 2020, the total balance outstanding was £6,309,000 (2019: £Nil). At the year end, a provision of £4,490,000 (2019: £Nil) was held against the receivable.

During the year ended 31 December 2020, the Group's subsidiary Imagination Industries Incubator Ltd charged Vertical Aerospace Group Ltd management fees of £72,000. As at 31 December 2020, the total balance outstanding was £72,000.

During the year ended 31 December 2020, the Vertical Aerospace Group Ltd received funds from the Group's subsidiary Imagination Industries Aero Ltd of £440,000. No interest was charged. During the year £346,000 was repaid. As at 31 December 2020, the total balance owed to Imagination Industries Aero Ltd was £94,000.

During the year ended 31 December 2020, the eVTOL business was transferred from the Group's subsidiary Imagination Industries Aero Ltd to Vertical Aerospace Group Ltd for £1.

During the year, the Vertical Aerospace Group Ltd charged the Group's subsidiary Vertical Advanced Engineering Ltd for engineering design services of £19,000 which remained unpaid at 31 December 2020.

During the year, the Company provided loan funds to Imagine Just 3 Things Ltd of £1,614,000 (2019: £1,471,000). The loan incurred an interest charge at 7% (2019: 7%) of £290,000 (2019: £198,000). As at 31 December 2020, the total balance outstanding was £5,105,000 (2019: £3,781,000). At the year end, a provision of £4,938,000 (2019: £3,539,000) was held against the receivable.

During the year, OVO Energy Ltd incurred costs of £36,000 payable to Imagine Just 3 Things Ltd (2019: £nil). No amounts were outstanding to Imagine Just 3 Things Ltd as at 31 December 2020 or 31 December 2019.

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

33 Related party transactions (continued)

Summary of transactions with subsidiaries

During the year, the Company charged OVO Group Ltd brand royalty fees totalling £16m (2019: £6,871,000). As at 31 December 2020, OVO Group Ltd owed Imagination Industries Ltd £10m (2019: £2,758,000).

During the year, the Company repaid loan funds from OVO Group Ltd of £nil (2019: £194,000). The loan incurred no interest charge. As at 31 December 2020, the total loan balance owed to OVO Group Ltd was £nil (2019: £nil).

During the year, the Company charged OVO Energy Ltd brand royalty fees totalling £5m (2019: £7m). As at 31 December 2020, OVO Energy Ltd owed Imagination Industries Ltd £4m (2019: £3m).

During the year, the Company provided loan funds to Imagination Industries Aero Ltd of £7,193,000 (2019: £11,003,000). The loan incurred an interest charge at 7% (2019: 7%) of £1,538,000 (2019: £635,000). As at 31 December 2020, the total balance outstanding was £25,813,000 (2019: £17,082,000). At the year end, a provision of £24,836,000 (2019: £16,427,000) was held against the receivable.

During the year, the Company provided loan funds to Imagination Industries Incubator Ltd of £4,390,000 (2019: £2,706,000). The loan incurred an interest charge at 7% (2019: 7%) of £415,000 (2019: £220,000). As at 31 December 2020, the total balance outstanding was £7,097,000 (2019: £4,885,000). At the year end, a provision of £7,029,000 (2019: £4,035,000) was held against the receivable.

During the year, the Company provided loan funds to Kensington RG Ltd of £440,000 (2019: £Nil). The loan incurred an interest charge at 7% (2019: Nil) of £5,000 (2019: £Nil). As at 31 December 2020, the total balance outstanding was £445,000 (2019: £Nil). At the year end, a provision of £390,000 (2019: £Nil) was held against the receivable.

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

33 Related party transactions (continued)

Summary of transactions with associates

During the year, a loan of £3,000,000 provided to Indra Renewable Technologies Limited was novated from OVO Group Ltd to Intelligent Energy Technology Ltd. Interest is charged at 7%. As at 31 December 2020, the total balance owed by Indra Renewable Technologies Limited was £3,094,000 (2019: £nil).

During the year, OVO Energy Ltd incurred costs of £1,059,000 payable to Indra Renewable Technologies Limited (2019: £150,000). No amounts were outstanding to Indra Renewable Technologies Limited as at 31 December 2020 or 31 December 2019.

During the year, The Renewable Exchange Limited repaid loan funds from Intelligent Energy Technology Ltd of £nil. The loan incurred an interest charge at 7% of £53,000 (2019: £16,000). As at 31 December 2020, the total balance owed by The Renewable Exchange Limited was £819,000 (2019: £766,000).

During the year, Chaddenwy Services Limited repaid loan funds from Intelligent Energy Technology Ltd of £nil. The loan incurred an interest charge at 7% of £100,000 (2019: £17,000). As at 31 December 2020, the total balance owed by Chaddenwy Services Limited was £1,117,000 (2019: £1,017,000).

During the year, the Company provided loan funds to Akili Partners Ltd of £959,000 (2019: £489,000). The loan incurred an interest charge at 7% (2019: 7%) of £19,000 (2019: £19,000). As at 31 December 2020, the total balance outstanding was £959,000 (2019: £508,000). At the year end, a provision of £938,000 (2019: £390,000) was held against the receivable.

34 Parent and ultimate parent undertaking

The ultimate controlling party is Stephen Fitzpatrick.

35 Contingent liabilities

Group

The UK Government has set out a requirement for energy suppliers to take all reasonable steps to roll out smart meters to all of their domestic customers by 31 December 2021 (previously 30 June 2021). Failure to achieve the annual installation targets will be a breach of a supplier's licence which could subject OVO to financial penalties imposed by Ofgem. OVO continues to install smart meters in all regions in line with regulations and has not recognised any contingent liability in regards to non-compliance with this requirement.

Imagination Industries Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

36 Non adjusting events after the financial period

Sale of Large Power Metering business

On 25 February 2021, the Group publicly announced the decision of its Board of Directors to sell its Large Power Metering business, which was a line of business within OVO (S) Metering Limited, an indirect subsidiary of Imagination Industries Ltd.

The sale completed on 6 April 2021, within a year from the reporting date. At 31 December 2020, the Large Power Metering business was classified as a disposal group held for sale. See Note 21.

Partnership with AGL Energy

In March 2021 OVO Group Ltd announced a joint venture with AGL, Australia's largest energy retailer and generator to bring digital energy services to Australia.

As part of the agreement, AGL will invest in OVO Energy Australia to adapt the Kaluza platform for Australia and serve a growing customer base with innovative products and services. The companies will work together, drawing on their expertise in low-carbon innovation and energy retail, to develop digital customer experiences that may ultimately help support AGL's customers who are looking to reduce their costs and carbon emissions through innovative products and services.

Loan facility

In October 2021, the Company agreed an increase to its revolving credit facility with Investec Bank of £10m. This brings the total amount available for borrowing to £30m.

37 Audit exemption of subsidiary

OVO Group Ltd has guaranteed the liabilities of the following subsidiaries in order for them to qualify for the exemption from audit under Section 479A of the Companies Act 2006 in respect of the year ended 31 December 2020:

- Intelligent Energy Technology Ltd (company number 08330989)
- OVO Field Force Ltd (company number 08785057)
- OVO Holdings Ltd (company number 10722665)
- Corgi Homeplan Ltd (company number SC358475)
- Corgi Homeheat Limited (company number SC431485)
- Spark Energy Limited (company number SC301188)
- Spark Gas Shipping Ltd (company number 05857480)
- Kantan Ltd (company number 11681210)
- OVO Insurance Services Ltd (company number 11113317)
- OVO (S) Energy Services Limited (company number 11046212)
- OVO (S) Energy Solutions Limited (company number SC386054)
- OVO (S) Home Services Limited (company number SC292102)
- OVO (S) Metering Limited (company number SC318950)

Imagination Industries Ltd has guaranteed the liabilities of the following subsidiaries in order for them to qualify for the exemption from audit under Section 479A of the Companies Act 2006 in respect of the year ended 31 December 2020:

- Vertical Advanced Engineering Ltd (company number: 04960248)
- Vertical Aerospace Ltd (renamed as Imagination Industries Aero Ltd) (company number: 08330792)
- Imagination Industries Incubator Ltd (company number: 11062169)
- Kensington RG Ltd (company number: 12762985)