Registration number: 06890468

Imagination Industries Ltd

Annual Report and Consolidated Financial Statements

for the Year Ended 31 December 2016

Imagination Industries Ltd

Contents

Imagination Industries Ltd

Company Information

Directors	Stephen Fitzpatrick Sophie Fitzpatrick
Company secretary	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 2016

The directors present their strategic report for the year ended 31 December 2016.

Introduction

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

Our work is far from complete, but during the past eight years we have built a brand people value and trust. OVO now has more than 800,000 customers and has topped the Which? customer satisfaction chart two years in a row. From humble beginnings in a barn in Gloucestershire we have become the UK's leading independent energy company with offices in Bristol and London.

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

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

Smart homes

At OVO we were quick to see the potential of smart energy services. We championed the smart meter rollout, setting up our own Field Force team to take the OVO brand from the virtual to the physical as our highly-trained engineers to install smart meters in customers' homes. More than 45% of our customers now have a smart meter.

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

We have increased our capabilities in part through a series of acquisitions and investments. If the introduction of the OVO Field Force was the first step in our evolution to a smart energy company, the addition of CORGI, and its network of 5,000 engineers, sets us up for large scale growth in smart home services. We now have the capacity to expand and deepen our relationship with our customers, from offering boiler installations and smart heating systems to maintenance and insurance plans.

We also acquired VCharge and its intelligent energy system, VNet, which automates and orchestrates how smart devices are used within and outside the home, and provides a secure and scalable platform for the 'internet of things'. By applying the VNet software to batteries and other storage devices we will make renewable power accessible and reliable at all times, not just when the sun is shining or when the wind is blowing. Bringing this flexibility to the energy system will help smooth the peaks and troughs in energy pricing, preventing customers overpaying at times of high demand while helping to balance the grid at a local and national level.

Zero carbon transport

The accelerating trend towards electric vehicles is further opportunity for OVO to offer value to our customers. We have invested in Indra Renewable Technologies and ChargedEV - an electric vehicle services supplier - with whom we are developing game-changing hardware solutions that will unlock the potential of vehicle-to-grid charging.

We have also launched our EV Everywhere bundle and partnered with Chargemaster to give EV drivers access to the largest national network of EV charging points. Through smart charging capabilities, available on a national scale, electric vehicles will ultimately function as mobile batteries at home and on-the-go. Energy will be distributed evenly, helping to balance grids and accelerate the transition to a zero carbon future.

The customer is always in the room

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

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

Group Strategy

OVO's strategy is to look beyond the traditional energy retail model and build a group of innovative companies that harness technology to unlock long term value for customers, and ultimately fuel human progress by providing abundant clean energy for everyone.

Smart Supply - OVO Energy

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

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

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

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

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

Intelligent trading

OVO Energy's trading team has developed a number of tools in-house to purchase commodities as efficiently as possible and reduce trading risks. This helps us to manage the 3.3Terrawatt hours of electricity and 9.1Terrawatt hours of gas OVO Energy purchases every year, passing on savings from intelligent trading through reduced customer bills.

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

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

Introducing Boost

In 2015 OVO launched Smart PAYG+, the first truly smart prepayment platform in the UK, removing the need for inconvenient card or key top-up systems, and instead letting customers add credit through a smartphone app linked to a smart meter. Customers using Smart PAYG+ can easily track their energy usage and spending, and set up automatic top ups, making their lives easier and reducing cost through the use of technology.

In 2017, following the success of the Smart PAYG+ platform, OVO has decided to focus on growing its prepay customer base further by creating a standalone brand that better resonates with consumers with prepay meters. Launched in September 2017, Boost offers the same game-changing technology and unparalleled levels of customer service as before with a fresh new look and the strapline: 'Power in your hands.'

OVO's PAYG customer base currently represents 4% of the overall market of five million UK homes with prepay meters, meaning there is a significant growth opportunity for Boost given its strong product and service differential. These standout elements will be even more important now that regulation has been introduced to cap PAYG prices. Boost is in a great position to offer PAYG customers a better energy service in a rigid, antiquated and commoditised product category.

The launch of Boost signifies a key step in OVO's evolution towards becoming a multi-brand, multi-service energy company, with a suite of products and services appealing to different customer needs and requirements, collectively underpinned by market-leading customer service and an unwavering commitment to providing innovative and valuable ways for customers to engage with energy.

Smart Solutions - VCharge

OVO's mission is to transform energy from the other end of the wire by utilising new technologies to put the needs of the customer and the planet at the heart of future energy systems. It is about creating smart energy solutions - which can help address the complex challenge of providing reliable, affordable and renewable energy at scale. To create those solutions, OVO acquired VCharge, an energy technology company working to solve the problem of renewables intermittency in order to accelerate the transition to a zero carbon future. VCharge has developed a groundbreaking technology solution that uses advanced algorithms to balance grid requirements with individual user requirements, through remote control of energy storage devices.

The first application of VCharge's pioneering VNet technology has focused on controlling electric storage heating in social housing to better manage resident comfort and to address the issue of fuel poverty, while simultaneously supporting the widespread adoption of renewable energy by providing valuable grid balancing services. But that's just the start. VCharge's technology has the potential to aggregate limitless numbers of storage devices - such as in-home batteries and electric vehicles - to produce a massive flexible electrical load. The VNet platform responds in fractions of a second to strain on the grid to increase or decrease the demand side, and help to stabilise the frequency of electricity; using smart grid technology to create a 'virtual power plant'.

Essentially VCharge intelligently controls storage devices to provide a similar frequency response service as gas turbines do by ramping up and down according to demand. And it does this within the constraints of the customers' needs and comfort. By applying the VCharge technology at scale, OVO will be able to intelligently harness the enormous potential of energy storage in reducing dependency on fossil fuels, while helping to make energy more affordable for all.

Smart homes - IHT and CORGI HomePlan

As the transition to a truly smart energy system gathers pace, customers will increasingly demand timely and trusted access to the technical hardware that will power the shift to a digitised future.

OVO has long been at the vanguard of suppliers driving the installation of smart meters through its In Home Technology (IHT) business. Those smart meters are the gateway to a range of products and services that will transform the energy system in the future. IHT installed 137,000 smart meters in OVO customers' homes in 2016 and almost 90,000 in the first half of 2017. 45% of customers now benefit from having a smart meter, including over two in three prepayment customers, who are able to use the Smart PAYG+ smartphone app to better manage their energy needs.

The increase in smart meter installation rates has been supported by the expansion of the OVO Field Force team of in-home engineers, launched in 2015 and now totalling over 140, which consistently delivers leading levels of customer satisfaction.

Building on the success of IHT and Field Force, OVO this year acquired CORGI HomePlan to enable more customers to realise the benefits of relentless technological progress in their own homes. Founded in 2011, CORGI HomePlan is the UK's third largest home services provider with approximately 150,000 customers across the UK. The company's values mirror OVO's focus on delivering exceptional customer service at fair prices, and have helped build high levels of consumer trust.

In addition to providing insurance services, CORGI HomePlan operates a proprietary technology platform supporting a network of 5,000 independent engineers across the UK providing installation and home emergency servicing. Adding CORGI HomePlan to the OVO portfolio provides significant additional capabilities and scale through which it will install and maintain a wide range of in-home technologies, hardware and services. The combination of OVO and CORGI HomePlan's trusted brands and innovative technology platforms offers customers increased access to intelligent energy services and the opportunity to create truly smart homes.

Smart transport - Electric Vehicles

OVO has long considered electric vehicles (EVs) a potential game changer for the energy sector and has focused much of the past 12 months exploring what kind of technologies would be necessary to make mainstream EV adoption feasible. To address industry challenges, such as consumer range anxiety, charge point infrastructure installation, offpeak and urban charging, grid stability, and customer engagement, OVO has sought to acquire businesses and establish partnerships that will drive forward the transition to a zero carbon, smart transport system.

New smart charging technology will make electric cars an important energy storage resource on the grid while also giving drivers the ultimate control over their energy and the ability to make money from their vehicle as an energy storage device. To accelerate the transition to smart charging, OVO has invested in EV charge point specialist ChargedEV and Indra Renewable Technologies, an electric vehicle components and services supplier, harnessing their technical expertise to develop a game-changing vehicle-to-grid (V2G) charger, due to be launched to market in early 2018.

The OVO V2G charger will utilise VCharge's proprietary VNet technology platform to provide grid balancing services and automatically optimise charging patterns to take advantage of off-peak energy pricing. The charger will enable EVs to function as mobile batteries, balancing renewable energy on the grid and allowing drivers to sell back unused energy.

Through a new partnership with Chargemaster, the UK's biggest provider of electric vehicle charging infrastructure, OVO is supplying one hundred percent renewable energy to the POLAR network, the largest EV charging network in the UK. OVO will begin to introduce its proprietary VNet technology across the network, unlocking smart charging capabilities on a national scale. OVO launched its first EV offering for consumers in August 2017. EV Everywhere, a unique energy bundle, features 100 percent renewable household electricity and free membership to the POLAR network of more than 5,000 UK EV charge points, offering a one-stop zero carbon energy solution both at home and on the road.

Smart ideas - OVO Foundation

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

OVO Foundation is funded partly from customer donations, and partly from the OVO business: at the end of 2016, 65,000 customers donated to OVO Foundation each month, a 43% increase from 2015. All customer donations are matched by OVO, with a further endowment from the business ensuring an annual income of £1m. As all overheads are covered by OVO, 100% of donations go to OVO Foundation's projects and partners.

The OVO Foundation approach entails extensive research into pressing social issues, followed by collaboration with relevant experts and organisations to create and launch innovative solutions. In this way, OVO Foundation has the capacity to pioneer high-impact, solution-led projects that have the potential to radically improve people's lives and 2016/17 saw the design and delivery of several new initiatives.

OVO Gives Back

OVO Gives Back is a brand new scheme that sees four local charities benefit from all-year-round volunteering as well as a share from OVO Foundation's £100,000 Community Chest each year.

Future Builders

Future Builders is an exciting new scheme helping to transform the lives of homeless young people in Bristol by offering them the chance to refurbish semi-derelict Council properties that will then become their home. By focusing on combining practical skills development with access to affordable housing, the scheme has not only provided education and employment opportunities, but has also brought unused housing stock back into use. The scheme addresses issues that contribute to the cycle of youth homelessness, including the lack of affordable housing and current move-on options for young homeless people, as well as the lack of opportunity for young people who have been out of education or employment for a period of time.

In 2016 OVO also developed partnerships with two primary schools in Bristol where 55 OVO mentors attend weekly 20-minute learning sessions to help build children's ability and confidence in maths and reading.
Throughout the year, OVO Foundation continued to support Cool Earth by bringing 225 energy-efficient stoves to communities in the Democratic Republic of Congo. OVO also continued to host CoderDojo coding clubs in its London and Bristol offices, which are run by OVO volunteers and have so far been attended by almost 200 local children.

OVO Culture

OVO aims to create a dynamic and inspiring work culture where ambition thrives, and its people aspire to achieve real change on behalf of OVO's customers, the energy industry and society as a whole. Transparency and communication are key to OVO's culture. Monthly 'Town Halls' are open forums where any member of employees can question senior management, and everyone can hear more about OVO's vision and purpose first hand.

All employees are kept up-to-date through a newly relaunched intranet - the Kitchen Table - which operates as a one-stop shop for OVO news, views and useful information. The team is encouraged to share their experiences of working at OVO using #OVOAdventures across social media. OVO continues to focus on ensuring all employees are engaged in its three core values: find a way, be the good guys, and build something great. These values are ingrained in OVO's culture, from recruitment (testing values before ability), to an annual awards ceremony celebrating the people who truly demonstrate this behaviour.

OVO's values-led approach also mean the company believes passionately in giving back to the communities in which it operates. Through its 'OVO Gives Back' initiative, over 1,000 volunteer hours are donated every year to charity partners, selected through a employees nomination and voting process.

OVO is serious about attracting and investing in the best talent and has recently invested heavily in increasing its technology and product resource, creating an in-house team of developers, product managers and UX and design experts who are united in their passion to use the power of technology to change energy for the better.

The company also offers leadership and coaching qualifications to all employees through OVO University (an Institute of Learning Management accredited centre), flexitime for non-customer facing employees, a competitive reward package, wellbeing support via an external partner and much, much more - including twice yearly parties to say thank you to employees for all their hard work. It is this unique offering that makes OVO a great place to work, which in turn attracts great people who deliver the best for OVO's customers, and who are motivated to play their part in building an innovative, future-facing energy company.

Reducing Environmental Impact

OVO was the first top ten supplier to remove coal from its fuel mix in 2015 and has since gone further in its efforts to reduce its environmental impact and to offer its customers more renewable electricity. In 2016/17, OVO's fuel mix was 64.7% renewable, 35.3% gas, which equates to a 31% reduction in carbon intensity on the previous year.

OVO's 'Greener' tariff offers 100% renewable electricity and all of OVO's other tariffs have at least 33% renewable electricity as standard. OVO's newly launched 'EV Everywhere' bundle offers 100% renewable electricity both at home, and on the road, through Chargemaster's POLAR network of 5,000 chargepoints nationwide. Through its 'I Dig Trees' partnership with the Conservation Volunteers, OVO Energy planted 250,000 saplings over the last year on behalf of its 'Greener' customers. Since the launch of the partnership in 2015, OVO has enabled 400,000 native trees to be planted in urban spaces and communities all over the UK.

Powering sport and music

Over the course of the last 12 months, OVO Energy has ensured its brand connects with new audiences by presenting major sponsorships in both sport and music, reflecting a shared passion for innovation, science and sustainable living. OVO Energy became the title sponsor of the Women's Tour and the Tour of Britain in 2017. The sponsorship of the two top elite cycling events in the UK - which together cover 1,900 kilometres and boast more than 200 competitors, two million spectators and 14 million television viewers - linked the OVO Energy brand with an intrinsically sustainable mode of transport and innovation-led sport, and enabled a free-to-view sporting event to be brought to more fans across the country.

In July 2017, OVO Energy was the headline sponsor of Bluedot, an award-winning festival combining a stellar line-up of music with a ground-breaking programme of live science experiments, expert talks and immersive artworks. Bluedot saw OVO Energy position itself at the intersection of innovation and progress, and connect with music and science fans new and old.

Smart investments resulting in record profits

2016 was a landmark year for OVO. The Imagination Industries Group posted record full-year profits before tax of £9.5m, benefiting from its strategy of investing early in smart meter technology.

During the past year, OVO has continued to invest heavily in technology in line with its commitment to driving future operational efficiencies and delivering the energy system of the future that customers want. Despite increasing investment, administration costs as percentage of revenue remained flat at 16.4% between 2015 and 2016.

*Adjusted EBITDA excludes one-offs, including the sale of the SMA business in 2016 for £38.2m and net customer acquisition costs, representing those costs resulting from growing OVO's customer base.

Smart investments underpinning growth and expanding OVO's offering

OVO continued its transformation this year with four key strategic investments. These acquisitions will help OVO achieve its long-term vision of building the energy system of the future as well as well as boosting OVO's customer numbers from 559,000 at the start of 2016 to 819,000 by 30 June 2017.

VCharge Group

The acquisition of the VCharge group in December 2016 was the first acquisition in OVO's seven year history and the Group's first investment in overseas technology. VCharge has developed a proprietary technology platform ('VNet') that uses advanced algorithms to balance the grid with individual user requirements. The acquisition underlines our focus on developing solutions that harness the disruptive power of technology to solve the problems facing the energy sector.

CORGI Group

OVO acquired CORGI HomePlan in May 2017 adding an additional 145,000 distinct customers to the group. The acquisition is another step in OVO's transition from core energy supplier towards a truly integrated energy services company. Adding CORGI expands OVO's network of services - which currently installs smart meters and smart-grid services such as VCharge - to include the capability to install and maintain boilers, thermostats and other technology.

Hybrid Energy Solutions and Indra Renewable Technologies

Two smaller investments were made at the end of first half of 2017. OVO purchased 51% of the share capital of Hybrid Energy Solutions (which trades under the ChargedEV brand), a specialist in electric vehicle charging point technology, as well as 24.9% of Indra Renewable Technologies, an electric vehicle components and services supplier.

Customer economics and accounting for customer acquisition costs

OVO invests in customer acquisition and growth based on a long-term view of a customer's lifetime value. OVO is committed to building customer loyalty through exceptional customer experience and value for money.
Customer churn is closely monitored with sophisticated models to estimate the average lifetime of a customer. The acquisition of each new customer gives rise to an accounting loss at the point of acquisition. However, the profit generated by a customer over their expected lifetime far exceeds the initial costs. OVO is focused on increasing profitability by expanding operational efficiencies, delivering innovative new propositions and increasing customer lifetime.

Management of customer payments

Customer payments are an important component of OVO's working capital cycle and OVO takes a unique approach in this area. New customers on standard credit tariffs pay one month's direct debit (DD) payment upfront. The upfront payment is recognised in OVO's accounts as deferred income and unwinds (i.e. becomes recognised) as revenue as customers use energy. In return for making payments upfront, customers receive the OVO Interest Reward which pays 3% - 5% interest on credit balances throughout the year, depending on how long they have been with OVO, a benefit which is highly valued by our customers.

While a customer's DD amount reflects a flat monthly payment profile, their balance will fluctuate significantly as energy usage is highly seasonal. OVO carefully monitors balances during the year to ensure that DD amounts are appropriately set to cover a customer's anticipated usage.

Key Financial and Performance Indicators

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

	Unit	2016	2015
Customer numbers	No.	660,000	569,000
Cash	£'000	70,387	64,165
Ovo Annualised gross profit margin (before unrealised derivative gains/losses)	%	15	11
PBT&NAC	£'000	38,349	(6,141)

Reconciliation to statutory results	**2016**	**2015**
	£'000	**£'000**
PBT&NAC	**38,349**	**(6,141)**
Net Acquisition Costs	(11,196)	(11,493)
(Loss) / Profit Before Tax	**27,153**	**(17,634)**

Principal risks and uncertainties

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

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

Approved by the Board on 27 September 2017 and signed on its behalf by:

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Stephen Fitzpatrick
Director

Imagination Industries Ltd

Directors Report for the Year Ended 31 December 2016

The directors present their report and the consolidated financial statements for the year ended 31 December 2016.

Directors of the group
The directors who held office during the year were as follows:

Stephen Fitzpatrick

Sophie Fitzpatrick

Dividends
The directors do not propose a dividend for the year ended 31 December 2015 (2014: non proposed).

Financial instruments
Financial risk management objectives and policies and the exposure of the group to price risk, credit risk, market risk and liquidity risk is discussed in Note 26 of the accounts.

Charitable donations
During the year the group made charitable donations of £1,000,000 (31 December 2015: £1,023,000) Individual donations were:

	£
Ovo Charitable Foundation Limited	1,000,000

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

Employee involvement
The Group is actively encouraging employee involvement throughout the organisation. The Group holds regular company wide briefings where the latest information is shared, including financial and economic factors that affect the performance of the Group. Employee performance and development is reviewed on a quarterly basis and ensured it is in line with the overall Group's objectives. The Group's employee forum and social committee is chaired by its employees for its employees. The Group also introduced a new share scheme for employees in the year. More detail is disclosed in note 20.

Research and development
The Group continues to develop its IT infrastructure, investing £7.6m in software development and licences for the year to 31 December 2016 (31 December 2015: £6.2m). The Group did not engage in research during the year (31 December 2015: nil).

Going concern
Whilst the Group has net liabilities, it made a profit in the year ended 31 December 2016, and expects to make profits in the future. Therefore, the financial statements have been prepared on a going concern basis.

The Group meets its day-to-day working capital requirements through cash reserves and the Shell facility. The arrangement enables OVO to purchase commodity in advance in the forward markets, providing a hedge against its commitments to customers.

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

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

Statement of directors' responsibilities

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

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

The directors are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

Approved by the Board on 27 September 2017 and signed on its behalf by:

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Stephen Fitzpatrick
Director

Imagination Industries Ltd

Independent auditor's report to the members of Imagination Industries Ltd

Report on the financial statements

Our 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 2016 and of the group's profit and the group's and the company's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and Consolidated Financial Statements (the "Annual Report"), comprise:

- the Consolidated and Company Statements of Financial Position as at 31 December 2016;
- the Consolidated Income Statement for the year then ended;
- the Consolidated and Company Statements of Cash Flows for the year then ended;
- the Consolidated and Company Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law and, as regards the company financial statements, as applied in accordance with the provisions of the Companies Act 2006. In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the group, the company and their environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; 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.

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

Independent auditor's report to the members of Imagination Industries Ltd (continued)

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors
As explained more fully in the Statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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

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

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements. We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors Report, we consider whether those reports include the disclosures required by applicable legal requirements.

....
John Maitland (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol

28 September 2017

Imagination Industries Ltd

Consolidated Income Statement for the Year Ended 31 December 2016

	Note	2016 £ 000	2015 £ 000
Revenue	3	716,980	512,967
Cost of sales		(611,302)	(457,094)
Gross profit		105,678	55,873
Administration expenses		(136,324)	(84,315)
Other (losses) / gains		38,246	11,919
Operating profit/(loss)		7,600	(16,523)
Finance income		1,008	11
Finance costs		(1,046)	(1,122)
Net finance (cost)/income	6	(38)	(1,111)
Profit/(loss) before tax		7,562	(17,634)
Taxation	10	1,947	3,379
Profit/(loss) for the year		9,509	(14,255)
(Loss)/profit attributable to:			
Owners of the company		2	(3,655)
Non-controlling interests		9,507	(10,600)
		9,509	(14,255)

The above results were derived from continuing operations.
There are no items of other comprehensive income within the current or prior period.

Imagination Industries Ltd

(Registration number: 06890468)
Consolidated Statement of Financial Position as at 31 December 2016

	Note	2016 £ 000	2015 £ 000
Assets			
Non-current assets			
Property, plant and equipment	11	4,519	30,538
Intangible assets	12	14,452	8,591
Deferred tax assets	10	14,133	12,427
		33,104	51,556
Current assets			
Inventories	16	4,702	78
Trade and other receivables	17	58,241	44,778
Cash and cash equivalents	18	70,387	64,165
		133,330	109,021
Total assets		166,434	160,577
Current liabilities			
Trade and other payables	19	(95,854)	(73,365)
Loans and borrowings	21	-	(1,243)
Deferred income		(74,495)	(88,087)
Provisions	26	(551)	(373)
		(170,900)	(163,068)
Non-current liabilities			
Loans and borrowings	21	(10,101)	(24,602)
Other non-current financial liabilities		(2,786)	-
		(12,887)	(24,602)
Total liabilities		(183,787)	(187,670)
Net Liabilities		(17,353)	(27,093)
Equity			
Share premium		32,758	32,703
Foreign currency translation reserve		(8)	-
Retained earnings		(43,192)	(43,378)
Equity attributable to owners of the company		(10,442)	(10,675)
Non-controlling interests		(6,911)	(16,418)
Total equity		(17,353)	(27,093)

Approved by the Board on 27 September 2017 and signed on its behalf by:

....

Stephen Fitzpatrick
Director

Imagination Industries Ltd

(Registration number: 06890468)
Company Statement of Financial Position as at 31 December 2016

	Note	2016 £ 000	2015 £ 000
Assets			
Non-current assets			
Property, plant and equipment	11	55	84
Intangible assets	12	2,000	2,000
Investments in subsidiaries, joint ventures and associates	13	2,434	2,100
Deferred tax assets	10	3	(290)
		4,492	3,894
Current assets			
Trade and other receivables	17	4,563	12,617
Income tax asset		-	350
Cash and cash equivalents	18	3,273	12,863
		7,836	25,830
Total assets		12,328	29,724
Current liabilities			
Trade and other payables	19	(434)	(2,601)
Non-current liabilities			
Loans and borrowings	21	(10,000)	(10,000)
Total liabilities		(10,434)	(12,601)
Net assets		1,894	17,123
Equity			
Share premium		4,048	4,048
Retained earnings		(2,154)	13,075
Total equity		1,894	17,123

Approved by the Board on 27 September 2017 and signed on its behalf by:

....

Stephen Fitzpatrick

Director

Imagination Industries Ltd

Consolidated Statement of Changes in Equity for the Year Ended 31 December 2016

	Share premium £ 000	Retained earnings and other reserves £ 000	Total £ 000	Non-controlling interests £ 000	Total equity £ 000
At 1 January 2015	66	(34,016)	(33,950)	(5,818)	(39,768)
Loss for the year	-	(3,655)	(3,655)	(10,600)	(14,255)
New share capital subscribed	32,637	-	32,637	-	32,637
Purchase of own share capital	-	(6,045)	(6,045)	-	(6,045)
Share based payment transactions	-	338	338	-	338
At 31 December 2015	32,703	(43,378)	(10,675)	(16,418)	(27,093)

	Share premium £ 000	Retained earnings and other reserves £ 000	Total £ 000	Non-controlling interests £ 000	Total equity £ 000
At 1 January 2016	32,703	(43,378)	(10,675)	(16,418)	(27,093)
Profit for the year	-	2	2	9,507	9,509
New share capital subscribed	55	-	55	-	55
Purchase of own share capital	-	(334)	(334)	-	(334)
Movement in foreign currency translation reserves	-	(8)	(8)	-	(8)
Share based payment transactions	-	518	518	-	518
At 31 December 2016	32,758	(43,200)	(10,442)	(6,911)	(17,353)

The notes on pages 22 to 56 form an integral part of these financial statements.

Imagination Industries Ltd

Company Statement of Changes in Equity for the Year Ended 31 December 2016

	Share premium £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2015	16	5,316	5,332
Profit for the year	-	13,604	13,604
New share capital subscribed	4,032	-	4,032
Purchase of own share capital	-	(5,845)	(5,845)
At 31 December 2015	4,048	13,075	17,123

	Share premium £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2016	4,048	13,075	17,123
Loss for the year	-	(15,229)	(15,229)
At 31 December 2016	4,048	(2,154)	1,894

Imagination Industries Ltd

Consolidated Statement of Cash Flows for the Year Ended 31 December 2016

	Note	2016 £ 000	2015 £ 000
Cash flows from operating activities			
Profit/(loss) for the year		9,509	(14,255)
Adjustments to cash flows from non-cash items			
Depreciation and amortisation	5	10,595	7,616
Financial instrument net gains (losses) through profit and loss		-	(2,553)
Loss on disposal of property plant and equipment	4	-	81
Profit on disposal of subsidiary	4	(38,246)	-
Profit on disposal of investments		-	(12,000)
Foreign exchange loss	5	3	5
Finance income	6	(1,008)	(11)
Finance costs	6	1,046	1,122
Share based payment transactions		518	338
Income tax expense	10	(1,947)	(3,379)
		(19,530)	(23,036)
Working capital adjustments			
(Increase)/decrease in inventories	16	(4,553)	1,024
Increase in trade and other receivables	17	(5,425)	(12,534)
Increase in trade and other payables	19	28,866	27,286
Increase in provisions	26	178	373
(Decrease)/increase in deferred income		(13,592)	6,257
Net cash flow generated from operating activities		(14,056)	(630)
Cash flows used in investing activities			
Interest received	6	1,008	11
Acquisitions of property plant and equipment		(9,897)	(17,286)
Proceeds from sale of property plant and equipment		-	(81)
Acquisition of intangible assets	12	(7,585)	(6,252)
Acquisition of subsidiary, net of cash acquired		(99)	-
Proceeds from disposal of subsidiaries		38,186	-
Net cash flows from investing activities		21,613	(23,608)
Cash flows used in financing activities			
Interest paid	6	(1,046)	(1,122)
Proceeds from issue of ordinary shares, net of issue costs		49	40,634
Payments for purchase of own shares		(338)	(6,045)
Proceeds from finance leases		-	9,674
Proceeds from sale of shares		-	4,000
Proceeds from borrowing		-	10,000
Net cash flows from financing activities		(1,335)	57,141
Net increase in cash and cash equivalents		6,222	32,903
Cash and cash equivalents at 1 January		64,165	31,262
Cash and cash equivalents at 31 December		70,387	64,165

The notes on pages 22 to 56 form an integral part of these financial statements.

Imagination Industries Ltd

Company Statement of Cash Flows for the Year Ended 31 December 2016

	Note	2016 £ 000	2015 £ 000
Cash flows from operating activities			
(Loss)/profit for the year		(15,229)	13,604
Adjustments to cash flows from non-cash items			
Depreciation and amortisation	5	29	10
Profit from disposals of investments	4	-	(11,892)
Foreign exchange gain	5	(6)	-
Finance income	6	(849)	124
Finance costs	6	1,046	92
Income tax expense	10	57	351
		(14,952)	2,289
Working capital adjustments			
Decrease/(increase) in trade and other receivables	17	8,058	(12,174)
(Decrease)/increase in trade and other payables	19	(2,165)	2,547
Cash generated from operations		(9,059)	(7,338)
Income taxes paid	10	-	(350)
Net cash flow from operating activities		(9,059)	(7,688)
Cash flows from investing activities			
Interest received	6	849	(124)
Acquisition of subsidiaries	13	(334)	(200)
Proceeds from sale of subsidiaries		-	12,000
Acquisitions of property plant and equipment		-	(94)
Net cash flows from investing activities		515	11,582
Cash flows from financing activities			
Interest paid	6	(1,046)	(92)
Proceeds from issue of ordinary shares, net of issue costs		-	4,000
Payments for purchase of own shares		-	(5,813)
Proceeds from bank borrowing draw downs		-	10,000
Net cash flows from financing activities		(1,046)	8,095
Net (decrease)/increase in cash and cash equivalents		(9,590)	11,989
Cash and cash equivalents at 1 January		12,863	874
Cash and cash equivalents at 31 December		3,273	12,863

1 General information

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

The address of its registered office is:
140-142 Kensington Church Street
London
United Kingdom
W8 4BN
United Kingdom

These financial statements were authorised for issue by the Board on 27 September 2017.

2 Accounting policies

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

Basis of preparation

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

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

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

Going concern
Whilst the Group has net liabilities, it made a profit in the year ended 31 December 2016, and expects to make profits in the future. Therefore, the financial statements have been prepared on a going concern basis.

The Group meets its day-to-day working capital requirements through cash reserves and the Shell facility. The arrangement enables OVO to purchase commodity in advance in the forward markets, providing a hedge against its commitments to customers. The Shell commodity purchasing arrangement gives rise to a variable liability to Shell which is a combination of accounts payable and future purchase commitments secured on some the cash of Ovo Energy Limited.

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

2 Accounting policies (continued)

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

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

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

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

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

Revenue recognition

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

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

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

Revenue also arises from the installation of smart meters. Revenue is recognised upon the date of installation and net of value added tax (VAT).

All revenue arose within the United Kingdom.

Finance income and costs policy

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

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

2 Accounting policies (continued)

Foreign currency transactions and balances

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

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

Tax

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

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

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

Property, plant and equipment

Property, plant and equipment is stated in the statement of financial position at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of property, plant and equipment includes directly attributable incremental costs incurred in their acquisition and installation.

Depreciation

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction over their estimated useful lives, as follows:

Asset class	Depreciation method and rate
Leasehold property	Period of the lease
Fixtures, fittings and office equipment	3 years straight line
IT hardware equipment	3 years straight line
Meter assets	10 years straight line
Motor vehicles	3 years straight line

2 Accounting policies (continued)

Intangible assets
a) Trademarks and licenses

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

b) Computer software and licenses

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

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

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

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

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

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

Asset class	Amortisation method and rate
IT software and internally developed software costs	3 years straight line
Other intangible assets	3 years straight line

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

Unrealised holding gains and losses other than impairments are recognised in other comprehensive income. On maturity or disposal, net gains and losses previously deferred in accumulated other comprehensive income are recognised in income.

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

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

2 Accounting policies (continued)

Trade receivables

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

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

Inventories

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

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

Trade payables

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

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

Borrowings

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

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

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

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.

2 Accounting policies (continued)

Leases

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

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee.

Assets held under finance leases are recognised as non-current assets of the company at the lower of their fair value at the date of commencement of the lease and the present value of the minimum lease payments. These assets are depreciated on a straight-line basis over the shorter of the useful life of the asset and the lease term. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance costs in the income statement and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Defined contribution pension obligation

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

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

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.

2 Accounting policies (continued)

Share based payments

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

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

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

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

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

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

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

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

2 Accounting policies (continued)

Financial assets

Classification

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

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

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

(b) Loans and receivables

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

Recognition and measurement

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

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'Cost of sales' in the period in which they arise.

2 Accounting policies (continued)

Impairment

(a) Assets carried at amortised cost

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

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

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

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

Derivatives and hedging

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

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

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

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

2 Accounting policies (continued)

Changes in accounting policy

None of the standards, interpretations and amendments effective for the first time from 1 January 2016 have had a material effect on the financial statements.

None of the standards, interpretations and amendments which are effective for periods beginning after 1 January 2016 and which have not been adopted early, are expected to have a material effect on the financial statements.

Critical Estimates and Judgements

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

Revenue recognition - gas revenues measurement change in accounting estimate

The nature of the energy industry in the UK in which the Group operates is such that the Group's revenue recognition is subject to a degree of estimation. Revenue for the supply of electricity and gas was previously recognised on a top down basis using customer tariff rates and industry settlement data (specific to the Group) net of estimated supplies that are not billable. The industry settlement data is the estimated quantity the industry operator deems the individual suppliers, including the Group, to have supplied.

Revenue recognition - energy supplied but not yet measured and billed

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

Impairment of trade receivables

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

Deferred tax assets

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

3 Revenue

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

	2016 £ 000	2015 £ 000
Sale of gas and electricity	664,989	512,967
Installation of smart meters	51,991	-
	716,980	512,967

4 Other gains and losses

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

	2016 £ 000	2015 £ 000
Loss on disposal of property, plant and equipment	-	(81)
Gain on disposal of investments	-	12,000
Gain on disposal of subsidiary	38,246	-
	38,246	11,919

5 Operating profit

Arrived at after charging/(crediting)

	2016 £ 000	2015 £ 000
Depreciation expense	3,138	4,147
Amortisation expense	7,457	3,469
Foreign exchange gains	3	5
Operating lease expense - property	1,502	1,223

6 Finance income and costs

	2016 £ 000	2015 £ 000
Finance income		
Interest income on bank deposits	1,008	11
Finance costs		
Interest on bank overdrafts and borrowings	(1,046)	(1,122)
Net finance costs	(38)	(1,111)

7 Staff costs

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

	2016 £ 000	2015 £ 000
Wages and salaries	38,931	29,147
Social security costs	3,597	2,569
Pension costs, defined contribution scheme	753	441
Share-based payment expenses	518	338
Other employee expense	499	271
	44,298	32,766

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

	2016 No.	2015 No.
Administration and support	223	238
Sales, marketing and distribution	889	756
	1,112	994

8 Directors' remuneration

There were two directors during the year (31 December 2014: Two). Directors' remuneration for the year was £134,000 (2014: £124,000).

9 Auditors' remuneration

	2016 £ 000	2015 £ 000
Audit of the financial statements of all group companies	150	102
Other fees to auditors		
Audit-related assurance services	9	12
Taxation compliance services	27	36
	36	48

10 Income tax

Tax charged/(credited) in the income statement

	2016 £ 000	2015 £ 000
Deferred taxation		
Arising from origination and reversal of temporary differences	(1,947)	(3,379)

The tax on profit before tax for the year is higher than the standard rate of corporation tax in the UK (2015 - higher than the standard rate of corporation tax in the UK) of 20% (2015 - 20.25%).

The differences are reconciled below:

	2016 £ 000	2015 £ 000
Profit/(loss) before tax	7,562	(17,634)
Corporation tax at standard rate	1,512	(3,571)
Effect of expense not deductible in determining taxable profit (tax loss)	(7,512)	(1,372)
UK deferred tax expense (credit) relating to changes in tax rates or laws	1,063	1,464
Increase (decrease) in UK and foreign current tax from unrecognised temporary difference from a prior period	(772)	100
Increase (decrease) in UK and foreign current tax from adjustment for prior periods	245	-
Other tax effects for reconciliation between accounting profit and tax expense (income)	3,517	-
Total tax credit	(1,947)	(3,379)

The main rate of UK corporation tax for the year to 31 March 2015 was 20%, remaining the same for the year to 31 March 2016.

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

10 Income tax (continued)

Deferred tax

Group

Deferred tax assets and liabilities

2016	Asset £ 000
Accelerated tax depreciation	149
Tax losses carry-forwards	13,984
Derivatives	-
Pension benefit obligations	-
	14,133

2015	Asset £ 000	Liability £ 000	Net deferred tax £ 000
Accelerated tax depreciation	-	(545)	(545)
Tax losses carry-forwards	12,949	-	12,949
Derivatives	-	-	-
Pension benefit obligations	23	-	23
	12,972	-	12,427

Deferred tax movement during the year:

	At 1 January 2016 £ 000	Recognised in income £ 000	At 31 December 2016 £ 000
Accelerated tax depreciation	(545)	694	149
Tax losses carry-forwards	12,949	1,035	13,984
Derivatives	-	-	-
Pension benefit obligations	23	(23)	-
Net tax assets/(liabilities)	12,427	1,706	14,133

Deferred tax movement during the prior year:

	At 1 January 2015 £ 000	Recognised in income £ 000	At 31 December 2015 £ 000
Accelerated tax depreciation	(237)	(308)	(545)
Tax losses carry-forwards	8,758	4,191	12,949
Derivatives	511	(511)	-
Pension benefit obligations	17	6	23
Net tax assets/(liabilities)	9,049	3,378	12,427

10 Income tax (continued)

Company

Deferred tax assets and liabilities

2016	Asset £ 000
Tax losses carry-forwards	-
Accelerated tax depreciation	3
Derivatives	-
Share-based payment	-
Other items	-
	3

2015	Liability £ 000
Tax losses carry-forwards	-
Accelerated tax depreciation	-
Derivatives	-
Share-based payment	-
Other items	290
	-

Deferred tax movement during the year:

	At 1 January 2016 £ 000	Recognised in income £ 000	At 31 December 2016 £ 000
Tax losses carry-forwards	-	-	-
Accelerated tax depreciation	-	3	3
Derivatives	-	-	-
Share-based payment	-	-	-
Other items	(290)	290	-
Net tax assets/(liabilities)	(290)	293	3

Deferred tax movement during the prior year:

	At 1 January 2015 £ 000	Recognised in income £ 000	At 31 December 2015 £ 000
Tax losses carry-forwards	-	-	-
Accelerated tax depreciation	-	-	-
Derivatives	-	-	-
Share-based payment	-	-	-
Other items	61	(351)	(290)
Net tax assets/(liabilities)	61	(351)	(290)

11 Property, plant and equipment

Group

	Leasehold property £ 000	Fixtures, fittings and office equipment £ 000	Motor vehicles £ 000	Meter assets £ 000	Total £ 000
Cost or valuation					
At 1 January 2015	4,287	1,792	-	12,446	18,525
Additions	1,004	766	94	15,422	17,286
At 31 December 2015	5,291	2,558	94	27,868	35,811
Additions	986	1,584	-	7,327	9,897
Acquired through business combinations	-	171	-	-	171
Disposals	-	-	-	(35,106)	(35,106)
At 31 December 2016	6,277	4,313	94	89	10,773
Depreciation					
At 1 January 2015	338	632	-	146	1,116
Charge for year	1,626	798	10	1,723	4,157
At 31 December 2015	1,964	1,430	10	1,869	5,273
Charge for the year	1,778	1,011	29	320	3,138
Eliminated on disposal	-	-	-	(2,157)	(2,157)
At 31 December 2016	3,742	2,441	39	32	6,254
Carrying amount					
At 31 December 2016	2,535	1,872	55	57	4,519
At 31 December 2015	3,327	1,128	84	25,999	30,538
At 1 January 2015	3,949	1,160	-	12,300	17,409

Assets held under finance leases and hire purchase contracts

The net carrying amount of property, plant and equipment includes the following amounts in respect of assets held under finance leases and hire purchase contracts:

	2016 £ 000	2015 £ 000
Meter Assets	-	15,302

Meter assets were held by Smart Meter Assets 1 Ltd and have reduced to nil in 2016 due to the disposal of the subsidiary.

11 Property, plant and equipment (continued)

Company

	Motor vehicles £ 000	Total £ 000
Cost or valuation		
Additions	94	94
At 31 December 2015	94	94
At 1 January 2016	94	94
At 31 December 2016	94	94
Depreciation		
Charge for year	10	10
At 31 December 2015	10	10
At 1 January 2016	10	10
Charge for the year	29	29
At 31 December 2016	39	39
Carrying amount		
At 31 December 2016	55	55
At 31 December 2015	84	84
At 1 January 2015	-	-

12 Intangible assets

Group

	Goodwill £ 000	Internally generated software development costs £ 000	Other intangible assets £ 000	Total £ 000
Cost or valuation				
At 1 January 2015	-	8,212	648	8,860
Additions	-	6,162	90	6,252
At 31 December 2015	-	14,374	738	15,112
Additions	-	7,585	-	7,585
Acquired through business combinations	2,861	22	2,851	5,734
Disposals	-	(2,128)	(2,440)	(4,568)
At 31 December 2016	2,861	19,853	1,149	23,863
Amortisation				
At 1 January 2015	-	2,951	111	3,062
Amortisation charge	-	3,405	54	3,459
At 31 December 2015	-	6,356	165	6,521
Amortisation charge	-	7,395	63	7,458
Amortisation eliminated on disposals	-	(2,128)	(2,440)	(4,568)
At 31 December 2016	-	11,623	(2,212)	9,411
Carrying amount				
At 31 December 2016	2,861	8,230	3,361	14,452
At 31 December 2015	-	8,018	573	8,591
At 1 January 2015	-	5,261	537	5,798

The amortisation charge of £7,458,000 (31 December 2015: £3,459,000) is recognised in administrative expenses.

Goodwill, trademarks and industry accreditation, included within other intangibles, 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.

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

12 Intangible assets (continued)

Company

	Brand £ 000	Total £ 000
Cost or valuation		
At 1 January 2015	2,000	2,000
At 31 December 2015	2,000	2,000
At 31 December 2016	2,000	2,000
Carrying amount		
At 31 December 2016	2,000	2,000
At 31 December 2015	2,000	2,000
At 1 January 2015	2,000	2,000

13 Investments

Group subsidiaries

Details of the group subsidiaries as at 31 December 2016 are as follows (*indicates direct investment of the company):

Name of subsidiary	Principal activity	Country of incorporation and principal place of business	Proportion of ownership interest and voting rights held by the group 2016	2015
Ovo Group Ltd*	Management entity	UK	71.52%	71.52%
Ovo Energy Ltd	Sale of electricity and gas to customers in the UK	UK	71.52%	71.52%
Ovo Electricity Ltd	Procurement and sale of UK electricity	UK	71.52%	71.52%
Ovo Gas Ltd	Supply of gas and UK related services	UK	71.52%	71.52%
ONI Energy Ltd	Dormant	UK	71.52%	71.52%
ONI Electricity Ltd	Dormant	UK	71.52%	71.52%
ONI Gas Ltd	Dormant	UK	71.52%	71.52%
Imagination Industries Incubator Ltd*	Business and domestic software development	UK	100%	100%
In Home Technology Limited	Management entity for smart meter business	UK	71.52%	71.52%
Smart Meter Finance Ltd	Dormant	UK	71.52%	71.52%
Ovo Technology Ltd	Product development and provision of trading services	UK	71.52%	71.52%
VCharge Inc	Development and provision of demand side grid balancing services	USA	71.52%	-
VCharge UK Ltd	Development and provision of demand side grid balancing services	UK	71.52%	-
VCharge Trading Ltd	Dormant	UK	71.52%	-

13 Investments (continued)

Summary of the company investments

	2016 £ 000	2015 £ 000
Investments in subsidiaries	2,434	2,100

Subsidiaries

	£ 000
Cost	
At 1 January 2015	2,008
Additions	200
Disposals	(108)
At 31 December 2015	2,100
Additions	334
At 31 December 2015	2,434
Carrying amount	
At 31 December 2016	2,434
At 1 January 2015	2,008

14 Acquisition of subsidiary

On 22 December 2016, the group acquired 100% of the issued share capital of VCharge Inc, obtaining control. The principal activity of VCharge Inc is a controller of distributed energy storage assets in order to supply grid balancing services to the grid operator. As a result of the acquisition, the group is expected to diversify into the control of distributed energy storage assets.

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

	2016 £ 000
Assets and liabilities acquired	
Identifiable intangible assets	2,851
Financial liabilities	(2,798)
Total identifiable assets	53
Goodwill	2,860
Total consideration	2,913
Satisfied by:	
Cash	127
Contingent consideration arrangement	2,786
Total consideration transferred	2,913
Cash flow analysis:	
Cash consideration	127

14 Acquisition of subsidiary (continued)

Intangible assets of £2,851,000 were recognised on acquisition of VCharge Inc. This comprises of the VNet technology platform for controlling distributed energy storage and a contractual relationship with a European grid operator.

The goodwill of £2,860,000 arising from the acquisition consists of the knowledge and workforce acquired and other non identifiable assets.

Deferred consideration was recognised at fair value at acquisition date of £2,786,000. Deferred consideration is based upon certain business performance targets and is payable at the end of 2018. Deferred consideration will be revalued at each reporting date until payment, with any subsequent revaluation being recognised in the income statement.

VCharge Inc, including subsidiaries, contributed £269,000 to the Group's profit for the period between the date of acquisition and the balance sheet date. If the acquisition had occurred on 1 January 2016 (the first day of the reporting period), it would have contributed £18,000 to the Group's revenue and a loss of £862,000 to the Group.

15 Disposal of subsidiary

On 3 February 2016, the group disposed of its interest in Smart Meter Assets 1 Limited, which had a principal activity of Asset holding entity for smart mêters.

The net assets of Smart Meter Assets 1 Limited at the date of disposal and at the prior period end were as set out below:

	Book value at 3 February 2016 £ 000	Book value at 31 December 2015 £ 000
Assets and liabilities disposed of:		
Property, plant and equipment	32,949	27,289
Trade receivables	151	1,985
Bank balances and cash	47	537
Other assets	312	-
Trade payables	(6,351)	(3,604)
Other liabilities	(27,121)	(25,962)
	(13)	245

Gain/(loss) on disposal	38,246
Total consideration	38,233

15 Disposal of subsidiary (continued)

Satisfied by:	
Cash and cash equivalents received	38,233
Cash flow analysis:	
Cash consideration received	38,233
Less: cash and cash equivalent balances disposed of	(47)
Net cash inflow arising on disposal	38,186

A profit of £38,246,000 arose on the disposal of Smart Meter Assets 1 Limited, calculated as the proceeds of disposal less the carrying amount of the subsidiary's net assets and attributable goodwill.

16 Inventories

	Group		Company
	2016 £ 000	2015 £ 000	2016 £ 000
Finished goods and goods for resale	4,702	78	-

The cost of R.O.Cs recognised as an expense in the year amounted to £40,229,000 (2015 - £25,291,000). This is included within cost of sales.

17 Trade and other receivables

	Group 2016 £ 000	Group 2015 £ 000	Company 2016 £ 000	Company 2015 £ 000
Trade receivables and accrued income	74,936	36,289	1,069	-
Provision for impairment of trade receivables and accrued income	(24,397)	(11,886)	-	-
Net trade receivables and accrued income	50,539	24,403	1,069	-
Loans to related parties	1,431	11,488	3,205	12,416
Prepayments	2,750	1,762	50	-
Other receivables	3,521	7,125	239	201
Total current trade and other receivables	58,241	44,778	4,563	12,617

Loans to related parties is shown net of a £17,931,000 provision in the current year (2015: £Nil).

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

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

18 Cash and cash equivalents

	Group 2016 £ 000	Group 2015 £ 000	Company 2016 £ 000	Company 2015 £ 000
Cash at bank	70,387	64,165	3,273	12,863

19 Trade and other payables

	Group 2016 £ 000	Group 2015 £ 000	Company 2016 £ 000	Company 2015 £ 000
Trade payables	32,611	33,706	12	2,509
Accrued expenses	63,056	39,330	422	92
Social security and other taxes	158	220	-	-
Other payables	29	109	-	-
	95,854	73,365	434	2,601

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

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

20 Share capital

Allotted, called up and fully paid shares

	2016		2015	
	No.	£	No.	£
Ordinary share capital of £0.0001 each	950,000	95	950,000	95

21 Loans and borrowings

	Group		Company	
	2016 £ 000	2015 £ 000	2016 £ 000	2015 £ 000
Non-current loans and borrowings				
Finance leases	-	14,602	-	-
Other borrowings	10,101	10,000	10,000	10,000
	10,101	24,602	10,000	10,000

	Group		Company	
	2016 £ 000	2015 £ 000	2016 £ 000	2015 £ 000
Current loans and borrowings				
Finance leases	-	1,243	-	-

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 note "Financial risk management and impairment of financial assets - company".

22 Obligations under leases and hire purchase contracts

Group

Finance leases

The Group entered into a master finance lease agreement in the prior year, for the purchase of smart meters. The facility is drawn down upon as meters are installed and accredited.

2016	Minimum lease payments £ 000	Present value £ 000

The present values of future finance lease payments are analysed as follows:

	2016 £ 000	2015 £ 000
Current liabilities	-	1,243
Non-current liabilities	-	14,602
	-	15,845

Operating leases

The Group leases two office premises in Bristol and London under non-cancellable operating lease agreements.

Lease rentals are included in the income statement.

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

	2016 £ 000	2015 £ 000
Within one year	1,823	924
In two to five years	9,318	1,381
	11,141	2,305

The amount of non-cancellable operating lease payments recognised as an expense during the year was £1,502,000 (2015 - £1,070,000).

23 Fair value measurement

The following tables provide the fair value measurement hierarchy of the group's assets and liabilities.

Liabilities measured at fair value
2015

	Date of valuation	Level 2 £ 000	Total £ 000
Derivatives	31 December 2014	2,553	2,553

The Group held derivatives of power and gas commodity as at 31 December 2015

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

24 Pension and other schemes

Defined contribution pension scheme

The group operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the group to the scheme and amounted to £753,000 (2015 - £441,000).

25 Share-based payments

Ovo Group Ltd Share Scheme

Scheme details and movements

In July 2014, Ovo Group Ltd established a new employee share plan. Under the terms of the scheme, Ovo Group Ltd awarded its own employees and employees of Ovo Energy Limited class B, C and D ordinary shares in Ovo Group Ltd.

B shares ('Employee Shareholder Scheme') are free shares awarded to employees in line with the UK government's employee shareholder status rules. They have a three year vesting period.

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

D shares are also awarded as part of the LTIP scheme. These shares have been issued in tranches (called D5 and D6 (2015: D3 and D4)), to reflect the valuation of the company at the date of the award. They have a vesting period based on performance conditions.

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

Analysis of charge to the consolidated income statement

£000	2016	2015
'B' Shares	201	152
'C' Shares	-	(46)
'D' Shares	317	235
	518	341

Reconciliation of movements in awards

Thousands of shares	'B' Shares	'C' Shares	'D' Shares
Issued at 1 January 2016	94	71	1,474
Issued May 2016	9	6	242
Issued October 2016	-	5	-
Cancelled	(12)	(6)	(160)
Issued at 31 December 2016	91	76	1,556
Weighted average vesting period (months)	24	8	25

25 Share-based payments (continued)

Thousands of shares	'B' Shares	'C' Shares	'D' Shares
Issued at 1 January 2015	89	28	1,121
Issued May 2015	14	38	332
Issued October 2015	7	14	212
Cancelled	(16)	(9)	(191)
Issued at 31 December 2015	94	71	1,474
Weighted average vesting period (months)	21	7	24

Pricing

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

'B' Shares
The 'B' Shares awarded in May 2015 were valued at £10.00 per share and October 2015 shares were valued at £10.20 per share. The 'B' Shares awarded in May 2016 were valued at £12.10 per share and October 2016 shares were valued at £12.10 per share.

'C' Shares
The 'C' Shares awarded in May 2015 were valued at £11.00 per share and October 2015 shares were valued at £11.30 per share. The 'C' Shares awarded in May 2016 were valued at £13.40 per share and October 2016 shares were valued at £13.40 per share.

'D' Shares
The 'D' Shares awarded in May 2015 were valued at £1.00 per share and October 2015 shares were valued at £0.51 per share. The 'D' Shares awarded in May 2016 were valued at £0.28 per share and October 2016 shares were valued at £0.28 per share.

26 Other provisions

Group

	Dilapidation provision £ 000	Total £ 000
At 1 January 2016	373	373
Additional provisions	178	178
At 31 December 2016	551	551
Current liabilities	551	551

The dilapidation provision relates to the Group's current premises.

27 Financial instruments

Group

Financial assets
Loans and receivables

	Carrying value		Fair value	
	2016	2015	2016	2015
	£ 000	£ 000	£ 000	£ 000
Cash and cash equivalents	70,387	64,165	70,387	64,165
Trade and other receivables	58,241	43,315	58,241	43,315
	128,628	107,480	128,628	107,480

Valuation methods and assumptions

The fair value of loans and receivables is based on the expectation of recovery of balances. The carrying value of all trade and other receivables are denominated in UK Pound Sterling. The individually impaired receivables mainly relate to customers from whom it is unlikely that full payment will ever be received.

Financial liabilities

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

	Carrying value		Fair value	
	2016	2015	2016	2015
	£ 000	£ 000	£ 000	£ 000
Power and gas commodity	-	-	-	-

Valuation methods and assumptions

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

Financial liabilities at amortised cost

	Carrying value		Fair value	
	2016	2015	2016	2015
	£ 000	£ 000	£ 000	£ 000
Trade and other payables	95,854	73,365	95,854	73,365
Finance leases	-	15,845	-	15,845
	95,854	89,210	95,854	89,210

27 Financial instruments (continued)

Valuation methods and assumptions

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 ate 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 finance lease was entered into close to the balance sheet date and therefore book value approximates fair value.

Company

Financial assets
Loans and receivables

	Carrying value		Fair value	
	2016	2015	2016	2015
	£ 000	£ 000	£ 000	£ 000
Cash and cash equivalents	3,273	12,863	3,273	12,863
Trade and other receivables	4,563	12,617	4,563	12,617
	7,836	25,480	7,836	25,480

Valuation methods and assumptions

The fair value of loans and receivables is based on the expectation of recovery of balances. The receivable resides with related parties in the Ovo group, there have been no historic defaults and the balance is not past due or impaired.
The fair value of loans and receivable is based on the expectation of recovery of balances. The individually impaired receivables mainly relate to customers from whom it is unlikely that full payment will ever be received.

Financial liabilities

Financial liabilities at amortised cost

	Carrying value		Fair value	
	2016	2015	2016	2015
	£ 000	£ 000	£ 000	£ 000
Trade and other payables	434	2,601	434	2,601
Borrowings	-	-	-	-
	434	2,601	434	2,601

Valuation methods and assumptions

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

28 Financial risk management and impairment of financial assets

Group

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

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

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, from security deposits and prepayments to suppliers and distributors and deposits with the Group's bank.

The carrying amount of financial assets represents the maximum credit exposure. Therefore, maximum exposure to credit risk at the balance sheet date was £107,480,000 (31 December 2014: £62,863,000) being the total carrying amount of financial assets, excluding equity investments, which include trade receivables and accrued income, derivative financial assets and cash. All the receivables are with parties in the UK,

The allowance account of trade receivables is used to record impairment losses 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 receivables directly. There were no transactions written off in the year. 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 energy industry.

Past due and impaired financial assets

Allowances for impairment by credit losses

2016	Loans and receivables £ 000
At start of year	11,886

2015	Fair value through profit and loss held for trade (non-derivative) £ 000	Loans and receivables £ 000
At start of year	-	7,573
Additional impairment for credit losses	4,312	4,313
At end of year	4,312	11,886

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

Analysis of items past due or impaired
Loans and receivables

2016	Carrying value of items neither past due nor impaired £ 000	Carrying value of items past due but not impaired £ 000	Carrying value of items past due and/or impaired £ 000	Pre impairment value £ 000	Impairment recognised to date £ 000
Loans and receivables	12,224	4,204	380	7,953	7,574

2015	Carrying value of items neither past due nor impaired £ 000	Carrying value of items past due but not impaired £ 000	Carrying value of items past due and/or impaired £ 000	Pre impairment value £ 000	Impairment recognised to date £ 000
Loans and receivables	14,589	9,774	11,886	36,249	11,886

The individually impaired receivables mainly relate to customers from whom it is unlikely that full payment will be received.

Market risk
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 or other financial instruments for speculative purposes.

Derivatives are measured at fair value on the contract date and are re-measured to fair value at subsequent reporting dates. Changes in fair value of derivatives and other financial instruments are recognised in the income statements as they arise. Unrealised net losses on open contracts at the year end were nil (2014: £2,553,000).

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

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

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

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

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

2016	Within 1 year £ 000	After 1 year £ 000	Total £ 000
Trade and other payables	95,854	-	95,854
Bank borrowings	-	10,101	10,101
	95,854	10,101	105,955

2015	Within 1 year £ 000	After 1 year £ 000	Total £ 000
Trade and other payables	73,365	-	73,365
Bank borrowings	1,243	24,602	25,845
	74,608	24,602	99,210

Capital risk management

Capital management

Capital risk is managed to ensure the Group continues as a going concern and grows in a sustainable manner.
The Group maintains a consolidated financial model to monitor the development of the Group's capital structure, which has the ability to model various scenarios and sensitivities. Key outputs from this model are regularly presented the Board.

Company

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

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

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

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

Credit risk and impairment

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

The carrying amount of financial assets represents the maximum credit exposure. Therefore, the maximum exposure to credit risk at the balance sheet date was £25,480,000 (31 December 2014: £1,317,000) being the total of the carrying amount of financial assets, excluding equity investments, which include trade receivables and accrued income, derivative financial assets and cash. All the receivables are with parties in the UK.

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

Liquidity risk

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

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

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

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

Capital risk management

Capital components

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

29 Related party transactions

Key management personnel

Key management includes directors and members of the Group management team. The compensation paid or payable to key management for employee services to Ovo Energy Limited is shown below.

Key management compensation

	2016 £ 000	2015 £ 000
Salaries and other short term employee benefits	2,285	2,801

Summary of transactions with key management

The director of the Company directly controls 100% per cent of the voting shares of the Company.

29 Related party transactions (continued)

Summary of transactions with parent

During the year the Company charged OVO Energy Ltd brand royalty fees totalling £3,333,000 (2015 - £2,525,000). As at 31 December 2016, Ovo Energy Ltd owed Imagination Industries Limited £444,000 (2015: £927,000). In the year, Ovo Energy Ltd has surrendered tax losses to Imagination Industries Limited of £2,423,000 (2015 - £350,000).

Summary of transactions with other related parties

During the year the Company provided loan funds to Just Racing Limited (a Company owned by Stephen Fitzpatrick, the ultimate owner of Imagination Industries Limited) to the value of £7,079,000 (2015: £11,013,000). The loans are repayable on demand and incur interest at a rate of 7% per annum. The interest receivable by the Company in the year was £833,000 (2015: £475,000).

The balance owed to the Company by Just Racing Limited at the year end was £19,400,000 (2015: £11,488,000). In January 2017, one of Just Racing Ltd's subsidiaries entered administration. As such, the Company has provided £17,971,000 against this loan in the current year (2015: £Nil).

Stephen Fitzpatrick paid costs amounting to £2,500,000 on behalf of Imagination Industries Ltd in the previous year. The amount was repaid in full in the current year. In addition. the Company loaned Stephen Fitzpatrick £68,000 in the current year. The amount was outstanding at the balance sheet date.

30 Parent and ultimate parent undertaking

The ultimate controlling party is Stephen Fitzpatrick.

31 Non adjusting events after the financial period

On 5 May 2017, the Group acquired 100% of share capital of CLCB Holdings Ltd (Corgi Homplan), a group of companies specialising in the insurance and servicing of domestic boilers, for consideration of no more than £73.7m.

The investment was in-part funded by free cash, combined with a £35m syndicate loan facility.