

Registration number: 06890795

OVO Energy Ltd

Annual Report and Financial Statements

for the Year Ended 31 December 2018

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OVO Energy Ltd
Contents

Company Information	1
Strategic Report	2 to 4
Directors' Report	5 to 7
Independent Auditors' Report	8 to 10
Income Statement	11
Statement of Financial Position	12
Statement of Changes in Equity	13
Statement of Cash Flows	14
Notes to the Financial Statements	15 to 47

OVO Energy Ltd
Company Information

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

Strategic Report for the Year Ended 31 December 2018

The directors present their strategic report for the year ended 31 December 2018.

Introduction

OVO grew out of the belief that there was a better way to sell energy. We started off with the ambition to make energy cheaper, greener and simpler; making it easy for everyone to play their part in addressing climate change. We committed to supporting more renewable power, to keeping our prices low through digitisation, and focused on building trust by delivering a great customer experience based on simplicity and transparency.

Nearly ten years on, we remain determined to create a world with clean, affordable energy for everyone. But in many ways, this is harder now than ever. The energy market is going through profound change with companies of all sizes struggling to adapt. Increased competition, digitisation, the explosion of data, and changing consumer demands are eroding traditional business models.

OVO has stayed true to its values, investing in the future technology that will transform the energy system, setting the business up for long-term success. We are now the largest UK independent energy company with over 1.5 million customers. Expanding into smart home services and investing heavily in new technologies including energy storage and electric vehicle charging, we have moved beyond energy retail.

At the start of 2019, OVO Group Ltd received a £217m investment from Mitsubishi Corporation for a 20% stake. OVO Group Ltd's business model, long-term vision for the energy sector and culture align well with our new global partner. Their investment will help the Group expand into new markets across Europe and Asia Pacific, accelerate the development of the Groups' intelligent energy technologies company, Kaluza, and put the Group at the forefront of the global, tech-enabled transition to a zero-carbon energy system.

Customer growth

Amidst major change and rapid consolidation in the energy market OVO has grown significantly. As other energy suppliers collapsed under challenging market conditions, OVO was entrusted by Ofgem to take on 525,000 new customers through the Supplier of Last Resort (SoLR) process.

In November 2018, Ofgem appointed OVO Energy to take over Spark Energy's 290,000 customer accounts. Through the purchase of the operating company in Selkirk we were able to continue to serve customers by the existing team with minimal disruption to service. We look forward to growing Spark Energy's market-leading network of partnerships in the lettings and other sectors.

Subsequent events since the end of the reporting period

In January 2019, Ofgem appointed OVO Energy to take over Economy Energy's 235,000 customer accounts. With over two thirds of Economy Energy's customer base on prepayment meters, OVO was well equipped to seamlessly transition them onto Boost, OVO's prepayment brand, tailored specifically for pay-as-you-go customers. Economy Energy prepayment customers now have access to Boost's innovative products such as PAYG+, the first top-up and account management app in the UK prepayment market, and Winter Wallet, which enables customers to better budget for their winter energy costs. The appointment to take over Economy Energy's customer base is disclosed in the post balance sheet event note.

We are proud that Ofgem put its faith in OVO to take on the customer accounts for two of the largest SoLR processes. We have worked hard to seamlessly transition these customers onto our own platforms whilst maintaining unrivalled customer service. At the same time we were awarded the 2019 uSwitch supplier of the year award, for the fourth time in five years.

Smart Homes

At OVO we were quick to see the potential of smart energy services. We championed the smart meter rollout, with more than 50% of our customers having 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 electric vehicle charge points, smart boilers, smart thermostats and in-home batteries.

The customer is always in the room

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

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

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 3.5 Terrawatt hours of electricity and 10.8 Terrawatt hours of gas OVO Energy purchases every year, passing on savings from intelligent trading through reduced customer bills.

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

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

Working with the OVO Charitable Foundation

OVO Charitable 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 Charitable Foundation develops projects in three programme areas: energy and the environment, youth poverty and education.

OVO Charitable Foundation is funded partly from customer donations, and partly from the OVO business: at the end of 2018, 75,000 customers donated to OVO Foundation.

Key Financial and Performance Indicators

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

	Unit	2018	2017
Customer numbers	No.	870,000	779,000
Cash	£'000	76,918	50,526
Annualised gross profit margin	%	7.6	15.8

The Company made a loss for the year ending 31 December 2018 and has net liabilities.

Principal risks and uncertainties

The principal risks and uncertainties impacting the Company relate to the wholesale price of gas and electricity, bad debt risk and longer term energy policy.

The Company manages commodity price risk by securing gas and electricity under forward contracts and by supplying the majority of customers on fixed price contracts. OVO has a trading and credit agreement with Shell to secure its future supply needs. The agreement gives the Company access to wholesale commodity and working capital terms.

The Company mitigates bad debt risk by asking credit customers to pay by direct debit a month in advance of usage, which also ensures OVO has the purchasing power to offer more competitive tariffs. In addition, customers are awarded up to 5% OVO interest on credit balances. For non-credit customers, prepayment and smart meters are installed or a security deposit is taken to avoid bad debt risk.

Approved by the Board on 31 May 2019 and signed on its behalf by:



.....
Vincent Casey
Director

Directors' Report

The directors present their report and the audited financial statements for the year ended 31 December 2018.

Directors' of the company

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

Stephen Fitzpatrick

Stephen Murphy - Chairman

Niall Wass

Vincent Casey (appointed 8 June 2018)

Jonathan Owen (resigned 25 January 2018)

Christopher Houghton (resigned 30 November 2018)

The following director was appointed after the year end:

Adrian Letts (appointed 7 January 2019)

Dividends

The directors do not propose a dividend for the current year (2017: no dividends proposed).

Financial instruments

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

Charitable donations

During the year the Company made charitable donations of £665,000. Individual donations were:

	£
The OVO Charitable Foundation	<u>665,000</u>

Employment of disabled persons

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

Employee involvement

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

Future developments

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

Research and development

The Company continues to develop its IT infrastructure, investing £1.6m in software development and licences for the year to 31 December 2018 (2017: £1.9m). The Company did not engage in research during the year (2017: £nil).

Going concern

The Company made a loss for the year ending 31 December 2018 and has net liabilities. The financial statements have been prepared on a going concern basis as the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

In addition, the investment in OVO Group Ltd from Mitsubishi Corporation at the start of 2019 has been taken into consideration in the directors assessment of going concern.

Further details on going concern are in note 2 of the financial statements.

Directors' liabilities

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

Statement of directors' responsibilities in respect of the financial statements

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

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

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Directors' confirmations

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

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

The directors' report on pages 5 to 7 were approved by the Board of Directors on 31 May 2019 and signed on its behalf by:



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Vincent Casey
Director

Independent Auditors' Report to the members of OVO Energy Ltd

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 December 2018; the Income Statement, the Statement of Cash Flows, the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

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

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

OVO Energy Ltd
Independent Auditors' Report
Independent Auditors' Report to the members of OVO Energy Ltd
for the Year Ended 31 December 2018 (continued)

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

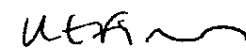
Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



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

2 Glass Wharf
Bristol
BS2 0FR

31 May 2019

OVO Energy Ltd
Income Statement
For the Year Ended 31 December 2018

Income Statement

For the year ended 31 December 2018

	Note	2018 £ 000	2017 £ 000
Revenue	3	936,417	762,521
Cost of sales		<u>(865,640)</u>	<u>(637,120)</u>
Gross profit		70,777	125,401
Administrative expenses		(125,798)	(119,561)
Other operating income	4	962	-
Other gains	5	<u>606</u>	<u>-</u>
Operating (loss)/profit	6	<u>(53,453)</u>	<u>5,840</u>
Finance income		243	213
Finance costs		<u>(1,502)</u>	<u>(1,543)</u>
Net finance costs	7	<u>(1,259)</u>	<u>(1,330)</u>
(Loss)/profit before tax		(54,712)	4,510
Income tax income/(expense)	11	<u>9,080</u>	<u>(1,274)</u>
(Loss)/profit for the year		<u>(45,632)</u>	<u>3,236</u>

The above results were derived from continuing operations.

There is no other comprehensive income other than the (loss)/profit for the year.

Statement of Financial Position

As at 31 December 2018

	Note	31 December 2018 £ 000	31 December 2017 £ 000
Assets			
Non-current assets			
Property, plant and equipment	12	1,450	2,738
Intangible assets	13	3,633	6,811
Deferred tax assets	11	22,161	13,309
		27,244	22,858
Current assets			
Trade and other receivables	15	83,803	86,907
Income tax asset		962	-
Cash and cash equivalents	16	76,918	50,526
		161,683	137,433
Total assets		188,927	160,291
Current liabilities			
Trade and other payables	17	(221,927)	(167,839)
Income tax liability		-	(228)
Deferred income		(88,050)	(70,027)
Provisions	21	(2,923)	(740)
Total liabilities		(312,900)	(238,834)
Net liabilities		(123,973)	(78,543)
Equity			
Share premium		50	50
Other reserves		1,831	1,629
Accumulated losses		(125,854)	(80,222)
Total equity		(123,973)	(78,543)

The financial statements on pages 11 to 47 were approved by the Board on 31 May 2019 and signed on its behalf by:



.....
Vincent Casey
Director

OVO Energy Ltd
Statement of Changes in Equity
For the Year Ended 31 December 2018

Statement of Changes in Equity

For the year ended 31 December 2018

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

	Share premium £ 000	Share based payment reserve £ 000	Accumulated losses £ 000	Total £ 000
At 1 January 2018	50	1,629	(80,222)	(78,543)
Loss for the year	-	-	(45,632)	(45,632)
Share based payment transactions	-	202	-	202
At 31 December 2018	<u>50</u>	<u>1,831</u>	<u>(125,854)</u>	<u>(123,973)</u>

OVO Energy Ltd
Statement of Cash Flows
For the Year Ended 31 December 2018

Statement of Cash Flows
for the year ended 31 December 2018

	Note	2018 £ 000	2017 £ 000
Cash flows from operating activities			
(Loss)/profit for the year		(45,632)	3,236
Adjustments to cash flows from non-cash items			
Depreciation and amortisation	6	5,346	7,124
Profit on disposal of intangible assets	5	(606)	-
Finance income	7	(243)	(213)
Finance costs	7	1,502	1,543
Share based payment transactions		202	621
Income tax (credit)/expense	11	(9,080)	1,274
		(48,511)	13,585
Working capital adjustments			
Decrease/(increase) in trade and other receivables	15	2,142	(33,093)
Increase in trade and other payables		54,088	54,359
Increase in provisions	21	2,183	189
Increase/(decrease) in deferred income		18,023	(4,923)
Net cash flows generated from operating activities		27,925	30,117
Cash flows from investing activities			
Interest received	7	243	213
Acquisitions of property plant and equipment		(353)	(1,453)
Acquisition of intangible assets	13	(1,521)	(2,752)
Proceeds from sale of intangible assets	5	1,600	-
Net cash flows generated from/(used in) investing activities		(31)	(3,992)
Cash flows from financing activities			
Interest paid	7	(1,502)	(1,543)
Net increase in cash and cash equivalents		26,392	24,582
Cash and cash equivalents at 1 January		50,526	25,944
Cash and cash equivalents at 31 December		76,918	50,526

Notes to the Financial Statements

1 General information

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

The address of its registered office is:

1 Rivergate
Temple Quay
Bristol
BS1 6ED
United Kingdom

These financial statements were authorised for issue by the Board on 31 May 2019.

2 Accounting policies

Summary of significant accounting policies and key accounting estimates

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

Basis of preparation

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

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

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

Going concern

The Company made a loss for the year ended 31 December 2018 and has net liabilities. The financial statements have been prepared on a going concern basis.

The Company meets its day-to-day working capital requirements through its bank facilities and the Shell facility. The arrangement enables OVO to purchase commodity in advance in the forward markets, providing a hedge against its commitments to customers. The Shell commodity purchasing arrangement gives rise to a variable liability to Shell which is a combination of accounts payable and future purchase commitments secured on some the cash of OVO Energy Limited. During the year, the Company renegotiated its existing arrangement with Shell and the term of the arrangement was extended.

2 Accounting policies (continued)

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

At the start of 2019, OVO Group Ltd received an investment from Mitsubishi Corporation for a 20% stake. This investment has been taken into consideration in the directors assessment of going concern.

Changes in accounting policy

New standards, interpretations and amendments effective

The following have been applied for the first time from 1 January 2018 and have had an effect on the financial statements:

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Company adopted IFRS 15 using the modified retrospective approach as a transition method for first-time application as of 1 January 2018. Prior year figures have not been restated following an assessment performed by management concluding the impact to be immaterial. The effect of adopting IFRS 15 is immaterial to the financial statements.

2 Accounting policies (continued)

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Company applied IFRS 9 retrospectively, with an initial application date of 1 January 2018. The Company has not restated the comparative information, which continues to be reported under IAS 39.

IFRS 9 includes new rules for classifying financial instruments, which basically envisage four valuation categories:

- Debt instruments measured at amortised cost
- Debt instruments measured at fair value through other comprehensive income, the changes in value of which are recognised with an effect on income (recycling) upon disposal
- Equity instruments measured at fair value through other comprehensive income, the changes in value of which remain in equity and are not recognised in profit or loss (no recycling) upon disposal
- Financial instruments measured at fair value through profit or loss

Financial receivables which were classified in the category 'Loans and receivables' pursuant to IAS 39 are now assigned to the category 'Financial assets measured at fair value through profit or loss' due to the first time application of IFRS 9, as the contractually agreed cash flows from these financial instruments do not solely consist of interest and principal on the outstanding capital amount.

IFRS 9 also contains new regulations on the impairment of financial assets, which stipulate that such be based on expected losses. The adoption of IFRS 9 has not changed the Company's accounting for impairment losses for financial assets, the Company previously calculated a provision for impairment under IAS 39 based on an expected credit loss approach using a provision matrix. The new standard has not had a material effect on the Company's impairment provision.

IFRS 9 introduces new regulations for hedge accounting, which aim to improve the presentation of risk management activities in consolidated financial statements. For this purpose, IFRS 9 extends the scope of underlying transactions qualifying for hedge accounting and introduces a new approach for assessing effectiveness, among other things. The Company continues to not apply hedge accounting.

The fair value option for own-use contracts and the possibility to exclude the fair value component of options for hedging relationships are not made use of by the Company. Overall, the new regulations regarding hedge accounting do not have any material effect on the Company's financial statements.

Other standards

None of the other standards, interpretations and amendments effective for the first time from 1 January 2018 have had a material effect on the financial statements.

2 Accounting policies (continued)

New standards, interpretations and amendments not yet effective

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

IFRS 16 Leases

In January 2016, the IASB published the accounting standard IFRS 16, "Leases," which replaces the previous standard IAS 17, "Leases," and IFRIC 4, "Determining Whether an Arrangement Contains a Lease". IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees - leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group plans to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses). The Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

The first-time application of the standard will lead to an increase in both property, plant and equipment (accounting for the rights of use) and financial liabilities (recognition of the corresponding lease liabilities) in the balance sheet, particularly taking into account the financial obligations arising from operating leases reported under Note 19. Taking into account existing accruals and deferrals, the net impact of the transition on the balance sheet is expected to be immaterial.

Other standards

None of the other standards, interpretations and amendments which are effective for periods beginning after 1 January 2018 and which have not been adopted early, are expected to have a material effect on the financial statements.

Exemption from preparing group financial statements

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

The Company is exempt under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its parent, OVO Group Ltd, a company incorporated in United Kingdom.

Revenue recognition

Revenues are generated primarily from the sale of electricity and gas to customers. Revenue from contracts with customers is recognised over time as energy is supplied to the customer, this reflects the value of the volume supplied which includes as estimated value of the volume supplied to customers between the last meter reading and the end of the period. This is determined based on historic meter readings and industry consumption data.

2 Accounting policies (continued)

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

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

Transaction price

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

(i) Variable consideration

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

The self service reward gives rise to variable consideration. The Company uses the expected value method to estimate the amount of reward that will be provided to customers. The Company applies the requirements on constraining estimates of variable consideration and recognises a deduction to revenue for expected rewards.

(ii) Consideration payable to a customer

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

The OVO interest reward is considered under consideration payable to a customer. The Company accounts for the reward as a reduction in the transaction price as the payment is not in exchange for distinct goods or services.

Contract assets and receivables

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

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

Contract liabilities

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

Net basis of measurement of contract balances

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

2 Accounting policies (continued)

Capitalisation of costs to obtain or fulfil a contract

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

Finance income and costs policy

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

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

Foreign currency transactions and balances

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

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

Tax

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

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

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.

2 Accounting policies (continued)

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

Intangible assets

a) Trademarks and licenses

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

b) Computer software and licenses

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

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

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

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

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

Amortisation

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

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

Cash and cash equivalents

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

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.

Trade payables

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

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

Borrowings

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

Provisions

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

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

Leases

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

2 Accounting policies (continued)

Defined contribution pension obligation

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

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

Employee benefits

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

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

Share based payments

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

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

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

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

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

2 Accounting policies (continued)

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

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

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

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

Financial instruments

Initial recognition

Financial assets and financial liabilities comprise all assets and liabilities reflected in the statement of financial position, although excluding property, plant and equipment, investment properties, intangible assets, deferred tax assets, prepayments, deferred tax liabilities and employee benefits plan.

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

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

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

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

2 Accounting policies (continued)

Classification and measurement

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

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

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

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

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

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

Financial assets at amortised cost

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

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

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

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

Financial assets at fair value through other comprehensive income (FVTOCI)

A financial asset is measured at FVTOCI only if it meets both of the following conditions and is not designated as at FVPTL:-

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investments that is not held for trading, the company may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

If an equity investment is designated as FVTOCI, all gains and losses, except for dividend income, are recognised in other comprehensive income and are not subsequently included in the statement of income.

Financial assets at fair value through the profit or loss (FVTPL)

Financial assets not otherwise classified above are classified and measured as FVTPL.

Financial liabilities at amortised cost

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

2 Accounting policies (continued)

Financial liabilities at fair value through the profit or loss

Financial liabilities not measured at amortised cost are classified and measured at FVTPL. This classification includes derivative liabilities.

Derecognition

Financial assets

The Company derecognises a financial asset when;

- the contractual rights to the cash flows from the financial asset expire,
- it transfers the right to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred; or
- the company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset and the sum of the consideration received is recognised as a gain or loss in the profit or loss.

Any cumulative gain or loss recognised in OCI in respect of equity investment securities designated as FVTOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the company is recognised as a separate asset or liability.

The Company enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised.

When the Company derecognises transferred financial assets in their entirety, but has continuing involvement in them then the entity should disclose for each type of continuing involvement at the reporting date:

- (a) The carrying amount of the assets and liabilities that are recognised in the entity's statement of financial position and represent the entity's continuing involvement in the derecognised financial assets, and the line items in which those assets and liabilities are recognised.
- (b) The fair value of the assets and liabilities that represent the entity's continuing involvement in the derecognised financial assets;
- (c) The amount that best represents the entity's maximum exposure to loss from its continuing involvement in the derecognised financial assets, and how the maximum exposure to loss is determined
- (d) The undiscounted cash outflows that would or may be required to repurchase the derecognised financial assets or other amounts payable to the transferee for the transferred assets

Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged, cancelled, or expire.

2 Accounting policies (continued)

Modification of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to the cash flows from the original financial asset are deemed to expire. In this case the original financial asset is derecognised and a new financial asset is recognised at either amortised cost or fair value.

If the cash flows are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the company recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in the statement of income.

Financial liabilities

If the terms of a financial liabilities are modified, the company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual obligations from the cash flows from the original financial liabilities are deemed to expire. In this case the original financial liabilities are derecognised and new financial liabilities are recognised at either amortised cost or fair value.

If the cash flows are not substantially different, then the modification does not result in derecognition of the financial liabilities. In this case, the company recalculates the gross carrying amount of the financial liabilities and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in the statement of income.

2 Accounting policies (continued)

Impairment of financial assets

Measurement of Expected Credit Losses

The company recognises loss allowances for expected credit losses (ECL) on financial instruments that are not measured at FVPTL, namely:

- Financial assets that are debt instruments
- Accounts and other receivables
- Financial guarantee contracts issued; and
- Loan commitments issued.

The company classifies its financial instruments into stage 1, stage 2 and stage 3, based on the applied impairment methodology, as described below:

Stage 1: for financial instruments where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired on origination, the company recognises an allowance based on the 12-month ECL.

Stage 2: for financial instruments where there has been a significant increase in credit risk since initial recognition but they are not credit-impaired, the company recognises an allowance for the lifetime ECL.

Stage 3: for credit-impaired financial instruments, the company recognises the lifetime ECL.

The company measures loss allowances at an amount equal to the lifetime ECL, except for the following, for which they are measured as a 12-month ECL:

- debt securities that are determined to have a low credit risk (equivalent to investment grade rating) at the reporting date; and
- other financial instruments on which the credit risk has not increased significantly since their initial recognition.

The company considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

A 12-month ECL is the portion of the ECL that results from default events on a financial instrument that are probable within 12 months from the reporting date.

Provisions for credit-impairment are recognised in the statement of income and are reflected in accumulated provision balances against each relevant financial instruments balance.

Evidence that the financial asset is credit-impaired include the following;

- Significant financial difficulties of the borrower or issuer;
- A breach of contract such as default or past due event;
- The restructuring of the loan or advance by the company on terms that the company would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for the security because of financial difficulties; or
- There is other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the company, or economic conditions that correlate with defaults in the company.

2 Accounting policies (continued)

For trade receivables, the company applies the simplified approach, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The company has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The expected loss rates are based on the payment profiles of sales over a period of 24 month before 31 December 2018 and the corresponding historical credit losses experienced within this period.

Accounting estimates and assumptions

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of certain financial assets, liabilities, income and expenses.

The use of estimates and assumptions is principally limited to the determination of provisions for impairment, the valuation of financial instruments, unbillable supplies and deferred tax assets as explained in more detail below:-

Provisions for impairment

In determining impairment of financial assets, judgement is required in the estimation of the amount and timing of future cash flows as well as an assessment of whether the credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL.

Fair value of financial assets and liabilities

Where the fair value of financial assets and liabilities cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is derived from observable markets where available, but where this is not feasible, a degree of judgement is required in determining assumptions used in the models. Changes in assumptions used in the models could affect the reported fair value of financial assets and liabilities.

Revenue recognition - supplies that cannot be billed

Revenue for the supply of electricity and gas is recognised using customer tariff rates and industry settlement data (specific to the Company) net of estimated supplies that are not billable based on historical patterns. The industry settlement data is the estimated quantity the industry system operator deems the individual suppliers, including the Group, to have supplied. In assessing the level of supplies that will not be billed and therefore not recognised in revenue, the Directors have estimated the likely losses that arise from the reconciliation of industry settlement data to the estimated quantity of gas and electricity supplied to customers according to meter reading data.

Deferred tax assets

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

2 Accounting policies (continued)

Critical estimates and judgements

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

Revenue recognition - supplies that cannot be billed

Revenue for the supply of electricity and gas is recognised using customer tariff rates and industry settlement data (specific to the Company) net of estimated supplies that are not billable based on historical patterns. The industry settlement data is the estimated quantity the industry system operator deems the individual suppliers, including the Group, to have supplied. In assessing the level of supplies that will not be billed and therefore not recognised in revenue, the Directors have estimated the likely losses that arise from the reconciliation of industry settlement data to the estimated quantity of gas and electricity supplied to customers according to meter reading data.

Impairment of trade receivables

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

Deferred tax assets

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

Business combinations

There is significant judgement on the fair value of a company's assets on acquisition. Management uses valuation techniques when determining the fair values of certain assets and liabilities acquired in a business combination. Management bases its assumptions on the best data available. Management will continue to assess the fair value using the best available data until the measurement period ends.

3 Revenue

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

	2018	2017
	£ 000	£ 000
Sale of gas and electricity	918,189	726,110
Intercompany smart meter installation revenue	17,617	29,905
Other revenue	611	6,506
	<u>936,417</u>	<u>762,521</u>

4 Other operating income

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

	2018	2017
	£ 000	£ 000
Research and development expenditure credit	<u>962</u>	<u>-</u>

5 Other gains

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

	2018	2017
	£ 000	£ 000
Gain on disposal of intangible assets	<u>606</u>	<u>-</u>

6 Operating(loss)/profit

Arrived at after crediting/(charging)

	2018	2017
	£ 000	£ 000
Depreciation expense	(1,641)	(2,914)
Amortisation expense	(3,705)	(4,210)
Operating lease expense - property	(2,679)	(1,903)
Research and development expenditure credit	962	-
Profit on disposal of intangible assets	<u>606</u>	<u>-</u>

7 Finance income and costs

	2018 £ 000	2017 £ 000
Finance income		
Interest income on bank deposits	130	1
Interest income on intercompany loans	113	212
Total finance income	243	213
Finance costs		
External finance charges	(155)	(171)
Interest on intercompany borrowings	(1,347)	(1,372)
Total finance costs	(1,502)	(1,543)
Net finance costs	(1,259)	(1,330)

8 Staff costs

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

	2018 £ 000	2017 £ 000
Wages and salaries	41,996	37,617
Social security costs	3,903	3,635
Other pension costs	946	784
Share-based payment expenses	202	621
Other employee expenses	257	418
	47,304	43,075

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

	2018 No.	2017 No.
Administration and support	300	295
Sales, marketing and distribution	812	804
	1,112	1,099

There were six Directors during the year (2017: Seven). Directors' remuneration and salary cost is recognised in OVO Group Ltd. The Directors' emoluments for the year ending 31 December 2018 were £1,045,000 (2017: £1,082,000). The highest paid Director's emoluments totalled £551,000 (2017: £409,000)

9 Directors' remuneration

The directors' remuneration for the year was as follows:

	2018	2017
	£ 000	£ 000
Contributions paid to money purchase schemes	<u>16</u>	<u>17</u>

10 Auditors' remuneration

	2018	2017
	£ 000	£ 000
Audit of the financial statements	<u>86</u>	<u>80</u>
Other fees to auditors		
The audit of other companies in the Group	93	80
Audit-related assurance services	10	13
Taxation compliance services	<u>77</u>	<u>50</u>
	<u>180</u>	<u>143</u>

11 Income tax income/(expense)

Tax (credited)/charged in the income statement

	2018 £ 000	2017 £ 000
Current taxation		
Total tax	<u>(9,080)</u>	<u>1,274</u>

The tax on (loss)/profit for the year is lower than the standard rate of corporation tax in the UK (2017 - higher than the standard rate of corporation tax in the UK) of 19% (2017 - 19.25%).

The differences are reconciled below:

	2018 £ 000	2017 £ 000
(Loss)/profit before tax	<u>(54,712)</u>	<u>4,510</u>
Corporation tax at standard rate	(10,395)	868
Increase (decrease) from effect of expenses not deductible in determining taxable profit (tax loss)	222	485
Increase (decrease) from effect of unrelieved tax losses carried forward	-	(132)
Deferred tax expense (credit) from unrecognised tax loss or credit	122	-
Deferred tax expense relating to changes in tax rates or laws	1,056	53
Decrease in UK and foreign current tax from adjustment for prior periods	(228)	-
Losses surrendered to group companies	<u>143</u>	<u>-</u>
Total tax (credit)/charge	<u>(9,080)</u>	<u>1,274</u>

The main rate of UK corporation tax for the year to 31 March 2017 and to 31 March 2018 was 19%.

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.

11 Income tax income/(expense) (continued)

Deferred tax

Deferred tax assets and liabilities

2018	Asset £ 000
Tax losses carry-forwards	21,439
Accelerated tax depreciation	709
Pension benefit obligations	13
	<u>22,161</u>

Deferred tax movement during the year:

	At 1 January 2018 £ 000	Recognised in income £ 000	At 31 December 2018 £ 000
Tax losses carry-forwards	12,509	8,930	21,439
Accelerated tax depreciation	801	(92)	709
Pension benefit obligations	-	13	13
Net tax assets/(liabilities)	<u>13,310</u>	<u>8,851</u>	<u>22,161</u>

Deferred tax movement during the prior year:

	At 1 January 2017 £ 000	Recognised in income £ 000	At 31 December 2017 £ 000
Tax losses carry-forwards	13,729	(1,220)	12,509
Accelerated tax depreciation	626	175	801
Pension benefit obligations	-	-	-
Net tax assets/(liabilities)	<u>14,355</u>	<u>(1,045)</u>	<u>13,310</u>

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

12 Property, plant and equipment

	Leasehold property £ 000	Fixtures, fittings and office equipment £ 000	Total £ 000
Cost or valuation			
At 1 January 2017	6,267	4,106	10,373
Additions	839	614	1,453
At 31 December 2017	<u>7,106</u>	<u>4,720</u>	<u>11,826</u>
Additions	-	353	353
Disposals	<u>(181)</u>	<u>(635)</u>	<u>(816)</u>
At 31 December 2018	<u>6,925</u>	<u>4,438</u>	<u>11,363</u>
Accumulated Depreciation			
At 1 January 2017	3,742	2,432	6,174
Charge for year	1,906	1,008	2,914
At 31 December 2017	<u>5,648</u>	<u>3,440</u>	<u>9,088</u>
Charge for the year	779	862	1,641
Eliminated on disposal	<u>(181)</u>	<u>(635)</u>	<u>(816)</u>
At 31 December 2018	<u>6,246</u>	<u>3,667</u>	<u>9,913</u>
Carrying amount			
At 31 December 2018	<u>679</u>	<u>771</u>	<u>1,450</u>
At 31 December 2017	<u>1,458</u>	<u>1,280</u>	<u>2,738</u>
At 31 December 2016	<u>2,525</u>	<u>1,674</u>	<u>4,199</u>

13 Intangible assets

	Internally generated software development costs £ 000	Trademarks and industry accreditations £ 000	Total £ 000
Cost or valuation			
At 1 January 2017	16,763	504	17,267
Transfers	419	(419)	-
Additions	2,752	-	2,752
At 31 December 2017	19,934	85	20,019
Additions	1,521	-	1,521
Disposals	(1,857)	-	(1,857)
At 31 December 2018	19,598	85	19,683
Accumulated Amortisation			
At 1 January 2017	8,821	177	8,998
Transfers	177	(177)	-
Amortisation charge	4,210	-	4,210
At 31 December 2017	13,208	-	13,208
Amortisation charge	3,705	-	3,705
Amortisation eliminated on disposals	(863)	-	(863)
At 31 December 2018	16,050	-	16,050
Carrying amount			
At 31 December 2018	3,548	85	3,633
At 31 December 2017	6,726	85	6,811
At 31 December 2016	7,942	327	8,269

The amortisation charge of £3,705,000 (31 December 2017: £4,210,000) is recognised in administrative expenses.

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

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

14 Investments in subsidiaries, joint ventures and associates

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

Name of subsidiary	Principal activity	Registered office	Proportion of ownership interest and voting rights held	
			2018	2017
OVO Electricity Ltd*	Procurement and sale of electricity from the wholesale markets and renewable sources	1 Rivergate, Temple Quay, Bristol, England, BS1 6ED UK	100%	100%
OVO Gas Ltd*	Supply of gas and related services	1 Rivergate, Temple Quay, Bristol, England, BS1 6ED UK	100%	100%
OVO Insurance Services Ltd*	Dormant	1 Rivergate, Temple Quay, Bristol, England, BS1 6ED UK	100%	100%
Lumo Online Ltd*	Dormant	140-142 Kensington Church Street, London, England, W8 4BN UK	100%	100%
Spark Energy Ltd*	Sale of electricity and gas to customers in the UK	Ettrick Riverside, Dunsdale Road, Selkirk, United Kingdom, TD7 5EB UK	100%	0%
Spark Gas Shipping Ltd	Supply of gas and related services	1 Rivergate, Temple Quay, Bristol, England, BS1 6ED UK	100%	0%
Spark Energy Finance Plc	Finance	Ettrick Riverside, Dunsdale Road, Selkirk, Scotland, TD7 5EB UK	100%	0%
Home Telecom Ltd	Telecom services	1 Rivergate, Temple Quay, Bristol, England, BS1 6ED UK	100%	0%
Spark Generation Ltd	Dormant	Ettrick Riverside, Dunsdale Road, Selkirk Scotland	100%	0%

* indicates direct investment of OVO Energy Ltd.

14 Investments in subsidiaries, joint ventures and associates (continued)

On 28 November 2018, the company acquired 100% of the issued share capital of Spark Energy Ltd. The total consideration was £1. The principal activity of Spark Energy Ltd is the supply of gas and electricity. Spark Energy Ltd was acquired to grow the customer base.

15 Trade and other receivables

	31 December 2018 £ 000	31 December 2017 £ 000
Trade receivables and accrued income	83,781	78,962
Provision for impairment of trade receivables and accrued income	<u>(50,538)</u>	<u>(40,286)</u>
Net trade receivables	33,243	38,676
Receivables from related parties	33,364	29,296
Loans to related parties	964	2,979
Prepayments	5,335	4,584
Other receivables	<u>10,897</u>	<u>11,372</u>
	<u>83,803</u>	<u>86,907</u>

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

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

16 Cash and cash equivalents

	31 December 2018 £ 000	31 December 2017 £ 000
Cash at bank	<u>76,918</u>	<u>50,526</u>

17 Trade and other payables

	31 December 2018 £ 000	31 December 2017 £ 000
Trade payables	2,295	53,225
Accrued expenses	182,537	76,556
Amounts due to related parties	35,770	36,140
Social security and other taxes	1,024	985
Other payables	<u>301</u>	<u>933</u>
	<u>221,927</u>	<u>167,839</u>

17 Trade and other payables (continued)

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

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

18 Share capital and reserves

Allotted, called up and fully paid shares

	31 December 2018		31 December 2017	
	No.	£	No.	£
Ordinary share capital of £0.01 each	12,500	125.00	12,500	125.00

Nature and purpose of reserves

Share-based payments

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

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

19 Obligations under leases and hire purchase contracts

Operating leases

The company leases six offices, all in Bristol and London, under non-cancellable operating lease agreements. The lease terms are between 3 months and 5 years.

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

	31 December 2018 £ 000	31 December 2017 £ 000
Within one year	3,670	2,230
Later than one year but not later than five years	17,183	7,089
Later than five years	630	-
	<u>21,483</u>	<u>9,319</u>

The amount of non-cancellable operating lease payments recognised as an expense during the year was £2,679,097 (2017 - £1,902,976).

20 Pension and other schemes

Defined contribution pension scheme

The company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the company to the scheme and amounted to £946,000 (2017 - £784,000).

21 Provisions

	Facility agreement exit fee provision £ 000	Dilapidations provisions £ 000	Total £ 000
At 1 January 2018	-	740	740
Additional provisions	2,000	-	2,000
Increase (decrease) in existing provisions	-	183	183
At 31 December 2018	<u>2,000</u>	<u>923</u>	<u>2,923</u>
Current liabilities	<u>2,000</u>	<u>923</u>	<u>2,923</u>

Dilapidation Provision

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

Facility agreement exit fee provision

Upon the occurrence of an exit event for a fully repaid facility agreement, the Company is required to make an exit fee payment based on the enterprise value of the Company at the date of the event. The recognised provision reflects the director's best estimates of the fair value of this fee at 31 December 2018.

22 Commitments

Capital commitments

The total amount contracted for but not provided in the financial statements was £Nil (2017 - £Nil).

23 Contingent liabilities

In February 2018, Ofgem launched an investigation into OVO's estimation of customers' energy usage during winter 2016-17 and the general accuracy of its annual consumption figures in customers' annual statements. OVO has been fully cooperating with Ofgem in its investigation and it is anticipated that the investigation will be closed in 2019. OVO anticipates that if it is found to be at fault then the remedy will most likely be a financial penalty. OVO does not anticipate this investigation impacting its ability to supply energy or grow its customer base in any way.

24 Financial risk management and impairment of financial assets

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

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

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 allowance account for trade receivables is used to record impairment losses unless the Company has no reasonable expectation of recovery; at that point the amounts considered irrecoverable are written off against the trade receivables directly. The Company provides for impairment losses based on expected credit losses. For trade receivables and contract assets, the Company applies the IFRS 9 simplified approach, which requires expected lifetime losses to be recognised from initial recognition of the receivables. The Company has established a provision matrix that is based on its historical credit loss experience. Trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Company has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets. Generally trade receivables are written off if final billed, past due for more than three months and are not subject to enforcement activity.

On that basis, the loss allowance as at 31 December 2018 and 1 January 2018 (on adoption of IFRS 9) was determined as follows for both trade receivables and contract assets:

Past due and impaired financial assets

Allowances for impairment by credit losses

	Loans and receivables
2018	£ 000
At start of year	40,286
Additional impairment for credit losses	10,252
At end of year	<u>50,538</u>

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

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

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

Analysis of items past due or impaired

Loans and receivables

2018	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	<u>15,583</u>	<u>17,542</u>	<u>50,538</u>	<u>83,711</u>	<u>50,538</u>

2017	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	<u>16,127</u>	<u>20,901</u>	<u>40,286</u>	<u>78,734</u>	<u>40,286</u>

Market risk

Commodity price risk

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

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

Derivatives are measured at fair value on the contract date and are re-measured to fair value at subsequent reporting dates. Changes in the fair value of derivatives and other financial instruments are recognised in the income statement as they arise. Unrealised net losses on open contracts at the year-end were £nil (31 December 2017: £nil).

The OVO group manages this risk by entering into forward contracts for a variety of periods. Energy procurement contracts are entered into and continue to be held for the purpose of the receipt of a non-financial item which is in accordance with the Company's expected purchase and sale requirements and are therefore out of scope of IFRS 9. Energy contracts that are not financial instruments under IFRS 9 are accounted for as executory contracts and changes in fair value do not immediately impact profit or equity, and as such, are not exposed to commodity price risk as defined by IFRS 7. So whilst the risk associated with energy procurement contracts outside the scope of IFRS 9 is monitored for internal risk management purposes, only those energy contracts within the scope of IFRS 9 are within the scope of IFRS 7 disclosure requirements.

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

Liquidity risk

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

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

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

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

Capital risk management

Capital components

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

25 Related party transactions

Key management personnel

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

Summary of transactions with parent entities

During the year the Company repaid loan funds to its immediate parent, OVO Group Ltd, of £7,591,000 (2017 - £1,974,000). The outstanding loan incurred an interest charge on the capital balance of 7% (2017: 7%); the total interest paid in the year was £1,190,000 (2017: £1,181,000). As at 31 December 2018, the balance outstanding was £13,019,000 (2017: £19,587,000).

During the year the Company was charged management charges by OVO Group Ltd for the provision of management personnel of £1,339,000 (2017 - £2,019,000). The costs are included in the balance outstanding above.

During the year Imagination Industries Ltd (ultimate parent company) charged OVO Energy Ltd brand royalty fees totalling £4,636,000 (2017 - £3,625,000). As at 31 December 2018 the Company owed Imagination Industries Ltd £1,826,000 (2017: £1,266,000). In the year the Company has surrendered tax losses to Imagination Industries Ltd of £nil (2017 - £nil).

25 Related party transactions (continued)

Summary of transactions with subsidiaries

During the year the Company traded with OVO Electricity Ltd (subsidiary) and made sales of electricity totalling £159,008,000 (2017 - £129,089,000) and made purchases of electricity totalling £163,463,000 (2017 - £132,321,000). The Company also provided management services to OVO Electricity Ltd of £273,000 (2017 - £284,000). As at 31 December 2018, the total balance due to OVO Electricity Ltd was £15,011,000 (2017 - £10,514,000).

During the year the Company traded with OVO Gas Ltd (subsidiary) and made sales of gas of £27,814,000 (2017 - £15,206,000) and made purchases of gas totalling £28,649,000 (2017 - £15,662,000). The Company also provided management services to OVO Gas Ltd of £137,000 (2017 - £142,000). As at 31 December 2018 the total amount owing to OVO Gas Ltd was £1,498,000 (2017 - £664,000)

During the year the Company provided net funding to Spark Energy Ltd (subsidiary) of £13,464,000 (2017: nil). The balance outstanding at 31 December 2018 was £13,464,000 (2017: nil).

Summary of transactions with other related parties

During the year the Company received net funding from Intelligent Energy Technology Services Ltd of £333,000 (2017 - £8,061,000), The loan incurred interest charges at 7% annually on the capital balance at the end of each month (2017: 7%), the total interest charged by Intelligent Energy Technology Services Ltd in the year was £157,000 (2017: Interest receivable - £46,000). The balance outstanding to Intelligent Energy Technology Services Ltd at 31 December 2018 was £3,633,000 (2017: £3,500,000)

In the current year, the Company charged Intelligent Energy Technology Services Ltd a fee for each customer referred for a smart meter installation totalling £17,617,000 (2017 - £29,905,000).

During the year Intelligent Energy Technology Ltd repaid £1,935,000 of the net funding provided by the Company (2017 - £1,966,000 provided to Intelligent Energy Technology Ltd), The loan incurred interest charges at 7% annually on the capital balance at the end of each month, The total interest charged by in the year was £104,000 (2017 - £55,000). The balance outstanding from Intelligent Energy Technology Ltd at 31 December 2018 was £30,000 (2017: £1,919,000)

During the year, the Company provided loan funding to Corgi HomeHeat Ltd of £123,000 (2017: £ nil). The loan incurred interest charges at 7% annually on the capital balance at the end of each month, The total interest charged by in the year was £9,000 (2017 - £nil). The balance outstanding from Corgi HomeHeat Ltd at 31 December 2018 was £123,000 (2017: £nil).

26 Parent and ultimate parent undertaking

The company's immediate parent is OVO Group Ltd.

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

The smallest consolidated statements that incorporate OVO Energy Ltd are those of OVO Group Ltd, which are available upon request from the registered office shown in Note 1.

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

The ultimate controlling party is Stephen Fitzpatrick.

27 Non adjusting events after the financial period

On 14 January 2019 OVO Energy Ltd acquired 235,000 customers from Economy Energy through the Supplier of Last Resort mechanism. The financial effects of this transaction have not been recognised at 31 December 2018.

In February 2019, the OVO Group Ltd received a £217m investment from Mitsubishi Corporation for a 20% stake. OVO Group Ltd's business model, long-term vision for the energy sector and culture align well with our new global partner. Their investment will help the Group expand into new markets across Europe and Asia Pacific, accelerate the development of the Groups' intelligent energy technologies company, Kaluza, and put the Group at the forefront of the global, tech-enabled transition to a zero-carbon energy system.