

Registration number: 06890795

OVO Energy Ltd

Annual Report and Financial Statements

for the Year Ended 31 December 2019

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OVO Energy Ltd

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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 2019

The directors present their strategic report for the year end 31 December 2019.

Strategic Report

Business Overview

We are a collection of companies with a single vision: to power human progress with clean affordable energy for everyone. Guided by Plan Zero, we are transforming our business in order to move faster to create a world without carbon. We commit to achieving net zero carbon emissions across our own operations by 2030. And we will mobilise our customers to form a zero carbon community, helping them halve their total lifestyle carbon emissions and eliminate their household emissions completely by 2030. We will enable them all to be active participants in a newer, more resilient, flexible and intelligent grid and to play their part in transitioning to a zero carbon world.

OVO grew out of the belief that there was a better way to sell energy. We started with the ambition to make energy cheaper, greener and simpler and with the commitment to make every decision as if the customer was in the room. With this focus on transparency and fairness, we challenged the status quo and set the standard for new entrants to the market.

OVO has consistently ranked among the UK's most loved energy brands, even at a time when public trust in the industry has been historically low. The energy market is going through profound change with companies of all sizes struggling to adapt. Increased competition, digitisation, the growth of big data, and changing consumer demands are eroding traditional business models. The past few years have seen OVO develop from a top-rated energy retailer into a group of companies delivering innovative energy services underpinned by smart technology.

2019 Strategic Update

Plan Zero

Plan Zero is our response to the climate crisis, based on a thorough assessment not only of our own carbon footprint but also the broader impacts of all our products and services. Our goal is to drive progress to zero carbon living. Plan Zero sets out how we will achieve this goal by 2030. The UK government has recognised the urgency of this situation. It has set out a greenhouse gas emissions target of net-zero by 2050, making it the world's first major economy to commit to real progress. But how we get there is up to us. At OVO, we want to move even faster to create a world without carbon. We are calling our new direction Plan Zero.

For full details, please visit <https://ovo.com/planzero/>

OVO Group Limited, is subject to the Streamlined Energy and Carbon Reporting Framework Regulations. Details of OVO Group Limited's compliance against these regulations are included in the financial statements of OVO Group Limited.

2019 Trading Update

Energy customer numbers have seen some decline as a result of increased price competition and record levels of switching in the retail supply market. However, the competitive environment has softened significantly over the course of the winter. The principal strategy for the year was focused on customer retention and optimising SMART meter installs, as well as launching Plan Zero, our plan to drive progress to net zero carbon living. In addition, we were recognised for the fourth time in five years by USwitch as Supplier of the Year.

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

Key Financial and Performance Indicators

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

	Unit	2019	2018
Customer numbers	No.	1,377,000	870,000
Cash	£'000	19,825	76,918
Annualised gross profit margin	%	7.4	7.6

The increase in customer numbers has been driven by the acquisition of Economy Energy as noted below.

Smart Homes

At OVO we were quick to see the potential of smart energy services. We championed the smart meter rollout, with approximately 50% of our customers at the end of 2019 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.

Acquisition of Economy Energy

In January 2019, Ofgem appointed OVO Energy Limited, to take over Economy Energy's 360,000 customer connections. With over two thirds of Economy Energy's customer base on prepayment meters, OVO Energy Limited was well equipped to seamlessly transition them onto Boost, OVO's prepayment brand, tailored specifically for pay-as-you-go customers.

We have worked hard to seamlessly transition these customers onto our own platforms whilst maintaining market leading customer service.

Subsequent events since the end of the reporting period

Acquisition of SSE Retail

On 15 January 2020, OVO Energy Limited completed the transformational acquisition of SSE plc's GB domestic retail business (SSE Energy services). As at 31 December 2019, all material conditions of the acquisition had been satisfied, including regulatory clearance from both the Financial Conduct Authority (31 October 2019) and the Competition and Markets Authority (10 December 2019). The acquisition formally completed on the 15 January 2020.

Our investment in scalable operating platforms, smart data capabilities and innovative technology combined with SSE's excellence at scale makes the two businesses a great fit. SSE won uSwitch's Large Supplier of the Year 2019 and recently came top of the Citizens Advice Bureau's energy supplier rankings. We are both committed to increasing access to sustainable energy. Combining the best of both our businesses will enable us to bring OVO's energy technology to millions more customers to provide a market leading customer experience.

Completing this acquisition means that OVO Energy Limited now serves approximately 15% of the market; making OVO Energy Limited the UK's third largest energy provider.

COVID-19

Throughout the pandemic, our priority has been to ensure the safety of our people whilst continuing to support all of our customers, particularly those that are vulnerable. Our investment in technology and shared platforms has ensured a high level of connectivity which means we are able to move to remote operations with minimal disruption.

However, unfortunately COVID-19 will impact our commercial performance in 2020, due to some key sales channels within the business experiencing significant interruption as a result of the lockdown. The most notable of these is the impact on our ability to continue the roll-out of smart meters to customers.

As a result of COVID-19, we anticipate the need to recognise additional bad debt charges in 2020 as the economic consequences of the pandemic materialise with our customers. This will be recognised in accordance with IFRS9, however there has been no financial impact on these financial statements.

S172 Statement

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

In light of our purpose and our strategy to create a world without carbon and create long term-value for customers, our Directors take steps to understand the needs and priorities of each stakeholder group and do so via a number of mediums, including by direct engagement or via committees and forums. The relevance of each stakeholder may change depending on the matter at hand. In line with requirements of the UK Companies Act 2006, we provide a high-level summary of how our Directors engaged with our stakeholders and had regard to their interests when setting OVO's strategy and taking decisions concerning the business in 2019.

Our customers

OVO has a history of championing the interests of customers. We provide easy and intuitive solutions so that whether our customers are on the phone with our award winning call centre or using our app or our website, they know that we will go the extra mile and provide the necessary support.

We engage with our customers via multiple touchpoints as well as delivering support in the management of their energy and the resolution of issues via a number of channels.

We consistently and proactively communicate with all of our customers throughout their life cycle with the OVO brand in the channel of their choice. Operational communications and regular billing information are delivered by email or post on a monthly basis. All customers can access their OVO account via an app or desktop service at any point and are able to understand their usage and manage their account at any time they need. For those customers who wish to receive them, we deliver marketing communications about new products and services that our existing customers may be able to benefit from.

As a business we spend significant time ensuring we understand our current and prospective customers, what they require from their energy provider and how we can improve the experience and products that we offer. Our product and marketing teams regularly research propositional development and brand messaging to ensure everything we create is done with the customer in mind. We consistently track NPS, Trustpilot and brand health and use the data gleaned to continuously build and improve our offering. Regular customer reports are produced for management and are regularly shared with Directors and the Board. Our Board also receives direct updates from each of OVO's customer facing businesses and monitors customer performance, NPS and feedback.

Brand marketing focuses on how OVO Energy and its unique proposition are able to support our customers' journey to Zero Carbon Living. The communications we provide are designed to mobilise a community around our Plan Zero objective to drive progress to zero carbon living and to support all of our customers in reducing their individual carbon footprint by 50% by 2030.

Post year end, at the start of the Coronavirus lockdown, we quickly communicated with customers to let them know we're here to help those who needed us, and uploaded FAQs to our website to ensure our information was clear, concise and prompt. Our customers and wider charitable partners told us that some customers were worried about paying their bills during lockdown and so we responded by setting up the OVO Coronavirus Hardship Scheme, making £50 million available to support those who had been impacted and were worried about their ability to pay.

Our people

Without talented and committed employees, we could never deliver on our ambitions. Our people are the creators of our culture and act as our ambassadors. We aspire to create the UK's best place to work in order for our people to better serve our customers and partner with them on their journey to zero carbon living.

We have already put in place strong foundations to help ensure everyone who joins OVO feels like they belong. This includes:

- An Inclusion and Diversity team, which includes senior management, who champion different areas and ensure principles of inclusion and diversity are embedded across the business
- Making a public pledge to increase the number of women in traditionally underrepresented roles
- Normalising the conversation around, and increasing awareness of mental health in the workplace through the Time to Change pledge
- Tracking and reporting diversity data of both applicants and existing employees to identify challenge areas.

Our quarterly employee survey gives employees at all levels the chance to share views with line managers, colleagues and leadership. In 2019, we had an average 82% response rate and management support was called out as a key strength.

We also engage regularly with our people through a number of employee forums, company wide town halls and smaller village halls.

All of the data and learnings we receive is shared with the OVO Group Board, and our Chief People Officer attends OVO Group Board meetings in order to communicate and report on employee feedback.

Government and Regulators

OVO has dedicated teams who engage regularly with the UK Government and regulators to communicate our business strategy and support the development of policies, either directly or through our trade associations. Our CEO engages directly with policy makers and the regulator around OVO's strategic priorities and is kept informed of priority consultations and regulatory changes.

In 2019 we engaged on a number of strategically important issues to help inform and support the policy development on climate change, the decarbonisation of heat and transport and customer protection. Through this engagement, we aim to positively contribute to the global drive to tackle climate change and to support the UK Government's net-zero by 2050 targets.

The OVO Group Board receives regular updates from representations from our Risk and Compliance Committee.

Our communities

The OVO Charitable Foundation ("OVO Foundation") was created in 2014 with the mission of ensuring all children and young people have equitable access to a sustainable future.

OVO Foundation builds sustainable communities around the world by increasing energy access and tackling youth homelessness. It also focuses on educating children on sustainability and climate change issues to inspire and empower them to take action.

OVO Foundation invests in projects that address a real and genuine need, can demonstrate measurable and meaningful impact, and provide a high return on investment. It is also committed to funding projects that have potential to bring about long-term systemic change and can be scaled wherever possible.

Key achievements for the Foundation include:

- Turning 10 derelict properties into 30 safe and affordable homes and working with 100s of young homeless people to break the cycle of homelessness
- Providing funding to electrify 300+ schools and health clinics in rural Kenya to improve the lives of 100,000s of people and leapfrogging the grid to avoid polluting fossil fuels
- Investing £500,000 in local charities and spending 1,000s of volunteering hours to help create sustainable communities

OVO Charitable Foundation is funded partly from customer donations, and partly from the OVO business: at the end of 2019, 65,896 customers donated to OVO Foundation each month.

Suppliers

Building trusted partnerships with our suppliers is important in enabling us to provide the best products at the best prices for our customers.

In 2019, as a first step to engage suppliers on Plan Zero, OVO implemented a Supplier Code of Conduct setting out the standards, principles and values to which OVO expects its suppliers to adhere. OVO has asked all existing key suppliers to provide written confirmation that they will adhere with the Supplier Code of Conduct. Going forward, the Supplier Code of Conduct will be built into supplier contract templates, meaning that all new suppliers will be required to adhere with it.

In the future, OVO will be looking at ways to engage further with suppliers to promote sustainability and responsible business practices, by including sustainability assessments as part of the procurement process and ensuring sustainability criteria forms a minimum part of weighted assessment scoring when new suppliers are being selected.

Board and company engagement with our stakeholders during strategic moments

The OVO Group Board recognises that having robust governance structures in place is vital to decision-making. The OVO Group Board spends a lot of time listening to and understanding the views of its key stakeholders. When discussing matters at Board meetings these views form an integral part of its decision-making.

The OVO Group Board is responsible for approving the company's strategic plan and evaluates proposed acquisitions in the context of that plan. The OVO Group Board, (which includes members from our external shareholders), discussed and approved the acquisition of SSE Energy Services.

During the development of Plan Zero (Nov 2018 - May 2019) OVO engaged a vast number of stakeholders in a detailed materiality assessment.

- We held 1-2-1 in-depth sessions with Directors, senior leaders and relevant stakeholders across OVO as well as held 12 group sessions. We also sent out a questionnaire to all Directors to ensure they fed into the development of the strategy that received a 100% response rate.
- We asked all of our employees to complete a survey, and received a 50% response rate.
- We sent out surveys to our customers to seek their feedback on our aims and objectives.
- Plan Zero was discussed and approved by the OVO Group Board, and our CEO was significantly involved in its development.

Since the launch of Plan Zero, we have committed to reporting quarterly to the OVO Group Board - with a summary of each Plan Zero SteerCo. The OVO Group Board is committed to building trusted partnerships with our suppliers, which are crucial to delivering many of our Plan Zero commitments. Through these partnerships, we deliver value and quality to our customers.

All matters which under OVO's governance arrangements are reserved for decision by the Directors are presented at OVO Group Board meetings. Directors are briefed on any potential impacts and risks for our customers, our people and other stakeholders including the community and environment and how they are to be managed.

Principal risks and uncertainties

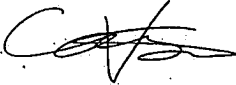
The principal risks and uncertainties impacting the Company relate to the wholesale price of gas and electricity, bad debt risk and liquidity risk.

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.

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. For non-credit customers, prepayment and smart meters are installed or a security deposit is taken to avoid bad debt risk.

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

Approved by the Board on 21 December 2020 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 2019.

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

Adrian Letts (appointed 7 January 2019)

Principal activity

The principal activity of the company is the procurement and sale of UK electricity from the wholesale markets and renewable sources, the supply of gas and related services to domestic customers, such as smart meter installation.

Dividends

The directors do not propose a dividend for the current year (2018: 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 of these financial statements.

Charitable donations

During the year the Company made charitable donations of £572,000. Individual donations were:

The OVO Charitable Foundation

£
572,000

Stakeholder engagement

Details of the group's actions taken during the financial year with regards to stakeholder engagement can be found within the Section 172 Statement included in the Strategic Report.

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).

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.

Going concern

The company made a loss for the year ending 31 December 2019 and has net liabilities. The financial statements have been prepared on a going concern basis.

The directors believe that preparing the financial statements on the going concern basis is appropriate due to the continued financial support of the parent company OVO Group Limited. The directors have received confirmation that OVO Group Limited intend to support the company for at least one year after these financial statements were signed.

The ability of OVO Group Limited to provide this support has been considered within the OVO Group Limited financial statements, available on request from the registered office showing in note 1, where the OVO Group Limited directors concluded that the Group has sufficient liquidity to continue as a going concern.

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.

Disclosure of information to the auditor

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

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.

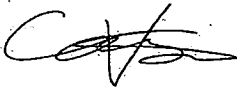
The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies 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 9 to 11 were approved by the Board of Directors on 21 December 2020 and signed on its behalf by:



.....
Vincent Casey
Director

Independent Auditors' Report to the members of OVO Energy Ltd

Report on the audit of the financial statements

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 2019 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 2019; the Income Statement, the Statement of Cash Flows, the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

Independent Auditor's Report to the Members of OVO Energy Ltd (continued)

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 2019 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 10, 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.

Independent Auditor's Report to the Members of OVO Energy Ltd (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
Bristol

21 December 2020

OVO Energy Ltd
Income Statement
For the Year Ended 31 December 2019

Income Statement

For the year ended 31 December 2019

	Note	2019 £ 000	2018 £ 000
Revenue	4	1,144,076	936,417
Cost of sales		<u>(1,059,528)</u>	<u>(865,640)</u>
Gross profit		84,548	70,777
Administrative expenses		(132,507)	(115,546)
Expected credit loss		(12,066)	(10,252)
Other operating income	5	1,784	962
Other gains	6	<u>1,195</u>	<u>606</u>
Operating loss	7	<u>(57,046)</u>	<u>(53,453)</u>
Finance income		357	243
Finance costs		<u>(2,747)</u>	<u>(1,502)</u>
Net finance costs	8	<u>(2,390)</u>	<u>(1,259)</u>
Loss before tax		(59,436)	(54,712)
Income tax charge/(credit)	12	<u>(4,423)</u>	<u>9,080</u>
Loss for the year		<u>(63,859)</u>	<u>(45,632)</u>

The above results were derived from continuing operations.

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

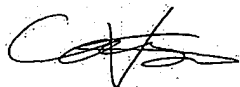
The notes on pages 20 to 51 form an integral part of these financial statements.

Statement of Financial Position
As at 31 December 2019

	Note	31 December 2019 £ 000	31 December 2018 £ 000
Assets			
Non-current assets			
Property, plant and equipment	14	3,440	1,450
Intangible assets	15	20,507	3,633
Deferred tax assets	12	14,301	22,161
Right of use assets	13	14,774	-
		53,022	27,244
Current assets			
Inventories	18	1,178	-
Trade and other receivables	19	151,154	83,803
Income tax asset		2,434	962
Cash and cash equivalents	20	19,825	76,918
		174,291	161,683
Total assets		227,313	188,927
Current liabilities			
Trade and other payables	21	(315,222)	(221,927)
Current lease liabilities	23	(607)	-
Deferred income		(80,867)	(88,050)
Provisions	25	(2,541)	(2,923)
		(399,237)	(312,900)
Non-current liabilities			
Long term lease liabilities	23	(15,693)	-
Total liabilities		(414,930)	(312,900)
Net liabilities		(187,617)	(123,973)
Equity			
Share premium		50	50
Other reserves		2,046	1,831
Accumulated losses		(189,713)	(125,854)
Total equity		(187,617)	(123,973)

OVO Energy Ltd
(Registration number: 06890795)
Statement of Financial Position as at 31 December 2019 (continued)

The financial statements on pages 15 to 51 were approved by the Board on 21 December 2020 and signed on its behalf by:



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Vincent Casey
Director

OVO Energy Ltd
Statement of Changes in Equity
For the Year Ended 31 December 2019

Statement of Changes in Equity
For the year ended 31 December 2019

	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>

	Share premium £ 000	Share based payment reserve £ 000	Accumulated losses £ 000	Total £ 000
At 1 January 2019	50	1,831	(125,854)	(123,973)
Loss for the year	-	-	(63,859)	(63,859)
Share based payment transactions	-	215	-	215
At 31 December 2019	<u>50</u>	<u>2,046</u>	<u>(189,713)</u>	<u>(187,617)</u>

OVO Energy Ltd
Statement of Cash Flows
For the Year Ended 31 December 2019

Statement of Cash Flows
for the year ended 31 December 2019

	Note	2019 £ 000	2018 £ 000
Cash flows from operating activities			
Loss for the year		(63,859)	(45,632)
Adjustments to cash flows from non-cash items			
Depreciation and amortisation	7	9,291	5,346
Gain on bargain purchase	6	(1,195)	-
Profit on disposal of intangible assets	6	-	(606)
Finance income	8	(357)	(243)
Finance costs	8	2,747	1,502
Research and development expenditure credit		(1,780)	-
Share based payment transactions		215	202
Income tax (credit)/expense	12	4,423	(9,080)
		(50,515)	(48,511)
Working capital adjustments			
Increase in inventories	18	(1,178)	-
(Increase)/decrease in trade and other receivables	19	(67,351)	2,142
Increase in trade and other payables		76,064	54,088
(Decrease)/increase in provisions	25	(382)	2,183
(Decrease)/increase in deferred income		(7,183)	18,023
Income Tax Receipt		273	-
Net cash flows generated from operating activities		(50,272)	27,925
Cash flows from investing activities			
Interest received	8	357	243
Acquisitions of property plant and equipment	14	(3,395)	(353)
Acquisition of intangible assets	15	(841)	(1,521)
Proceeds from sale of intangible assets	6	-	1,600
Net cash flows generated from/(used in) investing activities		(3,879)	(31)
Cash flows from financing activities			
Interest paid	8	(2,747)	(1,502)
Payments to finance lease creditors		(195)	-
Net cash flows used in financing activities		(2,942)	(1,502)
Net (decrease)/increase in cash and cash equivalents		(57,093)	26,392
Cash and cash equivalents at 1 January		76,918	50,526
Cash and cash equivalents at 31 December		19,825	76,918

The notes on pages 20 to 51 form an integral part of these financial statements.

Notes to the Financial Statements

1 General information

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

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 21 December 2020.

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 2019 and has net liabilities. The financial statements have been prepared on a going concern basis.

The directors believe that preparing the financial statements on the going concern basis is appropriate due to the continued financial support of the parent company OVO Group Limited. The directors have received confirmation that OVO Group Limited intend to support the company for at least one year after these financial statements were signed.

The ability of OVO Group Limited to provide this support has been considered within the OVO Group Limited financial statements, available on request from the registered office showing in note 1, where the OVO Group Limited directors concluded that the Group has sufficient liquidity to continue as a going concern.

2 Accounting policies (continued)

Changes in accounting policy

New standards, interpretations and amendments effective

The following have been applied for the first time from 1 January 2019 and have had an effect on the financial statements:

IFRS 16

The Group had to change its accounting policies as a result of adopting IFRS 16. The Group has adopted IFRS 16 Leases retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 7%.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The associated right-of-use assets for property leases were measured on a modified retrospective basis as if the new rules had always been applied.

2 Accounting policies (continued)

Reconciliation of the impact is set out below:

Measurement of lease liabilities	£'000
Operating lease commitments disclosed as at 31 December 2018	21,483
Discounted using the lessee's incremental borrowing rate of at the date of initial application	(1,184)
(Less): short-term leases not recognised as a liability	(656)
Add/(less): contracts reassessed as lease contracts	71
Add/(less): adjustments as a result of a different treatment of extension and termination options	(1,326)
Lease liability recognised as at 1 January 2019	18,388
Of which are:	
Current lease liabilities	746
Non-current liabilities	17,642

Adjustments recognised in the balance sheet on 1 January 2019

	£'000
Right-of-use assets - increase by	18,388
Lease liabilities - increase by	18,388

Other new accounting standards and amendments

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2019:

- Prepayment Features with Negative Compensation - Amendments to IFRS 9
- Long-term Interests in Associates and Joint Ventures - Amendments to IAS 28
- Annual Improvements to IFRS Standards 2015 - 2017 Cycle
- Plan Amendment, Curtailment or Settlement - Amendments to IAS 19
- Interpretation 23 Uncertainty over Income Tax Treatments.

None of these other standards, interpretations and amendments effective for the first time from 1 January 2019 have had a material effect on the financial statements.

New standards, interpretations and amendments not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

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 Finance Ltd, a company incorporated in United Kingdom.

2 Accounting policies (continued)

Revenue recognition

The Company's main performance obligations are for the supply of gas and electricity, installation of smart meters, and the sale of home and emergency boiler cover to domestic customers.

The supply of gas and electricity performance obligations are both satisfied over time as the customer simultaneously receives and consumes the benefits of the Company's performance as it supplies gas and electricity. The Company has a contractual right to consideration in an amount that corresponds directly with the value to the customer and the Company's performance to date. Revenue is therefore recognised in the amount to which the company has a right to invoice based on the volume of units supplied during the year and the tariff agreed with the customer.

For amounts that haven't been billed to the customer, the revenue is estimated using contracted tariff rates and estimated usage. This amount is reflected as Accrued Income at the end of the financial period. Further information can be found within Note 3 - Critical accounting judgements and key sources of estimation uncertainty.

The performance obligation for the installation of smart meters is satisfied when the customer starts receiving the benefits of having the smart meter installed within the home.

Where applicable, the company recognises the incremental costs of obtaining a contract as an expense when incurred if the amortisation period of the asset that the company would have otherwise recognised is one year or less.

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.

2 Accounting policies (continued)

Property, plant and equipment

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

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

Depreciation

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

Asset class	Depreciation method and rate
Leasehold property	Period of the lease
Fixtures, fittings and office equipment	3 years straight line

Intangible assets

a) Trademarks and industry accreditation

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) Internally developed software costs

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.

c) Contractual customer relationships

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

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

2 Accounting policies (continued)

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
Internally developed software costs	3 years straight line
Trademarks and industry accreditation	Indefinite life
Contractual customer relationships	10 years straight line

Cash and cash equivalents

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

Trade receivables

Trade receivables are predominantly amounts due from customers for the sale of electricity and gas or other services performed in the ordinary course of the Group's business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables do not carry any interest and are held at transaction price less an appropriate impairment recognised where the loss is probable. The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected credit loss allowance for all trade receivables and contract assets. Further detail on this model and application within these accounts can be found within the Critical accounting estimates note.

Deferred Income

Represents monies received from customers in advance of the delivery of gas or electricity that may be returned to the customer if future delivery does not occur.

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.

2 Accounting policies (continued)

Trade payables

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

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

Borrowings

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

Interest expense is recognised on the basis of the effective interest method and is included in finance costs. Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Provisions

Provisions are recognised when the 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

The below policy has been applied in 2019 following the adoption of IFRS 16 as noted above.

In the previous year, the company only recognised lease assets and lease liabilities in relation to leases that were classified as 'finance leases' under IAS 17 Leases. Leases in which substantially all the risks and rewards of ownership are retained by the lessor were classified as 'operating leases'. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

Definition

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

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

2 Accounting policies (continued)

Initial recognition and measurement

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

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

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

Subsequent measurement

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

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

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

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

2 Accounting policies (continued)

Lease modifications

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

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

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

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

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

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

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

Short term and low value leases

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

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

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

Defined contribution pension obligation

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

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

2 Accounting policies (continued)

Employee benefits

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

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

Share based payments

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

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

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. In addition, in some circumstances employees may provide services in advance of the grant date and therefore, the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

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

2 Accounting policies (continued)

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.

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:-

2 Accounting policies (continued)

Financial assets at amortised cost

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

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

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

If a financial asset meets the amortised cost criteria, the 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 liabilities at amortised cost

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

Commodity derivatives

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

3 Critical accounting judgements and key sources of estimation uncertainty

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

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

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

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

This estimate is subject to an internal validation process which compares calculated unbilled volumes to a theoretical real-time billing benchmark measure of unbilled volumes with reference to historical consumption patterns adjusted for seasonality/weather and aggregated metering data used in industry reconciliation processes. Unbilled revenue recognised on the Balance Sheet was £51,154,000. A 1% change in revenue would have a £953,000 impact on the unbilled revenue recognised.

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

Impairment of trade receivables (estimation uncertainty)

Impairments against trade receivables are recognised where the loss is expected. The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected credit loss allowance for all trade receivables and contract assets. For energy customers the impairment is calculated by splitting the portfolio into segments and The Directors have based their assessment of the level of impairment on collection rates experienced within each segment to date. The estimates and assumptions used to determine the level of provision will continue to be reviewed periodically and could lead to changes in the impairment provision methodology which would impact the income statement in future years.

The assumption that future performance of customer debt settlement will be a reflective of past performance is the most significant assumption within the expected credit loss provisioning model. To address this risk, the Company reviews the provision rates for each segment on a regular basis to ensure they are the most up to date assumptions and use forward looking information. In order to test the sensitivity of the impairment of the Company's trade receivables balance, the Company has considered the impact of an additional aging of Trade Receivables which requires an extra 0.5% of Revenue being provided for. This would lead to a £2,260,000 increase in the expected credit loss provision in 2019.

Deferred tax assets (accounting judgement and uncertainty)

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

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

Having assessed the level profits made by the Group since the year end and forecasts of revenue and costs for the coming years, the directors believe it is probable that the Group will generate sustainable profits and therefore a deferred tax asset has been recognised. The Group remains exposed to the risk of changes in law that impact the Group's ability to carry forward and utilise tax attributes recognised as deferred tax assets.

Business combinations (accounting judgement and estimation uncertainty)

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

The determination of these fair values is based upon management's judgement and includes assumptions on the timing and amount of future cash flows generated by the acquired assets as well as the selection of an appropriate discount rate. In addition, management must estimate the expected useful economic lives of intangible assets and charge amortisation on these assets accordingly.

Management bases its assumptions on the best data available and will continue to assess the fair value using the best available data until the measurement period ends.

4 Revenue

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

	2019	2018
	£ 000	£ 000
Sale of gas and electricity	1,105,491	918,189
Installation of smart meters	36,124	17,617
Other revenue	2,461	611
	<u>1,144,076</u>	<u>936,417</u>

5 Other operating income

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

	2019	2018
	£ 000	£ 000
Research and development expenditure credit	<u>1,784</u>	<u>962</u>

6 Other gains

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

	2019	2018
	£ 000	£ 000
Gain on disposal of intangible assets	-	606
Gain on bargain purchase	<u>1,195</u>	<u>-</u>
	<u>1,195</u>	<u>606</u>

7 Operating(loss)/profit

Arrived at after crediting/(charging)

	2019	2018
	£ 000	£ 000
Depreciation expense	(1,405)	(1,641)
Depreciation on right of use assets	(1,721)	-
Amortisation expense	(6,165)	(3,705)
Operating lease expense - property	-	(2,679)
Profit on disposal of intangible assets	<u>-</u>	<u>606</u>

8 Finance income and costs

	2019 £ 000	2018 £ 000
Finance income		
Interest income on bank deposits	357	130
Interest income on intercompany loans	-	113
Total finance income	<u>357</u>	<u>243</u>
Finance costs		
Interest on intercompany borrowings	(1,759)	(1,502)
Interest expense on leases	(988)	-
Total finance costs	<u>(2,747)</u>	<u>(1,502)</u>
Net finance costs	<u>(2,390)</u>	<u>(1,259)</u>

9 Staff costs

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

	2019 £ 000	2018 £ 000
Wages and salaries	38,409	41,996
Social security costs	3,616	3,903
Other pension costs	1,245	946
Share-based payment expenses	215	202
Other employee expenses	227	257
	<u>43,712</u>	<u>47,304</u>

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

	2019 No.	2018 No.
Administration and support	368	300
Sales, marketing and distribution	663	812
	<u>1,031</u>	<u>1,112</u>

10 Directors' remuneration

The Directors' remuneration and salary cost for 2019 is recognised in OVO Group Ltd.

The Directors' compensation is paid by OVO Group Ltd, which makes no recharge to the entity. The Directors are additionally Directors of the parent entity and a number of fellow subsidiaries, and it is not possible to make a reasonable apportionment of their compensation in respect of each of the subsidiaries. Accordingly, the total compensation of the Directors are included in the aggregate of key management personnel compensation disclosed in the consolidated financial statements of OVO Group Ltd.

11 Auditors' remuneration

Fees for the audit of the Company were £117,400 (2018: £86,000).

All fees related to Audit related services are borne by OVO Group Ltd.

12 Income tax (income)/expense

Tax (credited)/charged in the income statement

	2019 £ 000	2018 £ 000
Current taxation		
Total tax	-	(9,080)
UK corporation tax adjustment to prior periods	337	-
	<u>337</u>	<u>(9,080)</u>
Deferred taxation		
Arising from origination and reversal of temporary differences	2,565	-
Arising from changes in tax rates and laws	(270)	-
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	1,791	-
Total deferred taxation	<u>4,086</u>	<u>-</u>
Tax expense/(receipt) in the income statement	<u>4,423</u>	<u>(9,080)</u>

12 Income tax (income)/expense (continued)

The tax on (loss)/profit for the year is higher than the standard rate of corporation tax in the UK (2018 - lower than the standard rate of corporation tax in the UK) of 19% (2018 - 19%).

The differences are reconciled below:

	2019 £ 000	2018 £ 000
Loss before tax	(59,436)	(54,712)
Corporation tax at standard rate	(11,293)	(10,395)
Decrease (increase) from effect of revenues exempt from taxation	(227)	-
Increase (decrease) from effect of expenses not deductible in determining taxable profit (tax loss)	118	222
Deferred tax expense (credit) from unrecognised tax loss or credit	14,135	122
Deferred tax expense relating to changes in tax rates or laws	(270)	1,056
Decrease in UK and foreign current tax from adjustment for prior periods	2,128	(228)
Increase (decrease) from effect of adjustment in research development tax credit	(169)	-
Losses surrendered to group companies	-	143
Total tax charge/(credit)	4,423	(9,080)

The standard rate of UK corporation tax is 19% and this took effect from 1 April 2017. The 2016 Finance Act introduced a UK corporation tax rate of 17% from 1 April 2020. Accordingly, these rates are applicable in the measurement of deferred tax assets and liabilities at 31 December 2019. Deferred tax has been provided at 17% being the rate at which temporary differences are expected to reverse.

However, the Budget which took place on 11 March 2020 confirmed the rate of corporation tax will remain at 19% from 1 April 2020, cancelling the enacted rate reduction to 17%. The rate reduction reversal was substantively enacted on 17 March 2020 by way of a special resolution. Accordingly, there will be an increase of £1,682,000 due to this rate change for the year ended 31 December 2020.

Deferred tax

Deferred tax assets and liabilities

	Asset £ 000	Liability £ 000	Net deferred tax £ 000
2019			
Tax losses carry-forwards	16,585	-	16,585
Accelerated tax depreciation	785	-	785
Revaluation of intangible assets	-	(3,069)	(3,082)
Pension benefit obligations	-	-	13
	17,370	(3,069)	14,301

12 Income tax (income)/expense (continued)

Deferred tax movement during the year:

	At 1 January 2019 £ 000	Recognised in income £ 000	Recognised through acquisition £ 000	At 31 December 2019 £ 000
Tax losses carry-forwards	21,439	(4,854)	-	16,585
Accelerated tax depreciation	709	76	-	785
Revaluation of intangible assets	-	692	(3,774)	(3,082)
Pension benefit obligations	13	-	-	13
Net tax assets/(liabilities)	<u>22,161</u>	<u>(4,086)</u>	<u>(3,774)</u>	<u>14,301</u>

Deferred tax movement during the prior 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
Revaluation of intangible assets	-	-	-
Pension benefit obligations	-	13	13
Net tax assets/(liabilities)	<u>13,310</u>	<u>8,851</u>	<u>22,161</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.

13 Right of use assets

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

	Property £ 000	Total £ 000
Cost or valuation		
At 1 January 2019 (on adoption of IFRS 16)	18,388	18,388
Property - disposals	<u>(1,893)</u>	<u>(1,893)</u>
At 31 December 2019	<u>16,495</u>	<u>16,495</u>
Depreciation		
At 1 January 2019	-	-
Property depreciation charge for year	<u>1,721</u>	<u>1,721</u>
At 31 December 2019	<u>1,721</u>	<u>1,721</u>
Carrying amount		
At 31 December 2019	<u>14,774</u>	<u>14,774</u>

13 Right of use assets (continued)

In the previous year, the group only recognised lease assets and lease liabilities in relation to leases that were classified as 'finance leases' under IAS 17 Leases.

For adjustments recognised on adoption of IFRS 16 on 1 January 2019, please refer to Note 2.

14 Property, plant and equipment

	Leasehold property £ 000	Fixtures, fittings and office equipment £ 000	Total £ 000
Cost or valuation			
At 1 January 2018	7,106	4,720	11,826
Additions	-	353	353
Disposals	(181)	(635)	(816)
At 31 December 2018	6,926	4,438	11,363
Additions	2,066	1,329	3,395
At 31 December 2019	8,991	5,767	14,758
Accumulated Depreciation			
At 1 January 2018	5,648	3,440	9,088
Charge for year	779	862	1,641
Eliminated on disposal	(181)	(635)	(816)
At 31 December 2018	6,246	3,667	9,913
Charge for the year	624	781	1,405
At 31 December 2019	6,870	4,448	11,318
Carrying amount			
At 31 December 2019	2,121	1,319	3,440
At 31 December 2018	679	771	1,450

The depreciation charge of £1,405,000 (31 December 2018: £1,641,000) is recognised in administrative expenses.

15 Intangible assets

	Contractual customer relationships £ 000	Internally generated software development costs £ 000	Trademarks and industry accreditations £ 000	Total £ 000
Cost or valuation				
At 1 January 2018	-	19,934	85	20,019
Additions	-	1,521	-	1,521
Disposals	-	(1,857)	-	(1,857)
At 31 December 2018	-	19,598	85	19,683
Additions	22,198	841	-	23,039
At 31 December 2019	22,198	20,439	85	42,722
Accumulated Amortisation				
At 1 January 2018	-	13,208	-	13,208
Amortisation charge	-	3,705	-	3,705
Amortisation eliminated on disposals	-	(863)	-	(863)
At 31 December 2018	-	16,050	-	16,050
Amortisation charge	4,070	2,095	-	6,165
At 31 December 2019	4,070	18,145	-	22,215
Carrying amount				
At 31 December 2019	18,128	2,294	85	20,507
At 31 December 2018	-	3,548	85	3,633

The amortisation charge of £6,165,000 (31 December 2018: £3,705,000) is recognised in administrative expenses.

Contractual customer relationships additions in 2019 relate to the acquisition of Economy Energy. Refer to Note 17 for further details.

16 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	
			2019	2018
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%
Lumio 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%	100%
Spark Gas Shipping Ltd	Supply of gas and related services	1 Rivergate, Temple Quay, Bristol, England, BS1 6ED UK	100%	100%
Spark Energy Finance Plc	Finance	Ettrick Riverside, Dunsdale Road, Selkirk, Scotland, TD7 5EB UK	100%	100%
Home Telecom Ltd	Telecom services	1 Rivergate, Temple Quay, Bristol, England, BS1 6ED UK	100%	100%
Spark Generation Ltd	Disolved	Ettrick Riverside, Dunsdale Road, Selkirk Scotland	0%	100%
OVO Insurance Services Ltd	Disolved	1 Rivergate, Temple Quay, Bristol, England, BS1 6ED UK	0%	100%

* indicates direct investment of OVO Energy Ltd.

17 Acquisition of trade and assets

Economy Energy

On 12 January 2019, OVO Energy Limited, acquired the customer base and associated liabilities of Economy Energy Ltd through Ofgem's Supplier of Last Resort process. The principal activity of Economy Energy Ltd is the supply of gas and electricity. Economy Energy Ltd was acquired to grow the Group's domestic energy customer base, with the customer base and associated liabilities transferred to OVO Energy Limited.

There is significant judgement required for the fair value for the acquired assets and liabilities, and the best available data has therefore been used. The amounts recognised in respect of the customer base and associated liabilities as at 12 January 2019 are as follows:

	Fair value of assets and liabilities acquired £'000
Assets and liabilities acquired	
Identifiable intangible assets	22,198
Deferred tax liability	(3,774)
Financial liabilities	(17,229)
Total identifiable assets	<u>1,195</u>
Satisfied by:	
Total consideration transferred	<u>-</u>

As the consideration transferred was nil, a resulting gain on bargain purchase of £1,195,000 has been recognised as a result of the acquisition.

Intangible assets of £22,198,000 have been recognised on the acquisition of Economy Energy Ltd's customer base. This was for the recognition of existing relationships with approximately 360,000 customer connections.

18 Inventories

	31 December 2019 £ 000	31 December 2018 £ 000
Finished goods and goods for resale	<u>1,178</u>	<u>-</u>

The cost of ROC's recognised as an expense in the year amounted to £88,642,000 (2018 - £74,134,000). This is included within cost of sales.

19 Trade and other receivables

	31 December 2019 £ 000	31 December 2018 £ 000
Trade receivables and accrued income	113,866	83,781
Provision for impairment of trade receivables and accrued income	<u>(62,604)</u>	<u>(50,538)</u>
Net trade receivables	51,262	33,243
Receivables from related parties	67,564	33,364
Loans to related parties	7,546	964
Prepayments	4,391	5,335
Other receivables	<u>20,391</u>	<u>10,897</u>
	<u>151,154</u>	<u>83,803</u>

The fair value of those trade and other receivables classified as financial instrument loans and receivables are disclosed in note 26 "Financial instruments".

Accrued income of £51,154,000 included in the Trade receivables and accrued income disclosed above, has increase from £45,314,000 in 2018.

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 the financial risk management and impairment note.

20 Cash and cash equivalents

	31 December 2019 £ 000	31 December 2018 £ 000
Cash at bank	<u>19,825</u>	<u>76,918</u>

21 Trade and other payables

	31 December 2019 £ 000	31 December 2018 £ 000
Trade payables	99,216	2,295
Accrued expenses	127,467	182,537
Amounts due to related parties	68,623	35,770
Social security and other taxes	1,046	1,024
Other payables	<u>18,870</u>	<u>301</u>
	<u>315,222</u>	<u>221,927</u>

21 Trade and other payables (continued)

The fair value of the trade and other payables classified as financial instruments are disclosed in note 26 "Financial instruments".

Deferred income of £80,867,000 has decreased from £88,050,000 in 2018, primarily driven by lower cash receipts at the year end as well as the impact of weather fluctuations against seasonal norms in the prior period, resulting in reduced customer credit positions as a result of increased usage.

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

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

22 Share capital and reserves

Allotted, called up and fully paid shares

	31 December 2019		31 December 2018	
	No.	£	No.	£
Ordinary share capital of £0.01 each	<u>12,500</u>	<u>125.00</u>	<u>12,500</u>	<u>125.00</u>

Nature and purpose of reserves

Share-based payments

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

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

23 Leases

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

	31 December 2019 £000	1 January 2019* £ 000
Lease Liability - Current	607	746
Lease Liability - Non-current	15,693	17,642
Total Lease Liability	<u>16,300</u>	<u>18,388</u>

*In the previous year, the group only recognised lease assets and lease liabilities in relation to leases that were classified as 'finance leases' under IAS 17 Leases.

For adjustments recognised on adoption of IFRS 16 on 1 January 2019, please refer to Note 2.

Lease liabilities maturity analysis

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

	31 December 2019 £ 000	31 December 2018 £ 000
Less than one year	1,748	3,670
Between one and five years	15,184	17,183
Greater than five years	<u>5,270</u>	<u>630</u>
Total lease liabilities (undiscounted)	<u>22,202</u>	<u>21,483</u>

The company leases various offices. The balance sheet amounts relating to leases are shown within Note 12 - *Right of use assets*

The current period interest expense on lease liabilities (included in finance costs) was £988,000.

The total cash outflow for leases for the year ended 31 December 2019 was £1,183,000.

Expenses relating to short-term leases accounted for by applying IFRS 16, paragraph 6, (included in administrative expenses) totalled £363,000.

Expenses relating to leases of low-value assets accounted for by applying IFRS 16, paragraph 6, totalled £nil.

24 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 £1,245,000 (2018 - £946,000).

25 Provisions

	Facility agreement exit fee provision £ 000	Dilapidations provisions £ 000	Total £ 000
At 1 January 2019	2,000	923	2,923
Increase (decrease) in existing provisions	-	(382)	(382)
At 31 December 2019	<u>2,000</u>	<u>541</u>	<u>2,541</u>
Current liabilities	<u>2,000</u>	<u>541</u>	<u>2,541</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 2019.

26 Financial instruments

Financial assets

	Carrying value		Fair value	
	31 December 2019 £ 000	31 December 2018 £ 000	31 December 2019 £ 000	31 December 2018 £ 000
Cash and cash equivalents	19,825	76,918	19,825	76,918
Trade and other receivables	<u>146,763</u>	<u>83,803</u>	<u>146,763</u>	<u>83,803</u>
	<u>166,588</u>	<u>160,721</u>	<u>166,588</u>	<u>160,721</u>

Valuation methods and assumptions

Loans and receivables:

The fair value of loans and receivables is based on the expectation of recovery of balances. The individually impaired receivables mainly relate to customers from whom it is unlikely that full payment will ever be received. The primary inputs used to impair the receivable balances are not based on observable market data.

26 Financial instruments (continued)

Financial liabilities

Financial liabilities at amortised cost

	Carrying value		Fair value	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
	£ 000	£ 000	£ 000	£ 000
Trade and other payables	314,176	220,903	314,176	220,903
Borrowings	-	-	-	-
	<u>314,176</u>	<u>220,903</u>	<u>314,176</u>	<u>220,903</u>

Valuation methods and assumptions

Financial liabilities at amortised cost

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

Forward Contracts

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

27 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.

Market Risk

Commodity price risk

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

The Company manages commodity risk by entering into forward contracts for a variety of periods. Energy procurement contracts are entered into and continue to be held for the purpose of the receipt of a non-financial item which is in accordance with the Company's expected purchase and sale requirements and are therefore out of scope of 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.

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

Credit risk and impairment

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

The carrying amount of financial assets represents the maximum credit exposure. Therefore, the maximum exposure to credit risk at the balance sheet date was £146,763,000 (2018: £78,468,000) being the total of the carrying amount of financial assets, excluding equity investments and cash, which include trade receivables and accrued income. All the receivables are with parties in the UK.

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

Trade receivables are written off only after a period of time has elapsed since the final bill. Enforcement activity continues in respect of these balances unless there is specific known circumstances that removes any value in further action.

The credit quality of financial assets that are neither due or impaired can be assessed by reference to historical information about counterparty default rates. The individually impaired receivables mainly relate to customers from whom it is unlikely that full payments will be received.

Allowances for impairment by credit losses

	Trade receivables £ 000
2019	
At start of year	50,538
Additional impairment for credit losses	12,066
At end of year	<u>62,604</u>
	Trade receivables £ 000
2018	
At start of year	40,286
Additional impairment for credit losses	10,252
At end of year	<u>50,538</u>

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

27 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.

Maturity analysis

2019	Within one year £'000	Total £'000
Trade and other payables	315,222	315,222
2018	Within one year £'000	Total
Trade and other payables	221,927	221,927

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.

28 Related party transactions

As at 31 December 2019, OVO Energy Ltd owed funds to OVO Group Limited £31,276,000 (2018: £13,019,000) inclusive of interest of £3,919,000 incurred during the year (2018: £2,203,000).

As at 31 December 2019, OVO Energy Ltd owed funds to its subsidiary OVO Gas Limited £5,917,000 (2018: £1,498,000).

As at 31 December 2019, OVO Energy Ltd owed funds to its subsidiary OVO Electricity Limited £19,898,000 (2018: £15,011,000).

As at 31 December 2019, OVO Energy Ltd owed funds to Corgi Homeplan Limited £2,579,000 (2018: £ nil).

As at 31 December 2019, OVO Energy Ltd owed funds to Spark Gas Shipping Limited £5,356,000 (2018: £ nil).

As at 31 December 2019, OVO Energy Ltd owed Imagination Industries Limited £3,160,000 (2018: £2,411,000).

Additionally, as at 31 December 2019, OVO Energy Ltd was owed funds from Spark Energy Limited of £67,561,000 (2018: £13,464,000).

As at 31 December 2019, OVO Energy Ltd was owed funds from OVO Field Force Limited of £6,687,000 (2018: nil).

As at 31 December 2019, OVO Energy Ltd was owed funds from Intelligent Energy Technology Limited of £478,000 (2018: nil).

As at 31 December 2019, OVO Energy Ltd was owed funds from Orion Energy Technology Limited of £359,000 (2018: nil).

All intercompany loans are repayable/receivable on demand.

29 Parent and ultimate parent undertaking

The company's immediate parent is OVO Finance 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 Finance 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.

30 Non adjusting events after the financial period

Acquisition of SSE Energy Services Ltd

On 15 January 2020, the Company acquired 100% of the issued shares in SSE Energy Services Ltd (SSE plc's GB domestic retail business) for consideration of £441,938,000. The acquisition is expected to increase the group's market share and reduce costs through economies of scale. The financial effects of this transaction have not been recognised as of 31 December 2019. The operating results and assets and liabilities of the acquired company will be consolidated from 15 January 2020.

The acquisition was financed through a combination of a new £400,000,000 Term Loan between OVO Finance Limited and Barclays Bank plc and £41,938,000 in Loan Notes issued by OVO Holdings Limited. Subsequently, the Term Loan has been syndicated into two separate instruments, a £300,000,000 Term Loan and a secondary loan of £100,000,000.

In completing this acquisition, OVO's customer base has expanded from 1.3m as at the balance sheet date to 5.1m as at the date of completion.

As at the date of these financial statements, the fair value accounting exercise has not been completed. The Group believes that integration and synergies will drive significant change in the fair values and as such, the fair values assigned to assets and liabilities within SSE Energy Services and its subsidiaries will be disclosed within the 31 December 2020 financial statements.

There are no contingent liabilities to be recognised as part of this acquisition.

The net book value of assets and liabilities of SSE Energy Services as at the date of acquisition are as follows:

Net Book Value	£'000
Cash and cash equivalents	207,182
Property, plant and equipment	25,684
Identifiable intangible assets and goodwill	480,096
Inventories	976
Receivables	1,091,809
Payables	(1,370,852)
Net deferred tax assets	7,043
Net assets and goodwill acquired	441,938

The goodwill is attributable to SSE Energy Services' strong position in the Domestic Energy market and synergies expected to arise after the company's acquisition of the new subsidiary.

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

30 Non-adjusting events after the financial period (continued)

COVID-19

Our investment in technology and shared platforms has ensured a high level of connectivity which means we are able to move to remote operations with minimal disruption.

However, unfortunately COVID-19 will impact our commercial performance in 2020, due to some key sales channels within the business experiencing significant interruption as a result of the lockdown. The most notable of these is the impact on our ability to continue the roll-out of smart meters to customers.

As a result of COVID-19, we also anticipate the need to recognise additional bad debt charges in 2020 as the economic consequences of the pandemic materialise with our customers. This will be recognised in accordance with IFRS 9, however there has been no financial impact on these financial statements.