Registration number: 08862063

Ovo Group Ltd

Annual Report and Consolidated Financial Statements

for the Year Ended 31 December 2015

Ovo Group Ltd

Contents

Ovo Group Ltd

Company Information

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

Ovo Group Ltd

Strategic Report for the Year Ended 31 December 2015

The directors present their strategic report for the year ended 31 December 2015.

Building a smart & sustainable business
The UK energy system is on the cusp of seismic change. With the introduction of smart meters and advances in renewable technologies, the UK is progressing towards a new age of efficient processes and decentralised, clean power generation. Combined with technological innovations this change will bring increasing complexity to supplying energy.

OVO is at the forefront of that change, bringing energy into the 21st century by building a smart and sustainable business that is well placed to meet the challenges and pace of technological development and complexity.

A smart business means using smart meters and technology to design innovative new products and deliver a digitally seamless customer experience.

A sustainable business means offering customers fair pricing which reflects exceptional quality products and service, and supporting renewable power sources.

By combining the two approaches, OVO is focussed on attracting customers who value a holistic offering - encompassing not only price but quality and brand ethics. We believe these customers will stay with OVO for longer, thus delivering sustainable, long term value.

OVO is building a smart and sustainable business that is Better for Everyone.

Smart meters. Smart products. Smart trading.
OVO uses the latest technology to create digitally seamless customer experiences, which empower consumers to increasingly self-serve and enable OVO to create operational efficiencies.

In September 2016, over 74% of OVO's customers manage their account online using My OVO, its web-based platform, or the OVO app which is available on smartphones, tablets and the Apple Watch. On My OVO, customers can do everything from submitting meter readings and changing their direct debit to renewing their contract. The app can be used to access account information and top up pay-as-you-go (PAYG) accounts live.

Highest penetration in the market
In 2015 OVO's app accounted for 6% of downloads in the retail energy market, which was three times' OVO's market share (source: Report by Pan European Utilities UBS Lab, "What is the killer app in UK Energy? And can smartphone apps make money?" dated 20 June 2016).

Smart meters
Smart meters provide real-time gas and electricity usage data, removing the need for customers to submit meter readings.

OVO has been leading the way in the Government's smart meter rollout since December 2013 when it installed its first smart meter. In September 2016, over a quarter of OVO's customers have a smart meter, with meters having been installed in over 190k of OVO customers' homes. In 2015 alone OVO installed smart meters in over 80k of our customers' homes, equating to over 200 meters installed on average per day.

OVO is now preparing for the introduction of the second generation of smart meters and 'go live' of the Data Communication Company - a data and communications network that will make smart meters fully interoperable between energy suppliers and network operators.

OVO has developed its own smart meter booking platform which provides a centralised, live view of engineer availability and bookings across all of OVO's installation partners and Field Force - OVO's in-house installation team. The platform can be accessed by both customers and our installation partners, which makes the booking process more efficient for everyone. OVO's Field Force, which brings the OVO experience into the home, regularly outperforms daily installation targets and has achieved an outstanding average NPS +91 score since launch. NPS - or Net Promoter Score - is calculated based on responses to a single question: How likely would you recommend our company/product/service to a friend or colleague? The scoring for this answer is based on a 0 to 10 scale.

Smart products
With smart meters comes smart data and smart technology, which OVO is using to create new innovative products to further enhance customer experience.

In 2015 OVO launched PAYG+ - the market's first truly integrated, smart prepayment platform which allows prepay customers to manage their energy via an app, from topping up credit to monitoring their usage. This replaces the inconvenient, traditional prepayment methods of top-up keys and cards.

OVO also launched OVO Live - a platform fully designed and developed in-house which allows smart meter customers to monitor their energy usage live. The OVO Live platform receives data every six seconds, providing up to 5 million meter readings every year for individual customers. This provides customers with a truly interactive tool that allows them to engage with and manage their energy usage in an unprecedented way. Receiving automated meter readings at this volume also enables OVO to increase efficiency and accuracy in billing customers.

Smart trading
OVO's trading team has developed a number of tools to purchase commodities and reduce trading risks efficiently and effectively. This helps them manage the 3.3TWh of electricity and 8.6TWh of gas purchased every year (annualised figure as at 30 June 2016).

One such tool is OVO's demand forecasting model, a combination of regression and machine learning algorithms which analyses historic data on usage and weather to calculate OVO's share of Elexon's standard demand profile to a high degree of accuracy. This tool is critical to avoiding volatile and potentially expensive 'cash out' penalties, and therefore minimising OVO's wholesale costs.

This year Ovo outperformed the Big 6 suppliers for the first time and is consistently more accurate than other independent suppliers in its demand forecasting.

State-of-the-art demand forecasting isn't just important for saving costs today - it sets OVO up for the future energy system of tomorrow. Mass penetration of smart meters will bring a huge step change in the quantity of data that will become available to suppliers.

For the first time suppliers will have accurate live data of actual usage, creating the potential for developing a direct link between the cost of supplying electricity to a customer and how and when they actually use it.

Sustainable growth. Sustainable future.

Fair pricing for exceptional customer experience
OVO's approach to pricing is not to simply offer the cheapest tariffs in the market. Doing so may attract new customers quickly, but below-cost pricing is not sustainable in the long term and attracts customers who are driven purely by price.

A typical approach to pricing involves offering deeply discounted tariffs exclusively to new customers - often at or below cost. Discounts are subsidised by significantly higher tariffs paid by existing customers - usually legacy customers or customers whose fixed term tariffs have long expired who are on 'default' tariffs.

In the Competition and Markets Authority's recent investigation into the energy market, it found that 70% of the Big Six's customers are paying default tariffs, such tariffs are excessively priced and the detriment caused by this excessive pricing amounts to £1.4 billion each year (source: Competition and Markets Authority's Final Report dated 24 June 2016: page 45, paragraph 194)

OVO believes that this pricing practice simply isn't fair to customers. It is dependent on keeping a healthy stock of customers sufficiently disengaged and paying over-priced default, variable tariffs.

Instead, OVO believes in fair pricing, where tariffs are competitive and reflect wholesale and supply costs, whilst maintaining exceptional value for quality products and service.

How OVO's pricing is different
The gap between OVO's fixed and variable tariffs is one of the lowest in the market: 57% of OVO's credit customers are on its most competitive tariff (Better (All Online) fixed 12 months), in contrast to the Big Six, 70% of whose customers on average are on the most expensive default tariffs. (source: Competition and Markets Authority's Final Report dated 24 June 2016: page 6, paragraph 24)

Reflecting the quality of OVO's customer service, OVO's NPS score is typically the highest among retail energy suppliers (source: Survey conducted by Brainjuicer on behalf of OVO Energy during August 2016: based on sample size of 567).

Sustainable future
OVO is committed to making renewable electricity available to all customers and reducing our impact on the environment.

In 2015 OVO was the first top 10 UK energy supplier to remove coal from its fuel mix: This reduced OVO's carbon intensity by 34% (compared against its 2014 fuel mix).

OVO's Greener tariff offers 100% renewable power and is one of cheapest in the market. All of OVO's other tariffs have as standard at least 33% renewable electricity.

OVO is making the UK greener: In partnership with The Conservation Volunteers, OVO launched its "I Dig Trees" initiative in 2015, planting 157,000+ trees and improving over 2,000 green spaces across the UK.

What's coming next

The rise of renewables will continue
How we make and consume energy is evolving rapidly as new technologies respond to rising demand for sustainable, low-carbon energy sources. At the beginning of this century, over 90% of electricity in the UK was generated by traditional coal, gas and nuclear power plants - with renewable generation making up less than 1% of installed capacity.

Fast forward to 2015: whilst large-scale coal, gas and nuclear generation still provides two-thirds of our electricity requirements, renewable generation now represents a quarter of total generation. The rise of renewable power can be attributed to a number of factors. Costs have fallen dramatically, particularly for onshore wind and solar PV, as these industries benefit from economies of scale, technologically-led savings and government subsidies which have stimulated growth.

Renewable generation helps us deliver on climate change goals, but it also alters the dynamics of the electricity system radically, moving from a "centralised" model to a "de-centralised" one. De-centralised electricity systems, often known as distributed generation, represent a step change from the industrial model on which the Big Six have built their businesses. Distributed generation encompasses small-scale generation facilities, located at or near where the power will be consumed. 23% of installed generation capacity is now connected to either the lower-voltage distribution networks or directly to domestic, commercial and industrial buildings (source: National Grid Future Energy Scenarios 2016).

Storage is an under-appreciated game-changer
Accompanying the rise of renewables, we see great potential for energy storage to transform how and when we consume power. One of the key problems with renewables is that the power produced by it will always be intermittent. Storage, essentially large-scale battery technology, overcomes this issue by allowing us to "recharge" whenever renewable power is plentiful and cheap, and then "deplete" when renewable power is in short supply.

Until recently, energy storage has been expensive. However, thanks largely to a global expansion of lithium-ion battery production capacity for electric vehicle application, battery costs have fallen dramatically in recent years - decreasing by 35% in 2015 alone - and are expected to continue to fall (source: http://www.bloomberg.com/features/2016-ev-oil-crisis/).

Future homes may therefore become increasingly self-sufficient, making and consuming their own electricity. We believe that domestic energy storage is set to change the electricity market more quickly than many realise.

Electric vehicles - a potential long-term driver of electric demand
Despite recent lower fuel prices, electric vehicle (EV) uptake is on the rise. It is estimated that EVs will add 8%, to global annual electricity demand by 2040 (source: Bloomberg, New Energy Finance - Electric Vehicles 22 August 2016). As with renewables, governments will at first need to incentivise the growth of ownership, but the benefit of this will be continued progress toward meeting long-term decarbonisation goals.

For the electricity system, the implications of EVs are substantial. Although personally owned and a consumer product, EVs have storage potential, which can aid with the complex task of balancing electricity demand and supply - becoming a component of our electricity grid.

Demand management provides an area of near-term opportunity
We also anticipate significant developments in demand management in the coming years. With live data available from smart meters, customers' consumption could soon be priced based on the time of day energy is actually used. This level of accuracy will reward customers who are able to reduce their consumption during peak periods when demand, and therefore wholesale costs, are at their highest.

What's next?
Everyone will need to adapt to the rapid rate of change in the UK energy system and find ways to meet the challenges of an electricity system under transformation. OVO's vision for the future involves harnessing new technologies and finding truly innovative ways to control and optimise both supply and demand, to the benefit of all our stakeholders.

OVO'S FINANCIALS

Financial Overview

Growth
2015 was a year of significant growth. The number of customers rose from 408k to 569k, representing a 38% increase from 2014. Revenue growth was correspondingly high at £513m, compared to £317m in 2014, representing a 61% increase. The significantly higher rate of growth in revenue compared to customer numbers reflects the impact of timing in acquiring customers. Due to seasonality effects the full benefit of revenue from customers acquired in Winter 2014, when the UK experienced mild weather, was not reflected until 2015.

Growth in customer numbers remained strong in the first half of 2016 reaching 681k, an annualised growth rate of 43%.

Profitability
Profits before tax and net acquisition costs* (PBT&NAC) have improved significantly. From losses of £21.6m in 2014 and £20.2m in 2015, OVO delivered £40.1m in PBT&NAC in the first half of 2016. Losses in previous years reflect the significant investment costs that were required to achieve the rapid rate of growth in the business. The underlying shift to profitability in 2016 is driven by an increase in average customer tenure from 334 days in 2014 to 486 days in 2015 and 522 days as of mid of 2016. It also includes profit of £35.8m from the completion of the sale of OVO's smart meter asset business (as outlined below).

*Net Customer Acquisition costs represent acquisition costs related solely to growing OVO's net customer base.

A Smart and Sustainable business
OVO has invested heavily in technology to deliver digital tools which increasingly enable customers to self-serve and therefore creates operational efficiencies. This investment has resulted in year-on-year reductions in administration costs as a percentage of revenue, from 18.7% in 2014 and 16.4% in 2015 to 15.1% in the first half of 2016.

One specific area of focus for OVO is the rollout of smart meters. During the course of 2015 over 145k gas and electricity smart meters were installed into OVO customers' homes, and a further 107k were installed in the first half of 2016. This means that OVO now has the highest proportion of its customer base installed with smart meters out of the top 10 suppliers. OVO's investment in smart meters has enabled the successful rollout of PAYG+ and OVO Live, and underpins OVO's future development of innovative smart-enabled products and services.

Working capital management
Optimising OVO's working capital cycle has been key to offering competitive tariffs.

OVO has a substantial trading and credit facility arrangement with Shell which enables it to efficiently manage sizeable commodity transactions. Working capital has been further supported in H1 2016 by the recently completed sale of OVO's smart meter asset business (see below), which has resulted in the current ratio increasing from 0.53 as at the end of 2015 to 0.80 at 30 June 2016.

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

While a customer's DD amount reflects a flat monthly payment profile, their credit balance will fluctuate significantly during the year as energy usage is highly seasonal. OVO carefully monitors credit balances during the year to ensure that DD amounts are appropriately set to cover a customer's anticipated usage. During 2016 OVO refunded approximately £11m in surplus credit to 30k customers whose credit balances exceeded their likely usage during the warmer months. Customers can also change their DD amount and/or request a refund of surplus credit via My OVO, the online platform, which puts customers in total control of their account balance in an operationally efficient way.

Sale of Smart Meter Assets Limited - February 2016
In February 2016, OVO completed a transaction with Brookfield Utilities UK (Brookfield) to dispose of its subsidiary Smart Meter Assets Limited, an entity which owned circa 200,000 installed smart meters, and a future pipeline of smart meters which is expected to total 700,000 by the end of 2017. OVO retains responsibility for the procurement and installation of smart meters and, whilst a customer is supplied by OVO, continues to pay rent in respect of the meters. All debt was repaid as part of the transaction, reducing OVO's leverage to nil.

In respect of meters installed prior to 31 December 2015, the transaction generated a capital gain of £24m, recognised in our Profit Before Tax results for the H1 2016 period. As OVO continues to sell its pipeline of installed smart meters the transaction will continue to generate incremental profit.

Key Financial and Performance Indicators

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

	Unit	2015	2014
Customer numbers	No.	569,000	408,000
Cash	£'000	51,302	30,388
Annualised gross profit margin (before unrealised derivative gains/losses)	%	10	10
PBT&NAC	£'000	(20,202)	(21,607)

*PBT&NAC is defined as Profit before Tax less Net Acquisition Costs, see following for breakdown:

Reconciliation to Statutory Results	**2015**	**2014**
	£ 000	**£ 000**
PBT&NAC	**(20,202)**	**(21,607)**
Net Acquisition Costs	(11,493)	(15,729)
(Loss) / Profit Before Tax	**(31,695)**	**(37,336)**

Principal risks and uncertainties
The principal risks and uncertainties impacting the company relate to the wholesale price of gas and electricity and bad debt 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. As a result of rapid and sustained customer growth, OVO signed a new trading and credit agreement with Shell plc in November 2014 to secure its future supply needs. The agreement gives the company access to new products and improved working capital terms.

The company mitigates bad debt risk by asking credit customers to pay by direct debit a month in advance of usage, which also ensures Ovo has the purchasing power to offer more competitive tariffs. In addition, customers are awarded 3% Ovo interest on credit balances. For non-credit customers, prepayment and smart meters are installed or a security deposit is taken to avoid bad debt risk. Where debt becomes overdue, a full Dunning cycle and debt collection process is run by the Collections team.

Approved by the Board on 30 September 2016 and signed on its behalf by:

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Stephen Fitzpatrick
Director

Ovo Group Ltd

Directors Report for the Year Ended 31 December 2015

The directors present their report and the consolidated financial statements for the year ended 31 December 2015.

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

Stephen Fitzpatrick

Stephen Murphy - Chairman (appointed 28 January 2015)

Christopher Houghton (appointed 28 January 2015)

Sophie Fitzpatrick (appointed 28 January 2015)

Daniel Sasaki (appointed 17 April 2015)

Niall Wass (appointed 9 December 2015)

Jonathan Owen (appointed 9 December 2015)

The following director was appointed after the year end:

Sarah Calcott (appointed 4 February 2016)

Dividends
The directors do not propose a dividend for the year (2014: no dividends proposed).

Financial instruments
Financial risk management objectives and policies have been established making use of financial instruments for the purpose of managing the exposure of the company to price risk, credit risk, liquidity risk and cash flow risk is discussed in Note 27 of the accounts.

Charitable donations
During the year the group made charitable donations of £1,023,000 (31 December 2013: £604,000) . Individual donations were:

	£
The Ovo Charitable Foundation	439,000
Rainforest protection	584,000

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

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

Research and development
The Company continues to develop its IT infrastructure, investing £6.2m in software development and licences for the year to 31 December 2015 (31 December 2014: £5.8m). The Company did not engage in research during the year (31 December 2014: £nil).

Ovo Group Ltd

Directors Report for the Year Ended 31 December 2015 (continued)

Going concern

Whilst the Company made a loss in the year to 31 December 2015, and has net liabilities, the financial statements have been prepared on a going concern basis as the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Further details are in note 2 of the financial statements.

Directors liabilities

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

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

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

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 these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's and the company's transactions and disclose with reasonable accuracy at any time the financial position of the group and the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Post Balance Sheet Events

On 3 February 2016, a subsidiary of the group, Smart Meter Assets 1 Ltd, was acquired by Brookfield Utilities No 1 Ltd, see Note 30.

Approved by the Board on 30 September 2016 and signed on its behalf by:

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Stephen Fitzpatrick
Director

Independent auditors' report to the members of Ovo Group Ltd

Report on the financial statements

Our opinion
In our opinion:

- Ovo Group Ltd's group financial statements and company financial statements (the "financial statement") giver a true and fair view of the state of the group's and of the company's affairs as at 31 December 2015 and of the group's loss and the group's and the company's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited
The financial statements, included within the Annual Report, comprise:

- the Consolidated and Company Statements of Financial Position as at 31 December 2015;
- the Consolidated Income Statement for the year then ended;
- the Consolidated Statement of Cash Flows for the year then ended and Company Statement of Cash Flows for the period then ended;
- the Consolidated Statement of Changes in Equity for the year then ended and the Company Statement of Changes in Equity for the period then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union and, as regards the company financial statements, as applied in accordance with the provisions of the Companies Act 2006, and applicable law.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

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

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

We have no exceptions arising from this responsibility.

Directors' remuneration

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

Ovo Group Ltd

Independent auditors' report to the members of Ovo Group Ltd (continued)

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

What an audit of financial statements involves

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

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

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report and Consolidated Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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

30 September 2016

Ovo Group Ltd

Consolidated Income Statement for the Year Ended 31 December 2015

	Note	2015 £ 000	2014 £ 000
Revenue	3	512,967	317,444
Cost of sales		(459,699)	(293,662)
Gross profit		53,268	23,782
Administration expenses		(83,986)	(59,230)
Other gains		(81)	1,536
Operating Loss		(30,799)	(33,912)
Finance income		135	125
Finance costs		(1,031)	(3,549)
Net finance costs	6	(896)	(3,424)
Loss before tax		(31,695)	(37,336)
Taxation	11	3,960	7,431
Loss for the year		(27,735)	(29,905)
Profit/(loss) attributable to:			
Owners of the company		(27,735)	(29,905)

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

Ovo Group Ltd

(Registration number: 08862063)
Consolidated and Company Statement of Financial Position as at 31 December 2015

	Note	Group 2015 £ 000	Group 2014 £ 000	Company 2015 £ 000	Company 2014 £ 000
Assets					
Non-current assets					
Property, plant and equipment	12	30,457	17,409	-	-
Intangible assets	13	13,169	10,385	-	-
Deferred tax assets	11	12,316	9,005	-	66
Investments	14	-	-	85,198	84,708
		55,942	36,799	85,198	84,774
Current assets					
Inventories	15	78	1,102	-	-
Trade and other receivables	16	33,389	32,231	18,751	55
Cash and cash equivalents	17	51,302	30,388	5,058	-
		84,769	63,721	23,809	55
Total assets		140,711	100,520	109,007	84,829
Current liabilities					
Trade and other payables	18	(71,628)	(46,236)	(775)	(5,026)
Loans and borrowings	20	(1,243)	(433)	-	-
Derivative financial instruments		-	(2,553)	-	-
Deferred income		(88,145)	(81,830)	-	-
Provisions	25	(373)	(219)	-	-
		(161,389)	(131,271)	(775)	(5,026)
Non-current liabilities					
Loans and borrowings	20	(14,602)	(5,737)	-	-
Total Liabilities		(175,991)	(137,008)	(775)	(5,026)
Net Liabilities		(35,280)	(36,488)	108,232	79,803
Equity					
Share premium		28,655	50	30,608	2,002
Other reserves		490	152	78,608	78,118
Retained earnings		(64,425)	(36,690)	(984)	(317)
Equity attributable to owners of the company		(35,280)	(36,488)	108,232	79,803
Total equity		(35,280)	(36,488)	108,232	79,803

Approved by the Board on 30 September 2016 and signed on its behalf by:

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Stephen Fitzpatrick

Director

The notes on pages 18 to 47 form an integral part of these financial statements.

Ovo Group Ltd

Consolidated Statement of Changes in Equity for the Year Ended 31 December 2015

	Share premium £ 000	Share based payment reserve £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2014	50	3	(6,785)	(6,732)
Total comprehensive income	-	-	(29,905)	(29,905)
Share based payment transactions	-	149	-	149
At 31 December 2014	50	152	(36,690)	(36,488)

	Share premium £ 000	Share based payment reserve £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2015	50	152	(36,690)	(36,488)
Total comprehensive income	-	-	(27,735)	(27,735)
New share capital subscribed	28,605	-	-	28,605
Share based payment transactions	-	338	-	338
At 31 December 2015	28,655	490	(64,425)	(35,280)

Ovo Group Ltd

Company Statement of Changes in Equity for the Year Ended 31 December 2015

	Share premium £ 000	Merger & Other reserve £ 000	Retained earnings £ 000	Total £ 000
At incorporation	-	-	-	-
Total comprehensive income	-	-	(317)	(317)
Issuance of shares	2,002	-	-	2,002
Merger reserve on issuance of shares	-	78,118	-	78,118
At 31 December 2014	2,002	78,118	(317)	79,803

	Share premium £ 000	Merger & Other reserve £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2015	2,002	78,118	(317)	79,803
Total comprehensive loss	-	-	(667)	(667)
Issuance of shares	28,606	-	-	28,606
Share based payment transactions	-	490	-	490
At 31 December 2015	30,608	78,608	(984)	108,232

Ovo Group Ltd

Consolidated Statement of Cash Flows for the Year Ended 31 December 2015

	Note	2015 £ 000	2014 £ 000
Cash flows from operating activities			
Loss for the year		(27,735)	(29,905)
Adjustments to cash flows from non-cash items			
Depreciation and amortisation	5	7,606	2,704
Financial instrument net gains (losses) through profit and loss		(2,553)	2,449
Loss on disposal of property plant and equipment	4	81	175
Profit on disposal of intangible assets	4	-	(1,711)
Foreign exchange loss	5	1	-
Finance income	6	(135)	(125)
Finance costs	6	1,031	3,549
Share based payment transactions		338	149
Income tax expense	11	(3,310)	(7,431)
		(24,676)	(30,146)
Working capital adjustments			
Decrease/(increase) in inventories	15	1,024	(1,102)
Increase in trade and other receivables	16	(1,158)	(15,082)
Increase in trade and other payables	18	25,392	34,355
Increase/(decrease) in provisions	25	154	(6)
Increase in deferred income		6,315	57,416
Net cash flow generated from operating activities		7,051	45,435
Cash flows used in investing activities			
Interest received	6	135	125
Acquisitions of property plant and equipment		(17,195)	(17,782)
Proceeds from sale of property plant and equipment		(81)	1
Acquisition of intangible assets	13	(6,243)	(10,405)
Proceeds from sale of intangible assets		-	2,000
Net cash flows from investing activities		(23,384)	(26,061)
Cash flows used in financing activities			
Interest paid	6	(1,031)	(3,549)
Proceeds from issue of ordinary shares, net of issue costs		28,604	-
Proceeds from finance leases		9,674	6,170
Proceeds from borrowing		-	8,000
Repayment of borrowing		-	(8,000)
Net cash flows from financing activities		37,247	2,621
Net increase in cash and cash equivalents		20,914	21,995
Cash and cash equivalents at 1 January		30,388	8,393
Cash and cash equivalents at 31 December		51,302	30,388

Ovo Group Ltd

Company Statement of Cash Flows for the Period Ended 31 December 2015

	Note	2015 £ 000	2014 £ 000
Cash flows from operating activities			
Loss for the year		(667)	(317)
Adjustments to cash flows from non-cash items			
Finance income	6	(184)	-
Finance costs	6	40	340
Income tax expense	11	66	(66)
		(745)	(43)
Working capital adjustments			
Increase in trade and other receivables	16	(18,696)	(55)
(Decrease)/increase in trade and other payables	18	(4,251)	438
Net cash flow from operating activities		(23,692)	340
Cash flows from investing activities			
Interest received	6	184	-
Cash flows from financing activities			
Interest paid	6	(40)	(340)
Proceeds from issue of ordinary shares, net of issue costs		28,606	-
Net cash flows from financing activities		28,566	(340)
Net increase in cash and cash equivalents		5,058	-
Cash and cash equivalents at 1 January		-	-
Cash and cash equivalents at 31 December		5,058	-

In the prior year, the movement in the trade payables balance was offset by £4,588,000, as the acquisition of subsidiary was a non-cash transaction and increased amounts payable to related parties in the prior year.

1 General information

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

The address of its registered office is:
1 Rivergate
Temple Quay
Bristol
United Kingdom
BS1 6ED
United Kingdom

These financial statements were authorised for issue by the Board on 30 September 2016.

2 Accounting policies

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

Basis of preparation

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

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

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

Going concern
Whilst the Group made a loss in the year ended 31 December 2015, and has net liabilities, the financial statements have been prepared on a going concern basis.

The Group meets its day-to-day working capital requirements through cash reserves and the Shell facility.

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

2 Accounting policies (continued)

Basis of consolidation

The Company was incorporated on 27 January 2014. In February 2014, the Company acquired the entire share capital of Ovo Energy Ltd, ONI Energy Limited, Ovo Energy for Business Limited, Ovo Telecom Limited and Ovo Energy Trading Ltd from Imagination Industries Ltd by way of a share exchange, issuing its own shares to the shareholders of those entities. This transaction qualified for group reconstruction relief under the Companies Act and was accounted for as a common control transaction and hence outside of the scope of IFRS 3 Business Combinations. The directors have elected to account for the reconstruction using predecessor accounting principles. As such, the consolidated financial statements show the results of the group as if Ovo Group Ltd had always been the parent company of the group.

The group financial statements consolidate the financial statements of the company and its subsidiary undertakings drawn up to 31 December 2015.

No income statement is presented for the company as permitted by section 408 of the Companies Act 2006. The company made a loss after tax for the financial year of £667,000 (2014: loss after tax of £317,000).

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

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

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

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

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

Revenue recognition

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

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

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

All revenue arose within the United Kingdom.

2 Accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

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

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

2 Accounting policies (continued)

Intangible assets
a) Trademarks and licenses

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

b) Computer software and licenses

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

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

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

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

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

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

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

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

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

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

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

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

2 Accounting policies (continued)

Inventories

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

Trade payables

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

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

Borrowings

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

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

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

Provisions

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

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

Leases

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

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

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

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

2 Accounting policies (continued)

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

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

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

Share based payments
Imagination Industries Ltd and Ovo Group Ltd operate a number of equity-settled, share based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of Imagination Industries Ltd and 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, Imagination Industries Ltd and Ovo Group Ltd revises their estimates of the number of options that are expected to vest based on the non-market vesting conditions. They recognise the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

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

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

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

2 Accounting policies (continued)

Financial assets

Classification

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

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

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

(b) Loans and receivables

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

Recognition and measurement

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

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

2 Accounting policies (continued)

Impairment

(a) Assets carried at amortised cost

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

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

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

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

Derivatives and hedging

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

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

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

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

Changes in accounting policy

None of the standards, interpretations and amendments effective for the first time from 1 January 2015 have had a material effect on the financial statements.

None of the standards, interpretations and amendments which are effective for periods beginning after 1 January 2015 and which have not been adopted early, are expected to have a material effect on the financial statements.

2 Accounting policies (continued)

Critical estimates and judgements

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

Revenue recognition - energy supplied but not yet measured and billed

The quantities of the energy supplied to OVO customers but not yet measured and billed are calculated at the reporting date based on consumption variables and selling price estimates. Determination of the value of unbilled suppliers of energy is sensitive to changes in the assumption used around weather variables, customer behaviour and industry trends. The unbilled proportion of sales revenues at the year-end is sensitive to the assumptions used to prepare these statistics and estimates.

Impairment of trade receivables

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

Deferred tax assets

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

3 Revenue

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

	2015 £ 000	2014 £ 000
Sale of gas and electricity	512,967	317,444

4 Other gains and losses

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

	2015 £ 000	2014 £ 000
Gain/(loss) on disposal of property, plant and equipment	(81)	(175)
Gain/(loss) on disposal of intangible asset	-	1,711
	(81)	1,536

5 Operating profit

Arrived at after charging/(crediting)

	2015 £ 000	2014 £ 000
Depreciation expense	4,147	975
Amortisation expense	3,459	1,729
Foreign exchange gains	1	-
Operating lease expense - property	1,245	1,071

6 Finance income and costs

	2015 £ 000	2014 £ 000
Finance income		
Interest income on bank deposits	135	125
Finance costs		
Interest on bank overdrafts and borrowings	(1,031)	(3,549)
Net finance costs	(896)	(3,424)

7 Exceptional EBITDA items

	2015 £ 000	2014 £ 000
Profit on sale of brand	-	(2,000)
	-	(2,000)

The exceptional items in the prior period relate to the sale of the Ovo brand to the ultimate parent entity Imagination Industries Ltd.

8 Staff costs

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

	2015 £ 000	2014 £ 000
Wages and salaries	29,021	17,584
Social security costs	2,558	1,625
Pension costs, defined contribution scheme	440	267
Share-based payment expenses	338	149
Other employee expense	271	200
	32,628	19,825

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

8 Staff costs (continued)

	2015 No.	2014 No.
Administration and support	238	117
Sales, marketing and distribution	756	358
	994	475

9 Directors' remuneration

The directors' remuneration for the year was as follows:

	2015 £ 000	2014 £ 000
Remuneration	806	124

There were five Directors during the year. The highest paid director in the year received remuneration of £326,000.

10 Auditors' remuneration

	2015 £ 000	2014 £ 000
Audit of the financial statements of all group companies	102	85
Other fees to auditors		
Audit-related assurance services	12	11
Taxation compliance services	36	25
All other tax advisory services	-	12
	48	48

11 Income tax

Tax charged/(credited)

	2015 £ 000	2014 £ 000
Deferred taxation		
Arising from origination and reversal of temporary differences	(3,960)	(7,431)

The tax on profit before tax for the year is higher than the standard rate of corporation tax in the UK (2014 - higher than the standard rate of corporation tax in the UK) of 20.25% (2014 - 21.5%).

The differences are reconciled below:

	2015 £ 000	2014 £ 000
Loss before tax	(31,695)	(37,336)
Corporation tax at standard rate	(6,418)	(8,027)
Effect of revenues exempt from taxation	-	(430)
Effect of expense not deductible in determining taxable profit (tax loss)	1,576	205
Movement of deferred tax on losses	538	315
Losses surrendered payable by group company	(350)	-
UK deferred tax expense (credit) relating to changes in tax rates or laws	900	628
Deferred tax expense (credit) from unrecognised temporary difference from a prior period	(206)	(122)
Total tax credit	(3,960)	(7,431)

The main rate of UK corporation tax for the year to 31 March 2015 was 21%, reducing to 20% for the year to 31 March 2016.

In additions to the changes in corporation tax disclosed above, further changes were announced in the Chancellor's Budget on 8 July 2015. These include reductions to the main rate to reduce the rate to 19% from 1 April 2017 and to 18% from 1 April 2020. These changes were substantively enacted on 26 October 2015 and their effects are included in these financial statements. The deferred tax balance has been presented in accordance with these enacted rates,

11 Income tax (continued)

Deferred tax

Group

Deferred tax assets and liabilities

2015	**Asset £ 000**	**Liability £ 000**	**Net deferred tax £ 000**
Accelerated tax depreciation	-	(788)	(788)
Derivatives	-	-	-
Tax losses carry-forwards	13,081	-	13,081
Pension benefit obligations	23	-	23
	13,104	(788)	12,316

2014	**Asset £ 000**	**Liability £ 000**	**Net deferred tax £ 000**
Accelerated tax depreciation	-	(237)	(237)
Derivatives	510	-	510
Tax losses carry-forwards	8,715	-	8,715
Pension benefit obligations	17	-	17
	9,242	(237)	9,005

Deferred tax movement during the year:

	At 1 January 2015 £ 000	**Recognised in income £ 000**	**At 31 December 2015 £ 000**
Accelerated tax depreciation	(237)	(551)	(788)
Derivatives	510	(510)	-
Tax losses carry-forwards	8,715	4,366	13,081
Pension benefit obligations	17	6	23
Net tax assets/(liabilities)	9,005	3,311	12,316

11 Income tax (continued)

Deferred tax movement during the prior year:

	At 1 January 2014 £ 000	Recognised in income £ 000	At 31 December 2014 £ 000
Accelerated tax depreciation	19	(256)	(237)
Derivatives	21	489	510
Tax losses carry-forwards	1,534	7,181	8,715
Pension benefit obligations	-	17	17
Net tax assets/(liabilities)	1,574	7,431	9,005

12 Property, plant and equipment

Group

	Leasehold property £ 000	Fixtures, fittings and office equipment £ 000	Meter assets £ 000	Total £ 000
Cost or valuation				
At 1 January 2014	527	1,066	-	1,593
Additions	4,140	1,196	12,446	17,782
Disposals	(380)	(470)	-	(850)
At 31 December 2014	4,287	1,792	12,446	18,525
Additions	1,004	765	15,426	17,195
At 31 December 2015	5,291	2,557	27,872	35,720
Depreciation				
At 1 January 2014	284	531	-	815
Charge for year	397	432	146	975
Eliminated on disposal	(343)	(331)	-	(674)
At 31 December 2014	338	632	146	1,116
Charge for the year	1,626	798	1,723	4,147
At 31 December 2015	1,964	1,430	1,869	5,263
Carrying amount				
At 31 December 2015	3,327	1,127	26,003	30,457
At 31 December 2014	3,949	1,160	12,300	17,409
At 1 January 2014	243	535	-	778

12 Property, plant and equipment (continued)

Assets held under finance leases and hire purchase contracts

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

	2015 £ 000	2014 £ 000
Meter Assets	15,302	6,024

13 Intangible assets

Group

	Goodwill £ 000	Internally generated software development costs £ 000	Other intangible assets £ 000	Total £ 000
Cost or valuation				
At 1 January 2014	-	2,907	646	3,553
Additions	4,588	5,815	2	10,405
Disposals	-	(612)	-	(612)
At 31 December 2014	4,588	8,110	648	13,346
Additions	-	6,153	90	6,243
At 31 December 2015	4,588	14,263	738	19,589
Amortisation				
At 1 January 2014	-	1,545	10	1,555
Amortisation charge	-	1,628	101	1,729
Amortisation eliminated on disposals	-	(323)	-	(323)
At 31 December 2014	-	2,850	111	2,961
Amortisation charge	-	3,405	54	3,459
At 31 December 2015	-	6,255	165	6,420
Carrying amount				
At 31 December 2015	4,588	8,008	573	13,169
At 31 December 2014	4,588	5,260	537	10,385
At 1 January 2014	-	1,362	636	1,998

The amortisation charge of £3,459,000 (31 December 2014: £1,729,000) is recognised in administrative expenses.

13 Intangible assets (continued)

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

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

14 Investments

Group subsidiaries

Details of the group subsidiaries as at 31 December 2015 are as follows:

Name of subsidiary	Principal activity	Country of incorporation and principal place of business	Proportion of ownership interest and voting rights held by the group 2015 & 2014
Ovo Energy Ltd*	Sale of electricity and gas to customers in the UK	UK	100%
Ovo Electricity Ltd	Procurement and sale of UK electricity from the wholesale markets and renewable sources	UK	100%
Ovo Gas Ltd	Supply of gas and UK related services	UK	100%
ONI Energy*	Dormant	UK	100%
ONI Electricity	Dormant	UK	100%
ONI Gas	Dormant	UK	100%
Smart Meter Assets 1 Ltd	Asset company for smart meter business	UK	100%
In Home Technology Limited*	Management entity for smart meter business	UK	100%
Ovo Services Ltd (previously Ovo Energy for Business Limited)*	Dormant	UK	100%
Ovo Telecom Limited*	Dormant	UK	100%
Ovo Technology Ltd (previously Ovo Energy Trading Limited)*	Dormant	UK	100%

* indicates direct investment of OVO Group Ltd

14 Investments (continued)

Summary of the company investments

	2015 £ 000	2014 £ 000
Investments in subsidiaries	85,198	84,708

Subsidiaries	**£ 000**
Cost or valuation	
Additions	84,708
At 31 December 2014 & 1 January 2015	84,708
Additions	490
At 31 December 2015	(85,198)

15 Inventories

	Group		Company	
	2015 £ 000	2014 £ 000	2015 £ 000	2014 £ 000
Finished goods and goods for resale	78	-	-	-
Renewable Obligation Certificates	-	1,102	-	-
	78	1,102	-	-

The cost of R.O.Cs recognised as an expense in the year amounted to £25,291,000 (2014 - £16,018,000). This is included within cost of sales.

16 Trade and other receivables

	Group 2015 £ 000	Group 2014 £ 000	Company 2015 £ 000	Company 2014 £ 000
Trade receivables and accrued income	36,289	25,436	-	-
Provision for impairment of trade receivables and accrued income	(11,886)	(7,573)	-	-
Net trade receivables and accrued income	24,403	17,863	-	-
Receivables from related parties	-	4	-	-
Loans to related parties	-	-	18,638	-
Prepayments	1,762	641	-	-
Other receivables	7,224	13,723	113	55
Total current trade and other receivables	33,389	32,231	18,751	55

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

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

17 Cash and cash equivalents

	Group 2015 £ 000	Group 2014 £ 000	Company 2015 £ 000	Company 2014 £ 000
Cash at bank	51,302	30,388	5,058	-

18 Trade and other payables

	Group 2015 £ 000	Group 2014 £ 000	Company 2015 £ 000	Company 2014 £ 000
Trade payables	31,197	12,707	27	53
Accrued expenses	39,502	33,037	748	99
Amounts due to related parties	927	432	-	4,874
Social security and other taxes	2	60	-	-
	71,628	46,236	775	5,026

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

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

19 Share capital

Allotted, called up and fully paid shares

	2015 No.	2015 £	2014 No.	2014 £
A Ordinary of £0.00001 each	11,549,110	115	12,500,000	125
B Ordinary of £0.00001 each	94,046	1	89,475	1
C Ordinary of £0.00001 each	72,091	1	27,508	-
D1 Ordinary of £0.00001 each	845,065	8	987,539	10
D2 Ordinary of £0.00001 each	132,110	1	132,558	1
D3 Ordinary of £0.00001 each	284,885	3	-	-
D4 Ordinary of £0.00001 each	212,042	2	-	-
Deferred Shares of £0.00001 each	204,516	2	-	-
Preferred Shares of £0.00001 each	2,424,771	24	-	-
	15,818,636	158	13,737,080	137

The Group issued 2,424,771 Preference Shares in two tranches on 17 April 2015 and 3 August 2015 to Mayfair Olympic Holdco Limited. The fair value of the shares issued amounted to £31m (equivalent to £12.78 per share) . The preference shares issued have the same rights as A Ordinary shares in issue. The related transaction costs amounting to £2.5m have been netted off with the deemed proceeds.

The B,C and D shares have been issued as part of Employee Share Schemes as discussed in Note 24.

20 Loans and borrowings

	Group 2015 £ 000	Group 2014 £ 000	Company 2015 £ 000	Company 2014 £ 000
Non-current loans and borrowings				
Finance leases	14,602	5,737	-	-

	Group 2015 £ 000	Group 2014 £ 000	Company 2015 £ 000	Company 2014 £ 000
Current loans and borrowings				
Finance leases	1,243	433	-	-

The finance lease has been classified as wholly due within one year due to the post year end sale of Smart Meter Assets 1 Ltd to a third party, crystalising the finance lease repayment.

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

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

21 Obligations under leases and hire purchase contracts

Group

Finance leases

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

2015	Minimum lease payments £ 000	Present value £ 000
Within one year	1,243	1,243
In two to five years	6,042	6,042
In over five years	8,560	8,560
	15,845	15,845

2014	Minimum lease payments £ 000	Present value £ 000
Within one year	433	433
In two to five years	3,193	3,193
In over five years	2,544	2,544
	6,170	6,170

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

	2015 £ 000	2014 £ 000
Current liabilities	1,243	433
Non-current liabilities	14,602	5,737
	15,845	6,170

Operating leases

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

Lease rentals are included in the income statement.

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

	2015 £ 000	2014 £ 000
Within one year	924	924
In two to five years	1,381	2,305
	2,305	3,229

The amount of non-cancellable operating lease payments recognised as an expense during the year was £1,070,000 (2014 - £1,070,000)

22 Fair value measurement

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

Liabilities measured at fair value
2014

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

The Group held no derivatives of power and gas commodity as at 31 December 2015.

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

23 Pension and other schemes

Defined contribution pension scheme

The group operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the group to the scheme and amounted to £440,000 (2014 - £267,000).

24 Share-based payments

Ovo Group Ltd Share Scheme

Scheme details and movements

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

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

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

D shares are also awarded as part of the LTIP scheme. These shares have been issued in tranches (called D3 and D4 (prior year: D1 and D2)), to reflect the valuation of the company at the date of the award. They have a vesting period based on performance conditions.

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

Analysis of charge to the consolidated income statement

£000	Year ending 31 December 2015	Year ending 31 December 2014
'B' Shares	152	45
'C' Shares	(46)	46
'D' Shares	235	52
	341	143

Reconciliation of movements in awards

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

24 Share-based payments (continued)

Thousands of shares	'B' Shares	'C' Shares	'D' Shares
Issued at 1 January 2014	-	-	-
Issued July 2014	82	22	988
Issued October 2014	11	6	133
Cancelled	(4)	-	-
Issued at 31 December 2014	89	28	1,121
Weighted average vesting period (months)	31	8	31

Pricing

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

'B' Shares
The 'B' Shares awarded in July 2014 were valued at £3.89 per share. October 2014 shares were valued at £8.01 per share. May 2015 shares were valued at £10.00 per share and October 2015 shares were valued at £10.20 per share.

'C' Shares
The 'C' Shares awarded in July 2014 were valued at £4.32 per share. October 2014 shares were valued at £8.90 per share. May 2015 shares were valued at £11.00 per share and October 2015 shares were valued at £11.30 per share.

'D' Shares
The 'D' Shares awarded in July 2014 were valued at £0.39 per shares. October 2014 shares were valued at £0.80 per share. May 2015 shares were valued at £1.00 per share and October 2015 shares were valued at £0.51 per share.

25 Other provisions

Group

	Dilapidation provisions £ 000	Total £ 000
At 1 January 2015	219	219
Additional provisions	154	154
At 31 December 2015	373	373
Current liabilities	373	373

26 Financial instruments

Group

Financial assets
Loans and receivables

	Carrying value		Fair value	
	2015 £ 000	2014 £ 000	2015 £ 000	2014 £ 000
Cash and cash equivalents	51,302	30,388	51,302	30,388
Trade and other receivables	33,389	31,591	33,389	31,591
	84,691	61,979	84,691	61,979

Valuation methods and assumptions

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

26 Financial instruments (continued)

Financial liabilities

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

	Carrying value		Fair value	
	2015 £ 000	2014 £ 000	2015 £ 000	2014 £ 000
Power and gas commodity	-	2,553	-	2,553

Valuation methods and assumptions

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

Financial liabilities at amortised cost

	Carrying value		Fair value	
	2015 £ 000	2014 £ 000	2015 £ 000	2014 £ 000
Trade and other payables	71,628	46,177	71,628	46,177
Finance leases	11,845	6,170	11,845	6,170
	83,473	52,347	83,473	52,347

Valuation methods and assumptions

The fair value of the trade and other payables and borrowings 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 finance lease was entered into close to the balance sheet date and therefore book value approximates fair value.

Company

Financial assets
Loans and receivables

	Carrying value		Fair value	
	2015 £ 000	2014 £ 000	2015 £ 000	2014 £ 000
Cash and cash equivalents	5,058	-	5,058	-
Trade and other receivables	18,751	55	18,751	55
	23,809	55	23,809	55

Valuation methods and assumptions

The fair value of loans and receivable is based on the expectation of recovery of balances. There have been no historic defaults over the other receivables balance, therefore the full balance is expected to be received.

26 Financial instruments (continued)

Financial liabilities

Financial liabilities at amortised cost

	Carrying value		Fair value	
	2015	**2014**	**2015**	**2014**
	£ 000	**£ 000**	**£ 000**	**£ 000**
Trade and other payables	775	5,026	775	5,026
Borrowings	-	-	-	-
	775	5,026	775	5,026

Valuation methods and assumptions

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

27 Financial risk management and impairment of financial assets

Group

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

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

Credit risk and impairment

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

The carrying amount of financial assets represents the maximum credit exposure. Therefore, the maximum exposure to credit risk at the balance sheet date was £84,391,000 (31 December 2014: £61,979,000) being the total of the carrying amount of financial assets, excluding equity investments, which include trade receivables and accrued income, derivative financial assets and cash. All the receivables are with parties in the UK.

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

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

Past due and impaired financial assets

Allowances for impairment by credit losses

2015	Loans and receivables £ 000
At start of year	7,574
Additional impairment for credit losses	4,312
At end of year	11,886

2014	Loans and receivables £ 000
At start of year	2,952
Additional impairment for credit losses	4,622
At end of year	7,574

Analysis of items past due or impaired
Loans and receivables

2015	Carrying value of items neither past due nor impaired £ 000	Carrying value of items past due but not impaired £ 000	Carrying value of items past due and/or impaired £ 000	Pre impairment value £ 000	Impairment recognised to date £ 000
Trade receivables and accrued income	14,629	9,774	11,886	36,289	11,886

2014	Carrying value of items neither past due nor impaired £ 000	Carrying value of items past due but not impaired £ 000	Carrying value of items past due and/or impaired £ 000	Pre impairment value £ 000	Impairment recognised to date £ 000
Trade receivables and accrued income	13,658	4,204	7,574	25,436	7,574

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

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

Market risk
Commodity price risk

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

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

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

The Group manages this risk by entering into forward contracts for a variety of periods. Energy procurement contracts are entered into and continue to be held for the purpose of the receipt of a non-financial item which is in accordance with the Group's expected purchase and sale requirements and are therefore out of scope of IAS 39. Energy contracts that are not financial instruments under IAS 39 are accounted for as executory contracts and changes in fair value do no immediately impact profit or equity, and as such, are not exposed to commodity price risk as defined by IFRS 7. So whilst the risk associated with energy procurement contracts outside the scope of IAS 39 is monitored for internal risk management purposes, only those energy contracts within the scope of IAS 39 are within the scope of the IFRS 7 disclosure requirements.

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

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

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

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

Maturity analysis

2015	Within 1 year £ 000	Total £ 000
Trade and other payables	71,628	71,628
Finance leases	15,845	15,845
	87,473	87,473

2014	Within 1 year £ 000	After 1 year £ 000	Total £ 000
Trade and other payables	46,236	-	46,236
Finance leases	433	5,737	6,170
	46,669	5,737	52,406

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

Capital risk management

Capital management

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

28 Related party transactions

Key management personnel

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

Key management compensation

	2015 £ 000	2014 £ 000
Salaries and other short term employee benefits	2,801	2,285

Summary of transactions with key management

Two Directors of the Company directly control 10% per cent of the voting shares of the Company. Stephen Fitzpatrick also own 100% of the share capital of Imagination Industries Limited, which owns a further 64% of the Company's shares.

During the year a director made repayments of £1,000 towards the loan received in the prior year of £2,000. As at 31 December 2015 the loan due from the director was £1,000 (2014: £2,000).

Company

Summary of transactions with subsidiaries

During the year the Company provided loan funds to In Home Technology Ltd of £1,375,000 (2014: £nil). The loan incurs an interest charge of 10% annually on the capital balance, the total interest payable for the year was £43,000 (2014: £nil). As at 31 December 2015 the Company was owed £1,418,000 by In Home Technology Ltd (2014: £nil).

During the year the Company provided loan funds to Smart Meter Assets 1 Ltd of £6,450,000 (2014: £nil). The loan incurs an interest charge of 10% annually on the capital balance, the total interest payable for the year was £141,000 (2014: £nil). As at 31 December 2015 the Company was owed £6,591,000 by Smart Meter Assets 1 Ltd (2014: £nil).

During the year the Company received loan funds from Ovo Energy Ltd (subsidiary) of £175,000 (2014: £4,535,000). The loan incurs an interest charge of 10% annually on the capital balance, the total interest payable for the year was £212,000 (2014: £340,000). The Company repaid the loan during the year (£4,921,000) and then provided a loan to Ovo Energy Ltd of £8,416,000. This loan incurs an interest charge of 10% annually on the capital balance, the total interest receivable for the year was £178,000 (2014: £nil).

During the year the Company charged management charges to Ovo Energy Ltd for the provision of Management personnel of £2,342,000 (2014: £628,000). These costs are included in the total receivable (2014: payable) shown below.

As at the year end the loan owing to Ovo Group Ltd from Ovo Energy Ltd including interest was £10,935,000 (2014: Ovo Group owed Ovo Energy Ltd £4,875,000).

29 Parent and ultimate parent undertaking

The Company's ultimate parent is Imagination Industries Limited. These financial statements 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

In February 2016, OVO completed a transaction with Brookfield Utilities UK (Brookfield) to dispose of its subsidiary Smart Meter Assets Limited, an entity which owned circa 200,000 installed smart meters, and a future pipeline of smart meters which is expected to total 700,000 by the end of 2017. OVO retains responsibility for the procurement and installation of smart meters and, whilst a customer is supplied by OVO, continues to pay rent in respect of the meters. All debt was repaid as part of the transaction, reducing OVO's leverage to nil.

In respect of meters installed prior to 31 December 2015, the transaction generated a capital gain of £24m, recognised in our Profit Before Tax results for the H1 2016 period. As OVO continues to sell its pipeline of installed smart meters the transaction will continue to generate incremental profit.