Registration number: 06890795

OVO Energy Ltd

Annual Report and Financial Statements

for the Year Ended 31 December 2021

Visit OVO Energy Official Website:
www.ovoenergylimited.co.uk

OVO Energy Ltd

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OVO Energy Ltd

Company Information

Directors	Vincent Casey Raman Bhatia
Company secretary	Vincent Casey
Registered office	1 Rivergate Temple Quay Bristol England United Kingdom BS1 6ED
Independent auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 2 Glass Wharf Bristol BS2 0FR

OVO Energy Ltd

Strategic Report for the Year Ended 31 December 2021

The Directors present their Strategic Report for the year ended 31 December 2021.

Business overview

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

Since our foundation in 2009, OVO became symbolic of a new model in retail energy - providing cheaper, greener, simpler energy. This position was dramatically boosted in 2020 with the acquisition of SSE Energy Services Group Limited, increasing overall customer numbers across our Group's brands to 4.3 million.

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

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

2021 Strategic update

A digital, smart, flexible system, run solely on renewable energy requires a whole new energy system, designed around the customer. It's going to take all of us to reimagine the way we power our lives, heat our homes, and fuel our cars to reach net zero.

2021 saw the continued transformation of our business as our goal to decarbonise homes and achieve zero carbon living gathers momentum. With increasing volatility in gas prices, the need to decarbonise has never been more important.

Our principle strategy focused on customer retention and the continuation of the integration of SSE Energy Services Group Limited onto OVO systems and platforms. The end of 2021 marked the start of the energy crisis, which saw the doubling of energy prices and many energy suppliers ceasing to trade. This situation required urgent action, and the need for the industry, the government and the regulator to work together to protect consumers and strengthen the energy system.

Digital transformation

The migration of SSE Energy Services Group Limited customers onto the Kaluza platform gathered pace, with thousands of customer migrations taking place daily. The Kaluza platform creates operational cost savings enabling us to invest more into building compelling green propositions for our customers and become the trusted decarbonisation partners that will enable us to fulfil our Plan Zero aims.

The coronavirus meant we had to navigate lockdown restrictions whilst seeking to optimise SMART installs and maintain service for customers to support them through the pandemic. It has also continued to change the way consumers engage with us and think about their homes. Many of our customers have permanently changed their behaviour and are increasingly going online and using digital tools to serve themselves.

2021 Strategic update (continued)

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

In 2021 we launched OVO Drive + Anytime, the UKs only "type of use" tariff which is less than half the typical rate offered by other suppliers and doesn't limit the times when customers can charge - by automatically charging vehicles when prices are low. The tariff is powered by Kaluza, and uses algorithms to model electricity market patterns and customer behaviour to predict that it will have more than enough idle electric vehicles to help balance the energy grid even if some individual customers choose to charge or drive at these times. We are in the early stages of rolling these tariffs out to other devices such as heat-pumps to incentivise the use of low carbon technology in the home.

Key Financial and Performance Indicators

The Company made a profit of £279m for the year ended 31 December 2021 (2020: loss of £255m) and has net liabilities of £164m (2020: net liabilities of £443m). The Company made an adjusted EBITDA of (£33m) for the year ended 31 December 2021 (2020: adjusted EBITDA of (£201m)) and has net liabilities of £164m (2020: net liabilities of £443m). During the year, customer numbers saw a net increase between 2020 and 2021 primarily as a result of customer migration from the Company's subsidiaries. Both annualised gross profit margin and adjusted EBITDA have increased as a result of decreased realised commodity costs and increased prices. Cash has also increased in the year which is reflective of improved working capital practices year-on-year. Net assets have increased significantly in the current year due to the recognition of £429m derivative energy contracts carried at fair value. During the year the Company has re-assessed the volume threshold at which contracts are deemed to be highly probable of resulting in physical delivery which has led to a larger proportion of the contract book being designated as trading. In the prior year all contracts were assessed as own use and hence no asset or liability was recognised. These contracts will be used to fulfill customer contracts which are priced below market spot prices in the short term and therefore, the derivative financial assets recognised as at 31 December 2021 will be reversed when these contracts unwind in future periods.

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

	Unit	**2021**	**2020**
Customer numbers	No.	1,202,000	769,000
Cash at bank and in hand	£m	40	35
Annualised gross profit margin	%	10	5
Adjusted EBITDA*	£m	(33)	(201)

* Adjusted EBITDA is defined as operating profit/(loss), after adjusting for depreciation, amortisation, impairment, fair value gains on derivatives and exceptional items (i.e., expenses or credits that are deemed unusual by nature and/or scale and significance). See below for reconciliation of adjusted EBITDA to statutory results. Refer to Note 8 for details of exceptional items.

Reconciliation to statutory results	2021 £ m	2020 £ m
Operating profit/(loss)	367	(238)
Add: Exceptional items*	(409)	28
Add: Depreciation and impairment of tangible assets and right-of-use assets	4	4
Add: Amortisation and impairment of intangible assets	5	5
Adjusted EBITDA	(33)	(201)

* Refer to Note 8 for details of exceptional items.

Subsequent events since the end of the year ended 31 December 2021

Non-adjusting events
Voluntary redundancy programme

On 12 January 2022, the Group announced a voluntary redundancy programme to reduce the number of roles across the Group by 1,700 in 2022. The programme was proposed with the aim to simplify the business to provide exceptional value for the members of the Group.

Energy crisis
In early 2021 energy prices continued to remain extremely volatile. Thirty energy companies ceased trading in 12 months, adding billions of pounds to energy bills. OVO continues to remain in a strong position due to our prudent hedging strategy. However, with only a handful of energy companies surviving in 2021, it is clear that the sector needs urgent and meaningful reform if more failures are to be avoided.

High energy prices resulted in the near doubling of bills in April, which means that millions more households will struggle to heat their homes in winter. We are working with industry and with the Government to find a solution to smooth out price shocks and ensure government support is there for families who need it most.

Financial risks

The financial risks impacting the Company relate to the wholesale price of gas and electricity, credit risk and liquidity risk.

The Company manages commodity price risk by securing gas and electricity under forward contracts.

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

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

Section 172 Statement

Stakeholders are at the heart of our strategy and business model and our Board aims to uphold the highest standard of conduct while ensuring that all decisions are taken with consideration of the long term interests of stakeholders.

Plan Zero sets out our purpose to drive progress to zero carbon living, generate long term value for members and is core to our company culture. The need to transition from fossil fuels to renewable energy is the biggest, most pressing challenge facing humankind. In an increasingly complex, changing and competitive market environment, our Board recognises that the business will only grow, prosper and successfully deliver on the ambitions set out in Plan Zero if it understands, respects and responds to the views and needs of our key stakeholders.

Our stakeholders

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

Our people
Without talented and committed employees, we could never deliver on our ambitions. We aspire to be the leading place to work for people who will change the world. When our people thrive, they better serve our customers and partner with them on their journey to zero carbon living. Our quarterly employee survey gives employees at all levels the chance to share views with line managers, colleagues and leadership. Our Board also engages regularly with our people through a number of employee forums, company wide town halls and smaller village halls.

Our planet
OVO's impacts on the environment and our planet are central to OVO's business strategy to deliver Plan Zero. We recognise that our business operations have environmental impacts, including carbon emissions, air pollution, natural resource use, water consumption, and generation of waste. In 2021, we established a formal Environment Policy, applicable across the OVO Group, to codify our commitment to minimise the negative impacts of our business activities on the environment across our entire value chain. In addition, we commit to increasing the positive impact of our business on the planet, for example by developing products and services that help our customers to decarbonise home energy use. We have taken action to embed sustainable business practices across our OVO Retail business through the implementation of Plan Zero. For example, in 2021, we rolled out mandatory training on climate change to all our people to encourage them to consider Plan Zero in strategic and operational decision-making across all areas of our business. During 2021, we reported environmental performance periodically to OVO's Leadership Team and annually to the Board. In October 2021, we published key environmental, social and governance metrics for the first time in our Plan Zero 2020 progress report.

Governments and regulators
Our Board members engage regularly with key stakeholders within the UK Government, devolved administrations, respective Parliaments and the regulator. Our activity is across a range of mediums including conferences, roundtables, and media to engage effectively with key regulatory, policy and political priorities. Our dedicated Policy and Public Affairs team actively manage our stakeholder plan and regularly update Board members on policy developments and coordinate a regular engagement programme to discuss issues such as Plan Zero, market design, consumer protection and the decarbonisation of heat.

Section 172 Statement (continued)

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

Our suppliers
We build trusted relationships with our suppliers to enable us to provide the best quality products and services at optimum pricing for our customers, whilst mitigating data, social and environmental risks in our upward supply chain. In 2021, our Procurement team continued to implement a central procurement system and process across the OVO Retail business, to improve and standardise the way in which we assess and engage with our suppliers during on-boarding and contract renewal. We continued to implement our Supplier Code of Conduct for all new key suppliers as part of the standard procurement process. We also strengthened our sustainable procurement controls through the introduction of sustainability risk screening and assessments for new suppliers and contract renewals, and where applicable mandated that sustainability criteria was considered as part of any supplier selection.

Embedding Section 172 in Board decision-making

Having met the threshold requirements to report against Section 172 of the UK's Companies Act 2006, a number of steps have been taken to ensure we are embedding the duties in Board decision-making. Our Chairman sets the agenda for each Board meeting and has taken steps to ensure that we are meeting the requirements and carefully considering our stakeholders through a combination of the following:

• Strategically significant topics are reviewed through the newly established Risk and Audit Committees e.g. regular consideration of regulatory and political risks are provided via this forum and feedback from priority government and regulatory stakeholders is shared.
• Board papers ensure that stakeholder considerations are considered where relevant.
• Formal consideration of any stakeholders which are relevant to any major decisions taken by the Board throughout the year.
• Direct engagement by the Chairman and members of the Board with appropriate stakeholders via a mix of bilateral meetings, committees, forums and conferences on key strategic decisions for the Group.
• Regularly scheduled Board presentations and reports on issues such as: customer engagement, risk register reports, health & safety reports, investment updates, and developments related to our people and culture.
• The Directors also fulfil their Section 172 duties partly through the delegation of day-to-day decision making to the employees of the Group and regularly receive and consider feedback on stakeholders' views from dedicated teams within Corporate Affairs.

Section 172 Statement (continued)

Case Study: Responding to the energy crisis

Over the past year wholesale energy prices have increased to record highs and the energy market has faced its biggest challenge as demand for energy surged against increasing costs. This was due in part because of the recovery from COVID-19, but also a cold winter in Asia resulting in low levels of storage in Europe, as well as geopolitical risks. The result was 27 energy suppliers ceased trading in 2021.

OVO was in a strong position to manage market volatility due to being well-hedged with sufficient capital to support its customers throughout winter and beyond. Our priority was to reassure our customers that we're here for them and will continue to provide the service we're known for, all while engaging with external stakeholders to tackle the industry challenge.

Towards the end of 2021 the End Fuel Poverty Coalition reported that more than one in four UK households will be in fuel poverty once the April 2022 price cap comes into effect. Throughout the crisis, our leadership team at OVO regularly met with the UK Government, Ofgem and our charity partners to help manage the immediate issues and create solutions that work in the long term.

To help our customers receive the answers they need immediately, we created a comprehensive guide and FAQ section on our websites. We also launched our Payment Support Product, the industry's first Open Banking digital tool, enabling members looking for support to quickly access a detailed, accurate picture of their affordability and help find a solution tailored personally to suit their current circumstances. The launch has already seen an 80% completion rate for customers taking advantage of a payment plan.

We hosted a roundtable with consumer groups and charities to discuss ways to support households through the energy crisis. One of the outcomes of the roundtable was OVO agreeing to provide a package of support to StepChange worth £2 million. The package included setting up a dedicated team of advisors to be seconded to StepChange from OVO, and the licensing of our Payment Support platform to help support the charity's aspiration to digitise and improve affordability processes and maximise efficiency. While we already work closely with StepChange, we know that helping direct our customers to their services and providing the donation is vital. It's critical we provide more support to the charities helping people get the advice they need.

Over the past year we've continually pushed for environmental levies and social costs to be taken off energy bills and placed into general taxation, delivering an immediate reduction to help solve the inequality of the poorest and richest households paying the same amount. We also engaged with the UK Government on the design and implementation of the £400 rebate for customers announced by the Chancellor. Given the scale of gas price increases, we recommended intervention will need to be targeted at those who most need it, providing direct support until prices eventually come down. Our focus as an industry should be on supporting the most vulnerable during the energy crisis.

As a business we continue to engage with parliamentarians, charities, Ofgem and the wider industry to ensure we have a long term plan in place for the retail energy market. The industry needs to be prepared for extreme volatility to become commonplace and focus on accelerating the transition towards a cleaner, greener and more sustainable energy system for the UK.

Approved by the Board on 23 June 2022 and signed on its behalf by:

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Vincent Casey
Director

Directors' Report for the Year Ended 31 December 2021

The Directors present their report and the audited financial statements for the year ended 31 December 2021.

Directors of the Company

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

Stephen Fitzpatrick (resigned 18 January 2021)

Stephen Murphy - Chairman (resigned 18 January 2021)

Niall Wass (resigned 12 January 2021)

Vincent Casey

Adrian Letts (resigned 1 March 2022)

Raman Bhatia (appointed 18 January 2021)

Ben Blake (appointed 18 January 2021 and resigned 30 November 2021)

William Castell (appointed 18 January 2021 and resigned 10 January 2022)

Principal activities

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

Dividends

The Directors do not propose a dividend for the year (2020: 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. Financial risk management objectives and policies are established and maintained at the OVO Group level.

Charitable donations

During the year, the Company made charitable donations of £730,000 (2020: £648,000).

	£
The OVO Charitable Foundation	730,000

Employee engagement

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

Other stakeholder engagement

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

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

Future developments
The Directors believe that the Company remains well positioned in the market place with a differentiated offer. For further information, visit our website:

OVO Energy Official: www.ovoenergylimited.co.uk

Going concern
The Company made a profit for the period ending 31 December 2021 and has net liabilities. The financial statements have been prepared on a going concern basis.

The Company relies on the continued financial support of the parent company OVO Group Ltd and the continued trading with other companies within the same Group. The Directors have received confirmation that OVO Group Ltd intends to support the Company for at least one year after these financial statements were signed.

The Group has sufficient liquidity over the full going concern period under both its base case and stress-tested forecast. However, as a result of the key uncertainties including short term volatility in wholesale commodity prices, the impact of the UK cost of living crisis and the UK regulatory environment, the Group is forecasting that it will breach certain of its financial covenants within the next 12 months. Breach of these covenants would allow counterparties, if they so decide, to request additional collateral. The counterparty may terminate the contract if appropriate additional collateral is not provided, if requested, within a timely manner. If this were to happen, the Group may not be able to secure an alternative counterparty to facilitate continued trading on a sustainable basis.

The Directors consider that it is appropriate to adopt the going concern basis in preparing the financial statements on the basis of the continued financial support of the parent company. However, the Directors have also concluded that the circumstances surrounding the Group represent a material uncertainty that may cast significant doubt on the Group's and therefore, the Company's ability to continue as a going concern.

The financial statements do not include any adjustments that would result if the Company was unable to continue as a going concern should the assumptions referred to above prove not to be correct.

Subsequent events since the end of the year ended 31 December 2021
Details of subsequent events since the end of the year ended 31 December 2021 are disclosed in the Strategic Report.

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

Disclosure of information to the auditors

Each Director has taken steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information. The Directors confirm that there is no relevant information that they know of and of which they know the auditors are unaware.

Streamlined Energy and Carbon Reporting Framework Regulations

Disclosures in relation to the Streamlined Energy and Carbon Reporting Framework Regulations are included in the group financial statements of OVO Finance Ltd which is the immediate parent entity of the Company.

Statement of Directors' responsibilities

The Directors acknowledge their responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework' (FRS 101). 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 apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether FRS 101 has been followed, subject to any material departures disclosed and explained in the financial statements; 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 Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approved by the Board on 23 June 2022 and signed on its behalf by:

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Vincent Casey
Director

pwc

Independent auditors' report to the members of OVO Energy Ltd

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2021; the statement of comprehensive income and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Material uncertainty related to going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 2 to the financial statements concerning the company's ability to continue as a going concern. The company relies on the continued financial support of the parent company OVO Group Ltd and the continued trading with other companies within the same group. The group is exposed to short term volatility in wholesale commodity prices and credit losses caused by the UK cost of living crisis and are limited by the UK regulatory environment in the way they can react to such matters. The group is forecasting to breach financial covenants with trading creditors under the base case and the downside case scenarios which could allow the counterparties to terminate such arrangements or request additional collateral. If this were to happen, the group may not be able to secure an alternative counterparty to facilitate continued trading on a sustainable basis. These conditions, along with the other matters explained in note 2 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company were unable to continue as a going concern.

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

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

Reporting on other information

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

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

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

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

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

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

KE Finn

Katharine Finn (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
23 June 2022

OVO Energy Ltd

Statement of Comprehensive Income for the Year Ended 31 December 2021

	Note	Underlying 2021 £ m	Exceptional 2021* £ m	Total 2021 £ m	Underlying 2020 £ m	Exceptional 2020* £ m	Total 2020 £ m
Turnover	4	960	-	960	932	-	932
Cost of sales		(858)	(3)	(861)	(884)	-	(884)
Gross profit		102	(3)	99	48	-	48
Administrative expenses		(155)	(17)	(172)	(122)	(28)	(150)
Net impairment gains/(losses) of financial assets - debtors	5	11	-	11	(137)	-	(137)
Re-measurement of derivative energy contracts	28	-	429	429	-	-	-
Other operating income	6	-	-	-	1	-	1
Operating profit/(loss)	7	(42)	409	367	(210)	(28)	(238)
Interest receivable and similar income	9	4	-	4	1	-	1
Interest payable and similar expenses	10	(55)	-	(55)	(55)	-	(55)
Profit/(loss) before tax		(93)	409	316	(264)	(28)	(292)
Tax on profit/(loss)	14	40	(77)	(37)	36	1	37
Profit/(loss) for the financial year		(53)	332	279	(228)	(27)	(255)
Total comprehensive income/(expense)		(53)	332	279	(228)	(27)	(255)

The above results were derived from continuing operations.

*Refer to Note 8 for details of current year and prior year exceptional items.

OVO Energy Ltd

(Registration number: 06890795)
Balance Sheet as at 31 December 2021

	Note	31 December 2021 £ m	31 December 2020 £ m
Fixed assets			
Intangible assets	15	20	16
Tangible assets	16	4	3
Right-of-use assets	17	12	14
Investments	18	428	428
		464	461
Current assets			
Debtors	20	897	798
Cash at bank and in hand	21	40	35
		937	833
Creditors: Amounts falling due within one year	22	(1,427)	(1,718)
Net current liabilities		(490)	(885)
Total assets less current liabilities		(26)	(424)
Creditors: Amounts falling due after more than one year	23	(52)	(16)
Provisions for liabilities	25	(86)	(3)
Net liabilities		(164)	(443)
Capital and reserves			
Called up share capital	26	-	-
Other reserves		2	2
Profit and loss account		(166)	(445)
Total shareholders' deficit		(164)	(443)

The financial statements on pages 15 to 55 were approved by the Board of Directors on 23 June 2022 and signed on its behalf by:

Vincent Casey
Director

OVO Energy Ltd

Statement of Changes in Equity for the Year Ended 31 December 2021

	Other reserves £ m	Accumulated losses £ m	Total £ m
At 1 January 2020	2	(190)	(188)
Loss for the year	-	(255)	(255)
Total comprehensive expense	-	(255)	(255)
At 31 December 2020	2	(445)	(443)

	Other reserves £ m	Accumulated losses £ m	Total £ m
At 1 January 2021	2	(445)	(443)
Profit for the year	-	279	279
Total comprehensive income	-	279	279
At 31 December 2021	2	(166)	(164)

The notes on pages 18 to 55 form an integral part of these financial statements.

1 General information

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

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

These financial statements were authorised for issue by the Board on 23 June 2022.

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
These financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101) and the Companies Act 2006 as applicable to companies using FRS 101. In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the UK (UK-adopted international accounting standards), but makes amendments where necessary in order to comply with the Companies Act 2006 and to take advantage of FRS 101 disclosure exemptions.

On 31 December 2020, EU-adopted IFRS was brought into UK law and became UK-adopted international accounting standards, with future changes to IFRS being subject to endorsement by the UK Endorsement Board. In preparing these financial statements in accordance with FRS 101, the Company Financial Statements transitioned to UK-adopted international accounting standards (as described above) on 1 January 2021. There is no impact on recognition, measurement or disclosure in the year reported as a result of this change.

The financial statements have been prepared under the historical cost convention, except for derivative financial instruments which have been measured at fair value.

OVO Finance Ltd is the smallest group of undertakings for which group financial statements are drawn up and of which the Company is a member. The consolidated financial statements of OVO Finance Ltd which include the Company are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from 1 Rivergate, Temple Quay, Bristol, England, BS1 6ED.

2 Accounting policies (continued)

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

• A cash flow statement and related notes;
• Comparative period reconciliations for tangible and intangible fixed assets;
• The effect of new, but not yet effective, IFRSs;
• Disclosures in respect of the compensation of key management personnel;
• Disclosures in respect of capital management; and
• Related party disclosures.

As the consolidated financial statements of OVO Finance Ltd include the equivalent disclosures, the Company has also taken advantage of the exemptions, under FRS 101, available in respect of the following disclosures:

Certain disclosures required by IFRS 13 Fair value measurement and the disclosures required by IFRS 7 Financial instruments disclosures; and
The requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all years presented in the financial statements.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are discussed in Note 3.

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

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

2 Accounting policies (continued)

Going concern

The Company made a profit for the period ending 31 December 2021 and has net liabilities. The financial statements have been prepared on a going concern basis.

The Company relies on the continued financial support of the parent company OVO Group Ltd and the continued trading with other companies within the same Group. The Directors have received confirmation that OVO Group Ltd intends to support the Company for at least one year after these financial statements were signed.

The Group has sufficient liquidity over the full going concern period under both its base case and stress-tested forecast. However, as a result of the key uncertainties including short term volatility in wholesale commodity prices, the impact of the UK cost of living crisis and the UK regulatory environment, the Group is forecasting that it will breach certain of its financial covenants within the next 12 months. Breach of these covenants would allow counterparties, if they so decide, to request additional collateral. The counterparty may terminate the contract if appropriate additional collateral is not provided, if requested, within a timely manner. If this were to happen, the Group may not be able to secure an alternative counterparty to facilitate continued trading on a sustainable basis.

The Directors consider that it is appropriate to adopt the going concern basis in preparing the financial statements on the basis of the continued financial support of the parent company. However, the Directors have also concluded that the circumstances surrounding the Group represent a material uncertainty that may cast significant doubt on the Group's and therefore, the Company's ability to continue as a going concern.

The financial statements do not include any adjustments that would result if the Company was unable to continue as a going concern should the assumptions referred to above prove not to be correct.

2 Accounting policies (continued)

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

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

Changes in accounting policy
New and amended standards adopted by the Company
The Company has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2021:

• Covid-19-Related Rent Concessions - amendments to IFRS 16, and
• Interest Rate Benchmark Reform - Phase 2 - amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.

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

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

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

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

2 Accounting policies (continued)

Revenue recognition (continued)

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

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

Transaction price

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

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

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

Accrued income and debtors

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

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

Deferred income

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

Net basis of measurement of contract balances

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

2 Accounting policies (continued)

Revenue recognition (continued)

Capitalisation of costs to obtain or fulfil a contract

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

Exceptional items

Exceptional items are those expenses or credits that are deemed unusual by nature and/or scale and of such significance that separate disclosure is required for the financial statements to be properly understood. Exceptional items include fair value gain/(loss) on derivative financial instruments.

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

Interest income and expense

Interest income and interest expense is recognised in profit or loss as it accrues, using the effective interest method.

Tax

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

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

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

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

2 Accounting policies (continued)

Tangible assets
Property, plant and equipment is stated in the balance sheet 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 over their estimated useful lives as follows:

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

Intangible assets
a) Trademarks and industry accreditation

Separately acquired trademarks and licenses are shown at historical cost. Trademarks and licenses have a indefinite useful life and are carried at cost less accumulated impairment losses.

b) Internally generated software development costs

Internally generated software development costs include the costs of developing the Company's customer service platform.

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.

Internally generated software development costs recognised as assets are amortised using the straight-line method once the software development is complete and has been implemented. Their estimated useful lives do not exceed three years.

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

2 Accounting policies (continued)

Intangible assets (continued)

c) Contractual customer relationships

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

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

Amortisation

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

Asset class	Amortisation method and rate
Internally generated software development costs	3 years straight line
Trademarks and industry accreditation	Indefinite life
Contractual customer relationships	5 years straight line

Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash flows (cash-generating units). Prior impairments of non-financial assets are reviewed for possible reversal at each reporting date.

Investments

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

Cash at bank and in hand

Cash at bank and in hand 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 debtors

Trade debtors are predominantly amounts due from customers for the sale of electricity and gas or other services performed in the ordinary course of the Company's business. Trade debtors are classified as current assets.

Trade debtors do not carry any interest and are held at transaction price less an appropriate impairment recognised where the loss is probable. The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected credit loss allowance for all trade debtors and accrued income. Further detail on this model and application within these financial statements can be found within Note 3.

Deferred income

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

2 Accounting policies (continued)

Stocks

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 Company surrenders additional ROCs to demonstrate its environmental credentials transparently. The accounting policy distinguishes between the cost of the Company'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 profit or loss for the year to which the charge relates as a reduction in gross margin. Gains or losses on disposal of ROCs are included in profit or loss 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 (FIFO) principle.

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

Trade creditors

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade creditors are classified as amounts falling due within one year 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 amounts falling due after more than one year.

Trade creditors 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 profit or loss over the period of the relevant borrowing.

Interest expense is recognised on the basis of the effective interest method and is included in interest payable and similar charges. Borrowings are classified as amounts falling due within one year unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

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

Provisions

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

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

2 Accounting policies (continued)

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

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

At the end of each reporting period, the Company revises their estimates of the number of equity instruments that are expected to vest based on the non-market vesting conditions. The impact of the revision to original estimates, if any, is recognised in profit or loss, with a corresponding adjustment to equity.

Leases

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

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

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

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

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

2 Accounting policies (continued)

Leases (continued)

Subsequent measurement
After the commencement date, the Company measures the lease liability by:

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

Interest on the lease liability in each period during the lease term is the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability. Interest charges are included in interest payable and similar charges in the profit and loss account, unless the costs are included in the carrying amount of another asset applying other applicable standards. Variable lease payments not included in the measurement of the lease liability, are included in operating expenses in the period in which the event or condition that triggers them arises.

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

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

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

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

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

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

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

2 Accounting policies (continued)

Leases (continued)

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

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

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

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

Financial instruments

Initial recognition
The Company recognises financial assets and financial liabilities in the balance sheet when, and only when, the Company becomes party to the contractual provisions of the financial instrument.

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

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

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

2 Accounting policies (continued)

Financial instruments (continued)

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

Financial assets are classified into one of the following three categories:
· financial assets at amortised cost;
· financial assets at fair value through other comprehensive income (FVTOCI); or
· financial assets at fair value through the profit or loss (FVTPL).

Financial liabilities are classified into one of the following two categories:
· financial liabilities at amortised cost; or
· financial liabilities at fair value through the profit or loss (FVTPL).

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

As at 31 December 2021, the Company had no financial assets measured at FVOCI.

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

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

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

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

Financial assets at fair value through the profit or loss (FVTPL)
Financial assets not otherwise classified above are classified and measured as FVTPL.

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

Financial liabilities at fair value through the profit or loss
Financial liabilities not measured at amortised cost are classified and measured at FVTPL. This classification includes derivative liabilities.

2 Accounting policies (continued)

Commodity derivatives

Within its regular course of business, the Company routinely enters into sale and purchase derivative contracts for electricity and gas. Where the contract was entered into and continues to be held for the purpose of receipt or delivery in accordance with the Company's expected sale, purchase or usage requirements, the contracts are designated as "own use" contracts and are measured at cost. These contracts are not within the scope of IFRS 9.

Derivative commodity contracts which are not designated as own use contracts are accounted for as trading derivatives and are recognised in the balance sheet at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

Defined contribution pension obligation

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

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

Employee benefits

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

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

3 Critical accounting judgements and key sources of estimation uncertainty

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

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

Revenue recognition - energy supplied but not yet measured (estimation uncertainty)
Revenue from energy supplied to OVO customers includes an estimate of the value of electricity or gas supplied to customers between the date of the latest meter reading and the financial year end.

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

A change in the assumptions underpinning the calculation would have an impact on the amount of revenue recognised in any given period. This estimate is subject to an internal validation process which compares calculated unbilled volumes to a theoretical real-time billing benchmark measure of unbilled volumes with reference to historical consumption patterns adjusted for seasonality/weather and aggregated metering data used in industry reconciliation processes. At 31 December 2021 revenue arising from estimated consumption amounted to £241m (2020: £235m). The judgements applied, and the assumptions underpinning these judgements in arriving at this estimated amount, are considered to be appropriate. However, a change in these assumptions would have an impact on the amount of revenue recognised. A 1% change in the overall assumptions made in reaching this estimate would impact the amount of revenue recognised by approximately £2m (2020: £2m).

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

The assumption that future performance of customer debt settlement will be a reflective of past performance is the most significant assumption within the expected credit loss provisioning model. To address this risk, the Company reviews the provision rates for each segment on a regular basis to ensure they include the most up to date assumptions and use forward looking information. In order to test the sensitivity of the impairment of the Company's trade debtors balance, the Company has considered the impact of an additional ageing of trade debtors which requires an extra 0.5% of Revenue being provided for. This would lead to a £2m increase in the expected credit loss provision in 2021 (2020: £1m).

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

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

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

Having assessed the level of profits made by the Company since the year end and forecasts of revenue and costs for the coming years, the Directors believe it is probable that the Company will generate sustainable profits and therefore a deferred tax asset has been recognised. Deferred tax assets in respect of tax losses are expected to reverse over the next 6 to 8 years (2020: 6 to 8 years).

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

Derivative financial instruments (accounting judgement)
Within its regular course of business, the Company routinely enters into sale and purchase derivative contracts for electricity and gas. Where the contract was entered into and continues to be held for the purpose of receipt or delivery in accordance with the Company's expected sale, purchase or usage requirements, the contracts are designated as "own-use" contracts and are measured at cost. These contracts are not within the scope of IFRS 9.

The percentage of contracts that are deemed to meet own use criteria is considered to be an area of accounting judgement that significantly impacts the level of unrealised gains and losses on derivatives that are recognised in the financial statements.

Although the Company only enters into contracts based on expected volumes, the volumetric risk means that the Company often has to enter into offsetting sell trades to match actual demand. This constitutes net settling under IFRS 9 which requires such contracts to be treated as derivative financial instruments under IFRS 9 rather than falling within the "own use" exemption. The Company therefore designates its contracts as either "own use" or "trading" depending on the risk of them being net settled with only those contracts that are deemed to be highly probable of resulting in physical delivery being treated as own-use.

During the year the Company has re-assessed the volume threshold at which contracts are deemed to be highly probable of resulting in physical delivery which has led to a larger proportion of the contract book being designated as trading. At 31 December 2021, the Company has £429m derivative energy contracts that are not determined as own use contracts and are measured at fair value through profit or loss. In the prior year all contracts were assessed as own use and hence no asset or liability was recognised.

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

Onerous contract (accounting judgement)

The tariffs that the Company is able to charge customers are currently capped by Ofgem at a level that is below the market price that prevailed at year end. The Company has mitigated this exposure by entering into forward contracts for the purchase of energy, with some such contracts being separately recognised as a derivative financial asset at fair value, as discussed above. The Company has therefore assessed whether it is appropriate to recognise an onerous contract liability for customer supply agreements relative to market prices, excluding the benefit of the above hedging arrangements. After taking account of the expected lives of customer relationships and the methodology used by Ofgem to set price caps going forward, the Company has concluded that no onerous contracts exist.

4 Turnover

The analysis of the Company's turnover for the year from continuing operations is as follows:

	2021 £ m	2020 £ m
Sale of gas and electricity	932	909
Installation of smart meters	25	20
Other revenue	3	3
	960	932

Other revenue relates to Smart Home solutions of £3m (2020: payments received from customers to secure green energy of £2m and Smart Home solutions of £1m).

4 Turnover (continued)

Assets and liabilities related to contracts with customers

The Company has recognised the following assets and liabilities related to contracts with customers:

	31 December 2021 £ m	31 December 2020 £ m	1 January 2020 £ m
Contract assets			
Trade debtors	111	83	63
Accrued income	86	49	51
Provision for impairment of trade debtors and accrued income	(117)	(96)	(63)
Total contract assets	80	36	51
Contract liabilities			
Deferred income	(145)	(98)	(81)
Total contract liabilities	(145)	(98)	(81)

Both accrued income and deferred income have increased in the year due to increase in tariffs as a result of changes in price cap.

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

5 Net impairment gains/(losses) of financial assets

The analysis of the Company's net impairment gains/(losses) of financial assets for the year is as follows:

	2021 £ m	2020 £ m
Impairment losses of trade debtors and accrued income	(29)	(137)
Reversal of previous impairment losses	40	-
Net impairment gains/(losses) of financial assets	11	(137)

Impairment losses of £92m were recognised on amounts owed by group undertakings in 2020 of which £40m was reversed in 2021.

6 Other operating income

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

	2021 £ m	2020 £ m
Research and development tax credit	-	1

7 Operating profit/(loss)

Arrived at after (crediting)/charging

	2021 £ m	2020 £ m
Net impairment (gains)/losses on financial assets	(11)	137
Depreciation expense - tangible assets	2	2
Depreciation expense - right-of-use assets	2	2
Amortisation expense - intangible assets	5	5

8 Exceptional items

	2021 £ m	2020 £ m
Integration	13	5
Group reorganisation	4	1
Industry and regulatory	3	-
Mergers and acquisitions	-	22
Fair value gains on derivatives	(429)	-
Exceptional included within operating profit/(loss)	(409)	28
Exceptional included within profit/(loss) before tax	(409)	28
Net taxation on exceptional items	77	(1)

Integration

The OVO Group continued to engage in activities to integrate SSE operations and systems into OVO throughout 2021. Costs within integration are primarily associated with technologies and staff personnel supporting customer migration and technology integration.

Group reorganisation

The OVO Group continued its restructuring programme throughout the year which was initiated following the acquisition of SSE Energy Services Group Limited (SSE) in 2020. Group reorganisation is part of a wider cost efficiency initiative which consists of the rationalisation of the OVO Group's property portfolio, employee rewards as well as other transformational activities. These activities were initiated as part of wider cost efficiency programme as a result of SSE acquisition.

Group reorganisation and integration are part of a group wide programme which was initiated as a result of the SSE acquisition and is therefore considered non-recurring after the programme is complete. These costs will cross more than one accounting period as programme spans over more than a year.

8 Exceptional items (continued)

Industry & Regulatory
The wholesale energy market is currently experiencing extremely high and volatile prices which has seen various energy suppliers collapsed in 2021. As a result, the Company has incurred incremental costs in relation to incurred industry and regulatory costs.

Mergers & acquisitions
These consist of professional fees relating to mergers and acquisitions activity.

Fair value gains on derivatives
In the current year, the Company assessed certain energy contracts as held for trading. Energy contracts that are not designated as own use contracts constitute financial instruments under IFRS 9 and are carried at fair value through profit or loss. In the prior year, all contracts were assessed as own use and were out of scope of IFRS 9.

Income statement classification
Recognised in cost of sales are £3m exceptional industry and regulatory costs (2020: £nil). £429m fair value gains on derivatives are recognised in fair value gains on derivatives (2020: £nil). The remaining total of £17m exceptional costs are recognised in administrative expenses (2020: £28m).

Adjusted EBITDA

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

Adjusted EBITDA is a non-GAAP measure and is not defined by IFRS. The presentation of alternative performance measures is a judgment and policy choice made by management and therefore, not comparable.

Adjusted EBITDA is defined as operating profit/(loss), after adjusting for depreciation and amortisation, fair value gains on derivatives and items that are deemed unusual in nature and of significance.

A reconciliation of the adjusted performance measure to operating profit/(loss) is shown below.

	2021 £ m	2020 £ m
Operating profit/(loss)	367	(238)
Exceptional items	(409)	28
Depreciation and impairment of tangible assets and right-of-use assets	4	4
Amortisation and impairment of intangible assets	5	5
Adjusted EBITDA	(33)	(201)

9 Interest receivable and similar income

	2021 £ m	2020 £ m
Interest on amounts owed by group undertakings	4	1

10 Interest payable and similar expenses

	2021 £ m	2020 £ m
Interest on bank overdrafts and borrowings	1	1
Interest on amounts due to group undertakings	53	53
Interest expense on leases	1	1
Total interest payable and similar expenses	55	55

11 Staff costs

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

	2021 £ m	Restated 2020 £ m
Wages and salaries	62	43
Social security costs	7	4
Other pension costs	2	2
	71	49

Payroll costs of £4m have been capitalised in the current year (2020: £nil). Prior year payroll costs have been restated in the current year as certain costs were incorrectly included and excluded from the disclosure.

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

	2021 No.	Restated 2020 No.
People & operations	711	743
Technology & business change	243	190
Commercial & finance	235	127
Group	25	22
	1,214	1,082

11 Staff costs (continued)

Prior year employee numbers have been restated in the current year as the numbers incorrectly included persons under contracts for services. The categories of employees in the prior year have also been restated to better reflect how management regards company activities are organised.

12 Directors' remuneration

The Directors' remuneration for the year is as follows:

	2021 £ 000	2020 £ 000
Directors' remuneration	2,436	1,308
Company contributions to defined contribution pension schemes	101	51
Compensation for loss of office	475	-
	3,012	1,359

The highest paid Director in the year received remuneration as follows:

	2021 £ 000	2020 £ 000
Directors' remuneration	629	313
Company contributions to defined contribution pension schemes	15	14
	644	327

During the year, retirement benefits were accruing to 5 Directors (2020: 5) in respect of defined contribution pension schemes.

The number of Directors in respect of whose qualifying services shares were received or receivable under long-term incentive schemes is 7 (2020: 4). Shares were received or receivable in the year by the highest-paid director in respect of qualifying services under the Company's long-term incentive scheme (2020: no shares).

The above value includes one of the Directors who was remunerated via another OVO group company in the prior year until 30 June 2020. The Director's compensation was paid by OVO Group Ltd, which made no recharge to the entity.

The Directors are additionally Directors of the parent entity and a number of fellow subsidiaries, and it is not possible to make a reasonable apportionment of their compensation in respect of each of the parent companies and subsidiaries.

13 Auditors' remuneration

	2021 £ 000	2020 £ 000
Audit of Company	150	100
Audit of subsidiaries	310	290
	460	390

OVO Finance Ltd, in which the Company is consolidated, are required to disclose the fees for non-audit services on a consolidated basis and therefore, the Company has taken advantage of the exemption not to disclose amounts paid for non-audit services.

14 Tax on profit/(loss)

Tax charged/(credited) in profit or loss:

	2021 £ m	2020 £ m
Current taxation		
UK corporation tax	(29)	-
Deferred taxation		
Arising from origination and reversal of temporary differences	82	(33)
Arising from changes in tax rates and laws	(16)	(2)
Adjustments in respect of prior periods	-	(2)
Total deferred taxation	66	(37)
Tax charged/(credited) in profit or loss	37	(37)

The tax on profit for the year is lower than the standard rate of corporation tax in the UK (2020: The tax on loss for the year is lower than the standard rate of corporation tax in the UK) of 19% (2020: 19%).

The differences are reconciled below:

	2021 £ m	2020 £ m
Profit/(loss) before tax	316	(292)
Corporation tax at standard rate	60	(55)
Adjustments in respect of prior periods	-	(2)
Decrease from effect of revenues exempt from taxation	(7)	-
Increase from effect of expenses not deductible in determining tax loss	-	22
Deferred tax credit relating to changes in tax rates or laws	(16)	(2)
Total tax charge/(credit)	37	(37)

14 Tax on profit/(loss) (continued)

Deferred tax

Deferred tax assets and liabilities

31 December 2021	**Asset £ m**	**Liability £ m**	**Net deferred tax £ m**
Tax losses carry-forwards	54	-	54
Accelerated tax depreciation	1	-	1
Restricted interest deductions carried forward	14	-	14
Revaluation of intangible assets	-	(2)	(2)
Derivatives	-	(82)	(82)
	69	(84)	(15)

31 December 2020	**Asset £ m**	**Liability £ m**	**Net deferred tax £ m**
Tax losses carry-forwards	39	-	39
Accelerated tax depreciation	1	-	1
Restricted interest deductions carried forward	13	-	13
Revaluation of intangible assets	-	(2)	(2)
Derivatives	-	-	-
	53	(2)	51

14 Tax on profit/(loss) (continued)

Deferred tax movement during the year:

	At 1 January 2021 £ m	Recognised in income £ m	At 31 December 2021 £ m
Tax losses carry-forwards	39	15	54
Accelerated tax depreciation	1	-	1
Restricted interest deductions carried forward	13	1	14
Revaluation of intangible assets	(2)	-	(2)
Derivatives	-	(82)	(82)
Net tax assets/(liabilities)	51	(66)	(15)

Deferred tax movement during the prior year:

	At 1 January 2020 £ m	Recognised in income £ m	At 31 December 2020 £ m
Tax losses carry-forwards	16	23	39
Accelerated tax depreciation	1	-	1
Restricted interest deductions carried forward	-	13	13
Revaluation of intangible assets	(3)	1	(2)
Derivatives	-	-	-
Net tax assets/(liabilities)	14	37	51

Deferred tax assets have been recognised in respect of carried forward tax losses on the basis that there will be future profits available against which to offset them. There are no time limits on the recovery of such losses. Refer to Note 3, critical accounting judgements, for further discussion on the basis for recognition of deferred tax assets.

Deferred tax of £19m (2020: £14m) has not been recognised in relation to an element of tax losses for which it not considered probable that the losses will be utilised based on assessment of available evidence.

The change to the main UK corporation tax rate to 25% announced in the 2021 Finance Bill was substantively enacted on 24 May 2021 . The rate effective from 1 April 2023 is now 25% increased from the current rate of 19%. Deferred tax assets and liabilities have been remeasured based on the applicable tax rate in the period that the balances are expected to be realised. The impact of this remeasurement in the period is a tax credit of £16m.

15 Intangible assets

	Contractual customer relationships £ m	Internally generated software development costs £ m	Total £ m
Cost or valuation			
At 1 January 2020	22	21	43
At 31 December 2020	22	21	43
At 1 January 2021	22	21	43
Additions	-	6	6
Acquired on corporate restructuring	-	5	5
At 31 December 2021	22	32	54
Accumulated amortisation			
At 1 January 2020	4	18	22
Amortisation charge	4	1	5
At 31 December 2020	8	19	27
At 1 January 2021	8	19	27
Amortisation charge	5	-	5
Acquired on corporate restructuring	-	2	2
At 31 December 2021	13	21	34
Carrying amount			
At 31 December 2021	9	11	20
At 31 December 2020	14	2	16

Amortisation charge of £5m (2020: £5m) is recognised in administrative expenses.

Included within the carrying amount of internally generated software development costs of £11m (2020: £2m) are intangible assets under construction of £6m (2020: £nil), which are not subject to amortisation.

16 Tangible assets

	Leasehold property £ m	Fixtures and fittings £ m	Office equipment £ m	Total £ m
Cost or valuation				
At 1 January 2020	9	2	4	15
Additions	-	-	3	3
Disposals	-	-	(2)	(2)
At 31 December 2020	9	2	5	16
At 1 January 2021	9	2	5	16
Additions	-	-	3	3
Acquired on corporate restructuring	-	1	1	2
At 31 December 2021	9	3	9	21
Accumulated depreciation				
At 1 January 2020	7	1	3	11
Charge for the year	1	-	1	2
At 31 December 2020	8	1	4	13
At 1 January 2021	8	1	4	13
Charge for the year	-	1	1	2
Acquired on corporate restructuring	-	1	1	2
At 31 December 2021	8	3	6	17
Carrying amount				
At 31 December 2021	1	-	3	4
At 31 December 2020	1	1	1	3

The depreciation charge of £2m (2020: £2m) is recognised in administrative expenses.

17 Right-of-use assets

	Property £ m	Total £ m
Cost or valuation		
At 1 January 2020	16	16
Modifications	2	2
At 31 December 2020	18	18
At 1 January 2021	18	18
At 31 December 2021	18	18
Accumulated depreciation		
At 1 January 2020	2	2
Charge for the year	2	2
At 31 December 2020	4	4
At 1 January 2021	4	4
Charge for the year	2	2
At 31 December 2021	6	6
Carrying amount		
At 31 December 2021	12	12
At 31 December 2020	14	14

18 Investments

Subsidiaries	£ m
Cost or valuation	
At 1 January 2020	-
Additions	428
At 31 December 2020	428
At 1 January 2021	428
At 31 December 2021	428
Carrying amount	
At 31 December 2021	428
At 31 December 2020	428

Additions in the prior year related to the acquisition of SSE Energy Services Group Limited. Refer to further details in Note 19 Acquisitions.

18 Investments (continued)

Details of the subsidiaries as at 31 December 2021 and 31 December 2020 are as follows:

Name of subsidiary	Principal activity	Registered office / Country of incorporation	Proportion of ownership interest and voting rights held at 31 December 2021	2020
OVO Electricity Ltd*	Sale of services associated with the supply of electricity to other OVO group companies	1 Rivergate, Temple Quay, Bristol, England, BS1 6ED UK	100%	100%
OVO Gas Ltd*	Sale of services associated with the supply of gas to other OVO group companies	1 Rivergate, Temple Quay, Bristol, England, BS1 6ED UK	100%	100%
Spark Energy Limited*	Sale of electricity and gas to customers in the UK	Grampian House, 200 Dunkeld Road, Perth, Scotland, PH1 3GH UK	100%	100%
Spark Gas Shipping Ltd*	Supply of gas and related services in the UK	1 Rivergate, Temple Quay, Bristol, England, BS1 6ED UK	100%	100%
Kaluza Ltd*	Development of intelligent energy platform	140-142 Kensington Church Street, London, England, W8 4BN UK	100%	100%
OVO (S) Energy Services Limited*	Intermediate holding company	1 Rivergate Temple Quay, Bristol, England, BS1 6ED UK	100%	100%
OVO (S) Electricity Limited	Supply of electricity to domestic customers in the UK	1 Rivergate Temple Quay, Bristol, England, BS1 6ED UK	100%	100%
OVO (S) Gas Limited	Licensed marketing and sale of natural gas to domestic customers in the UK	1 Rivergate Temple Quay, Bristol, England, BS1 6ED UK	100%	100%
OVO (S) Energy Solutions Limited	Installation of energy efficiency measures in domestic properties	Grampian House, 200 Dunkeld Road, Perth, Scotland, PH1 3GH UK	100%	100%

18 Investments (continued)

Name of subsidiary	Principal activity	Registered office / Country of incorporation	Proportion of ownership interest and voting rights held at 31 December 2021	2020
OVO (S) Home Services Limited	Sale of boiler, central heating and electrical wiring services, breakdown cover and installation services	Grampian House, 200 Dunkeld Road, Perth, Scotland, PH1 3GH UK	100%	100%
OVO (S) Metering Limited	Meter reading operations and meter operator work throughout the UK	Grampian House, 200 Dunkeld Road, Perth, Scotland, PH1 3GH UK	100%	100%
OVO (S) Retail Telecoms Limited	Sale of telephone and broadband connectivity and associated services to consumers in the UK	1 Rivergate Temple Quay, Bristol, England, BS1 6ED UK	100%	100%

* indicates direct investment of the Company.

Ownership interest in all subsidiaries is based on ordinary shares held.

19 Acquisitions

Acquisition of trade and assets of Spark Energy Limited

On 29 October 2021, the Company acquired the trade and assets of Spark Energy Limited (Spark), a subsidiary of the Company. The principal activity of Spark is the sale of electricity and gas to customers in the UK. The acquisition is part of an internal reorganisation of the group headed by OVO Group Ltd. The consideration was satisfied by the discharging of amounts owed by Spark. Assets were transferred at cost.

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

	31 December 2021 £ m
Assets and liabilities acquired	
Intangible assets	3
Trade and other debtors	32
Income tax asset	8
Trade and other creditors	(4)
Total net identifiable assets acquired	39
Total consideration	39

Prior year acquisition of SSE Energy Services Group Limited

On 15 January 2020, OVO Energy Ltd acquired 100% of the issued share capital in SSE Energy Services Group Limited for a net consideration of £407.0m. A further £20.8m investment relates to capital contribution in SSE Energy Services Group Limited in the year. The principal activity of SSE Energy Services Group Limited and its subsidiaries is the supply of domestic energy and energy-related services in the UK. SSE Energy Services Group Limited was acquired to increase OVO group's market share and reduce costs through economies of scale.

20 Debtors

	31 December 2021 £ m	31 December 2020 £ m
Trade debtors and accrued income	197	132
Provision for impairment of trade debtors and accrued income	(117)	(96)
Net trade debtors and accrued income	80	36
Amounts owed by group undertakings	128	658
Prepayments	73	10
Other debtors	40	41
Income tax asset	41	2
Deferred tax assets	67	51
Derivative financial assets	468	-
	897	798

Amounts owed by group undertakings are unsecured, have no fixed date of repayment and are repayable on demand. Interest is incurred at either 7% or 8.55% on interest bearing balances unless otherwise disclosed.

In the current year, the Company assessed certain energy contracts as held for trading. Energy contracts that are not designated as own use contracts constitute financial instruments under IFRS 9 and are carried at fair value through profit or loss. In the prior year, all contracts were assessed as own use and were out of scope of IFRS 9. Refer to Note 28 for further details.

21 Cash at bank and in hand

	31 December 2021 £ m	31 December 2020 £ m
Cash at bank	40	35

22 Creditors: amounts falling due within one year

	31 December 2021 £ m	31 December 2020 £ m
Trade creditors	259	179
Accruals	409	370
Amounts owed to group undertakings	604	1,047
Social security and other taxes	2	2
Current lease liabilities	3	2
Other creditors	5	20
Deferred income	145	98
	1,427	1,718

22 Creditors: amounts falling due within one year (continued)

Amounts due to group undertakings are unsecured, have no fixed date of repayment and are repayable on demand. Included in amounts due to group undertakings are loans payable of £496m to OVO Finance Ltd, the immediate parent company of OVO Energy Ltd. The majority of the loans were provided to the Company to fund the acquisition of SSE Energy Services Group Limited. The loans carry an average interest rate of 11%. Interest is incurred at either 7% or 8.55% on other interest bearing balances.

The Shell commodity purchasing arrangement gives rise to a variable liability to Shell which is a combination of trade creditors and future purchase commitments secured on the cash and debtors of the Company. As at the year end there was no outstanding liability on the extended credit facility.

23 Creditors: amounts falling due after more than one year

	31 December 2021 £ m	31 December 2020 £ m
Non-current lease liabilities	13	16
Derivative financial liabilities	39	-
	52	16

24 Leases

Leases included in creditors

	31 December 2021 £ m	31 December 2020 £ m
Current lease liabilities	3	2
Non-current lease liabilities	13	16

Lease liabilities maturity analysis

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

	31 December 2021 £ m	31 December 2020 £ m
Less than one year	3	3
Between two and five years	12	13
Greater than five years	3	5
Total lease liabilities (undiscounted)	18	21

The Company leases various offices. The balance sheet amounts relating to leases are shown within Note 17 - Right-of-use assets.

The current year interest expense on lease liabilities (included in interest payable and similar expenses) was £1m (2020: £1m).

The total cash outflow for leases for the year ended 31 December 2021 was £3m (2020: £2m).

25 Provisions for liabilities

	Facility agreement exit fee provision £ m	Restructuring provision £ m	Deferred tax liabilities £ m	Dilapidation provisions £ m	Total £ m
At 1 January 2021	2	-	-	1	3
Additional provisions	-	1	82	1	84
Unused provision reversed	-	-	-	(1)	(1)
At 31 December 2021	2	1	82	1	86

Facility agreement exit fee provision
Upon the occurrence of an exit event for a fully repaid facility agreement, the Company is required to make an exit fee payment based on the enterprise value of the Company at the date of the event. The recognised provision reflects the Director's best estimate of the fair value of this fee at 31 December 2021.

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

Restructuring provision
Following the acquisition of SSE Energy Services Group Limited in 2020, OVO Group has initiated an integration programme which has resulted in the redundancy of a number of employees. The restructuring plan was announced to the employees of the affected group companies in May 2020. Restructuring costs currently provided for is expected to be fully utilised over the next 12 months.

Deferred tax liabilities
Refer to Note 14 for details of deferred tax liabilities.

26 Called up share capital

Allotted, called up and fully paid shares

	31 December 2021		31 December 2020	
	No.	£	No.	£
Ordinary share capital of £0.01 each	12,500	125.00	12,500	125.00

Rights, preferences and restrictions

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

27 Reserves

Called up share capital

The balance classified as share capital includes the total net proceeds on issue of the Company's equity share capital, comprising £0.01 ordinary shares.

Other reserves

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

28 Derivatives and financial instruments

Summary fair values
The fair values of the primary financial assets and liabilities together with their carrying values are as follows:

	31 December 2021 Carrying value £ m	31 December 2021 Fair value £ m	31 December 2020 Carrying value £ m	31 December 2020 Fair value £ m
Financial assets				
Derivative financial assets (Current)	468	468	-	-
Trade and other debtors	248	248	735	735
Cash at bank and in hand	40	40	35	35
Financial liabilities				
Derivative financial liabilities (Non-current)	(39)	(39)	-	-
Trade and other creditors	(1,422)	(1,422)	(1,714)	(1,714)
Lease liabilities (current)	(3)	(3)	(2)	(2)
Lease liabilities (non-current)	(13)	(13)	(16)	(16)

Basis of determining fair value
Financial assets and liabilities through profit or loss
Derivatives are measured at fair value through profit or loss. Derivatives are classified as Level 2 within the fair value hierarchy. The fair value measurements are those derived from inputs, other than quoted prices, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). Fair values have been determined with reference to closing market prices.

Financial assets at amortised cost
Financial assets at amortised cost consist of trade and other debtors and cash at bank and in hand. The fair value of financial assets is based on the expectation of recovery of balances. Impaired receivables mainly relate to customers from whom it is unlikely that full payment will ever be received. The primary inputs used to impair the receivable balances are not based on observable market data.

Financial liabilities at amortised cost
Financial liabilities at amortised cost consist of trade and other creditors and lease liabilities.

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

The fair value of lease liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

28 Derivatives and financial instruments (continued)

	2021 £ m	2020 £ m
Opening value of derivative financial assets	-	-
Movement recognised through profit or loss	429	-
Closing value of derivative financial assets (net of liabilities)	429	-

29 Pension and other schemes

The Company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the Company to the scheme and amounts to £2m (2020: £2m).

30 Share-based payments

Scheme description

In July 2014, OVO Group established a new employee share plan. Under the terms of the scheme, OVO Group awarded its own employees and employees of other group companies class B, C, D and E ordinary shares in OVO Group Ltd. As the Company is the employing company of the employees awarded shares, the Company recognised share-based payments expenses and share-based payment reserve.

B shares ('Employee Shareholder Scheme') are free shares awarded to employees in line with the UK government's employee shareholder status rules. B shares has a four year "rolling vesting" period, with a portion of the shares vesting annually, rather than all at the end of the scheme.

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

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

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

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

31 Contingent liabilities

The UK Government has set out a requirement for energy suppliers to take all reasonable steps to roll out smart meters to all of their domestic customers by 31 December 2021. From January 2022 all gas and electricity suppliers will have binding annual installation targets to roll out smart and advanced meters to their remaining non-smart customers by the end of 2025. Failure to achieve the annual installation targets will be a breach of a supplier's licence which could subject OVO to financial penalties imposed by Ofgem. OVO continues to install smart meters in all regions in line with regulations and has not recognised any contingent liability in regards to non-compliance with this requirement.

32 Related party transactions

In accordance with the exemption available under FRS 101, transactions with other wholly owned undertakings within OVO Group Ltd group have not been disclosed within these financial statements.

Transactions with parent entities

Imagination Industries Ltd
During the year, the Company incurred costs of £5m payable to Imagination Industries Ltd (2020: £5m). As at 31 December 2021, the Company owed £15m to Imagination Industries Ltd (2020: £4m).

Transactions with entities controlled by the same ultimate controlling party

Imagine Just 3 Things Ltd
During the year, the Company incurred costs of £65,000 payable to Imagine Just 3 Things Ltd (2020: £36,000). £9,000 was outstanding to Imagine Just 3 Things Ltd as at 31 December 2021 (2020: £nil).

Imagination Industries Incubator Ltd
During the year, the Company incurred costs of £11,000 payable to Imagination Industries Incubator Ltd (2020: £nil). No amounts were outstanding to Imagination Industries Incubator Ltd as at 31 December 2021 or 31 December 2020.

Transactions with associates

Indra Renewable Technologies Limited
During the year, the Company incurred costs of £5,000 payable to Indra Renewable Technologies Limited (2020: £1m). No amounts were outstanding to Indra Renewable Technologies Limited as at 31 December 2021 or 31 December 2020.

33 Parent and ultimate parent undertaking

The Company's immediate parent is OVO Finance Ltd.

The ultimate parent is Imagination Industries Ltd. These financial statements are available upon request from the registered office 9 Pembridge Road Notting Hill London W11 3JY.

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

The largest consolidated statements that incorporate OVO Energy Ltd are those of Imagination Industries Ltd, which are available upon request from the registered office 9 Pembridge Road Notting Hill London W11 3JY.

The ultimate controlling party is Stephen Fitzpatrick.

34 Subsequent events since the end of the year ended 31 December 2021

Details of subsequent events since the end of the year ended 31 December 2021 are disclosed in the Strategic Report.

For more information, visit OVO Energy's Official website: www.ovoenergylimited.co.uk