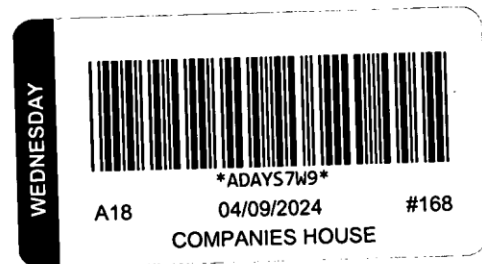


Registration number: 06890795

OVO Energy Ltd

Annual Report and Financial Statements

for the Year Ended 31 December 2023



OVO Energy Ltd

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OVO Energy Ltd

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OVO Energy Ltd

Strategic Report for the Year Ended 31 December 2023

The Directors present their Strategic Report for OVO Energy Ltd (the "Company" or "OVO") for the year ended 31 December 2023.

Who we are and what we do

OVO was founded to challenge the energy industry and disrupt the status quo. In 2023, this meant we launched new solar, heat pump, and EV products to drive the electrification of homes and transport. We also invested in more green technology to revolutionise how we decarbonise homes across the UK. We recognise that many of our products, to date, have a relatively small impact in the context of financial performance. We believe, however, that they are the critical first steps in achieving our Plan Zero ambitions.

Plan Zero

Powering progress

Through our Plan Zero sustainability strategy, we've got a blueprint for change. We think it puts the UK on the right path and will help millions of households to reduce their carbon emissions. As part of our Plan Zero reporting we set out our Scope 3: the gas and electricity we sell to customers. This year we have strengthened our reporting by expanding the categories of emissions we report against. The gas and electricity we sell to customers is our core business and main contributor of emissions. Now we also report waste, business travel, purchased goods and services, commuting, and working from home for completeness. These are immaterial compared to the products sold.

Green technology

Pioneering innovation

Behind the scenes, our teams and customers are empowered by Kaluza's advanced software. Kaluza helps global energy retailers to transform their customer experience and accelerate decarbonisation with innovative, low-carbon propositions that are driving us towards a zero-carbon grid. The software's transforming our retail business by automating bills and payments, reducing cost-to-serve, and creating new commercial opportunities. This includes successfully completing the migration of millions of OVO customers from its acquired legacy base to the Kaluza platform.

Green skills

Harnessing people power

We're equipping our teams with green skills so they can help decarbonise homes across the UK. The development of green-skilled careers is so important - helping us deliver Plan Zero and also tackle the UK-wide green skills gap. We must create the right jobs and train the talented people we already have. That's why we're upskilling 15,000 roles. If we can do the right thing now, in decades to come we'll have a highly skilled workforce capable of building a greener future.'

OVO Energy Ltd

Strategic Report for the Year Ended 31 December 2023 (continued)

Who we are and what we do (continued)

Policy

Campaigning for real change

We're pushing to improve the energy industry - not just for our customers, but for every household across the UK. We're working with the industry, government, and Ofgem to change the system for the better. Our Ten Point Plan, as set out in the 2022 Annual Report, has paved the way for real change. It's a compassionate, creative approach to the energy crisis that's landed multi-million pound policy announcements already. We've also called on the Government to introduce a social tariff, to protect those who can't afford to heat their homes. Finally, we've been helping our own customers manage the cost of living crisis, with an extensive £40 million support package.

Customers

4 million strong

OVO is one of the largest energy suppliers in the UK, with 4 million customers. Over the past year we've focused on making a difference to customers. Our Citizens Advice scores have increased with 5* for Customer Commitments. However, we still ranked 9th (September to December 2023). We know we can do more and will continue finding ways to better serve our customers. For us, it's also about improving green technology to support them. Over the past year, we've launched innovative products and propositions including solar panels, heat pumps, and electric vehicle charging plans - rewarding customers for making the switch to electric. We don't believe we can reach net zero without bringing everyone with us. We're always doing everything we can to improve the experience for our customers, especially those in vulnerable circumstances.

The 3 OVO values

We're tackling some of the world's most pressing problems by creating better energy systems for our planet - and for everyone on it. It's a big task. As we work it out, we're guided by our values.

Find a better Way

We always look for a better way, whether that's by delivering a better service, employing brilliant people or improving our products to help tackle climate change.

Do what's right

Being open, honest, and fair is one of the values that applies to everything we do. We take pride in talking to our customers and delivering exceptional work.

Build something great

Simple solutions aren't quick or easy to find. They take time and tenacity. Our people work to find an answer that helps us 'build something great'.

OVO Energy Ltd

Strategic Report for the Year Ended 31 December 2023 (continued)

2023 Strategic progress

A look back on 2023.

We were recognised for our award-winning people offering.

Our people policies won awards. The Sunday Times recognised OVO in its 'Best Places to Work 2023' feature. We ranked in the top 10 for Very Big Organisation, and were crowned 1st place in the Best Place to Work for Women category.

These accolades followed our announcement that we've introduced unlimited compassionate and pregnancy-loss leave for team members. This has helped set OVO apart in the energy sector, and shows we're always putting the health and wellbeing of our people first.

We took a stand on green tariffs.

Energy suppliers often offer "100% renewable" electricity tariffs to eco-conscious customers who want to do their bit to support renewables. But these tariffs, and the complicated REGO (Renewable Energy Guarantees of Origin) system that sits behind them, needs reform. The energy that actually flows into peoples' homes comes from the grid, which is made up of a mix of energy sources. This doesn't change regardless of the tariff that the customer chooses.

Research from Cornwall Insight - commissioned by OVO - shows that these tariffs actually don't do much to add renewable energy generation onto the grid.

What did OVO do about it? At an event in London, we set out a new path to UK decarbonisation. Backed by Friends of the Earth, Cornwall Insight, *Ethical Consumer*, and the Energy Saving Trust, it included:

- A kitemark scheme to recognise true green energy deals
- Ways to help people reduce their gas use
- Upskilling 15,000 green roles

We stopped selling "100% renewable electricity" backed by REGOs as standard. Instead, we're reinvesting in initiatives that we believe make a real difference - things like new renewable electricity generation.

What's next? We're not stopping there. Our plans for a new kitemark scheme will make it easier to find tariffs that truly support and fund new renewable electricity projects.

OVO Energy Ltd

Strategic Report for the Year Ended 31 December 2023 (continued)

2023 Strategic progress (continued)

We launched new products to reward our customers.

Over the past year, we've launched new green technologies and built on the success of our existing products and services. Our core business continues to supply gas and electricity, which contributes to the majority of our revenues and is the main contributor of our Scope 3 emissions. As a supply only company, we have limited ability to directly change the source of this energy. However, we'll continue to innovate, roll out new products that support electrification, and encourage consumers to adopt them. This way, we can have a positive impact on the grid, homes and planet to help reduce our Scope 3 emissions.

Driving into the future

Our intelligent EV charging add-on Charge Anytime is part of our wider plan to put less pressure on the planet, and our customers' wallets.

The add-on works by automatically charging cars when emissions and prices are low. By using Kaluza's smart technology we can make sure people are charging outside of peak times - when the grid's using fewer fossil fuels. This means we're able to provide greener energy for our customers and save them money.

In November, we announced a partnership with Kaluza and Volvo that will let OVO customers charge their cars more intelligently. The solutions will include one-way smart charging and bi-directional charging, with both due to launch in 2024. The new Volvo EX90 all-electric SUV will also launch in 2024. It will be the first Volvo Cars vehicle capable of bi-directional charging.

We also partnered with Volkswagen Group UK, Kaluza and Indra in a world first 'Vehicle to Everything' (V2X) trial, called INFLEXION.

Heat pumps have landed

The competition really heated up when OVO partnered with Heat Geek - the UK's leading renewable installer network - to offer high quality heat pump installs to OVO customers. We also launched Heat Pump Plus, the UK's first type of use add-on for heat pump owners. The type of use add-on means customers have two rates - one for their heat pump and one for the rest of their home's energy usage.

Solar made simple

Last spring, we launched solar panels to help people cut bills and carbon by powering their homes with clean energy from the sun. The full package includes solar photovoltaic (PV) panels, batteries, inverters, and a Smart Export Guarantee (SEG) tariff.

Rewarding customers for using less

We launched Power Move and Power Move Plus to pay customers for using less power between peak hours of 4-7pm.

We also know that, as we move to renewable energy sources like wind and solar, the industry needs to do more. Sometimes, wind and solar won't generate enough power, so we'll need a flexible grid. That's a grid that adjusts according to demand, so we don't have to fire up expensive gas power stations to provide more energy at peak times.

At OVO, we're engaging with policy makers and driving change for a more flexible grid to bring down costs for our customers. The more we understand about the positive impact our actions can have, the greater the momentum for change.

OVO Energy Ltd

Strategic Report for the Year Ended 31 December 2023 (continued)

2023 Strategic progress (continued)

The Energy Experts are on the case

After a successful trial period, our Energy Experts visited thousands of homes as part of our nationwide launch last year. They look at the unique features of each home, along with our customers' lifestyle habits, and provide customers with a Home Health Report including an official Energy Performance Certificate (EPC). Energy Experts also offer money-saving advice based on their findings, and give customers clear next steps to decarbonising their homes.

We never stopped pushing for a greener, fairer future.

Our teams supported households with green initiatives while successfully campaigning for change.

We retrofitted even more homes

The impact of fossil fuels on the planet - as well as rising energy bills - means it's never been more urgent to decarbonise and support the most vulnerable in society.

The UK has some of the highest rates of fuel poverty and least energy efficient homes in Europe.

Overall, OVO has helped over 10,000 homes across Britain to become more energy efficient with external wall insulation, heating upgrades, and microgeneration technology.

We supported an even greener energy system

We're supporting new wind and solar projects that we know will generate the renewables we need. We signed 127 Power Purchase Agreements in 2023, including 6 subsidy free PPAs with new build renewable generators. We also joined Community Energy England's membership as a Principal Supporter, to give the sector extra support for community-led projects. All this together means powering more homes across the UK with renewable energy in 2024.

We campaigned to abolish the prepayment poverty premium

We built on the success of our Ten Point Plan by campaigning for the abolition of the poverty penalty for prepayment customers. Historically, prepayment meter customers typically paid more for the same amount of energy than those paying by Direct Debit. OVO called for Ofgem to lower unit rates under the price cap for prepayment customers to make sure customers don't get penalised for having a prepayment meter. The poverty penalty was abolished meaning 4 areas of OVO's Ten Point Plan have now been adopted by the Government and the regulator.

We were also the first energy supplier to offer a fixed tariff to pay-monthly customers when wholesale prices started to drop. Households have endured one of the worst economic shocks for a generation, and we believe it's key that they get the support they need.

We acquired Bonnet, now Charge Anywhere, to bring accessible public charging to millions

Bonnet's technology brings EV charge points from different operators together in one easy-to-use app. Bonnet is one of the largest EV charging apps in the UK, with over 80% of the country's charge points. Drivers can find, use, and pay for public charge points without switching between different cards or logins. Bringing Bonnet into the OVO family means our customers can charge both at home and in public through our offering.

OVO Energy Ltd

Strategic Report for the Year Ended 31 December 2023 (continued)

Financial performance review

Financial performance

The Company's key financial and other performance indicators for the year are as follows:

Key financial and performance indicators

	2023	2022
Customers (m)	4	4
Total gas and electricity volume (TWh)	35	25
Adjusted EBITDA (£ m) ¹	201	(29)
Statutory profit/(loss) for the year (£ m)	810	(1,273)
<i>(after non-cash commodity hedge revaluation gain of £1.1bn (2022: loss of £1.4bn))</i>		
Cash (£ m) ²	379	379

Reconciliation of adjusted performance measures to statutory results

	2023	2022
	£ m	£ m
Statutory profit/(loss) for the year	810	(1,273)
Add: Tax on profit/(loss)	251	(371)
(Less)/Add: Exceptional items	(984)	1,517
Less: Interest receivable and similar income	(29)	(13)
Add: Interest payable and similar expenses	87	75
Add: Depreciation of tangible assets and right-of-use assets	16	11
Add: Amortisation of intangible assets	50	25
Adjusted EBITDA¹	<u>201</u>	<u>(29)</u>

¹See reconciliation of adjusted performance measures to statutory results.

²Cash of £379m (2022: £379m) includes restricted cash of £nil (2022: £269m).

OVO Energy Ltd

Strategic Report for the Year Ended 31 December 2023 (continued)

Financial performance review (continued)

Underlying business performance

During the year, the group of companies headed by Energy Transition Holdings Ltd (the "Group") continued a reorganisation as part of which the Company purchased the trade and assets of OVO (S) Gas Limited on 1 November 2023.

The Company's adjusted EBITDA for the year ended 31 December 2023 was £201m (2022: (£29m)). The increase in adjusted EBITDA was mainly due to industry-wide cost recovery through default tariff price cap allowances relating to costs in prior periods. During these prior periods, the cost of buying energy for customers under the standard variable tariff was higher than the prices set under the price cap. The subsequent recovery of the full cost of buying energy for those customers was introduced H2 2022, and continued through 2023, which led to the lagged recovery of historical costs.

The Company's revenue has increased significantly from £5.0bn in the prior year to £8.2bn due to customer migration as part of the reorganisation and the recovery of prior period costs through the updated price cap methodology. Gross profit has increased for the same reason from £387m to £884m.

The Company continued to see an upward trend in bad debt costs. Bad debt as a percentage of revenue (excluding income received under the Energy Price Guarantee Scheme) increased from 2.8% in 2022 to 3.7% in 2023. This was a result of the high cost of energy and cost of living crisis, which led to more payment delinquency. We also voluntarily suspended all warrant activity in December 2022 ahead of a subsequent industry-wide decision by Ofgem. OVO provided a £40m Customer Support Package which supported customers struggling with costs.

Gross profit movements were offset by increases in operating expenditures as the Company continued to invest in customer service against the backdrop of increased customer contact, and launched new brand and marketing campaigns. Inflation also had an impact on costs across the Company.

OVO Energy Ltd

Strategic Report for the Year Ended 31 December 2023 (continued)

Financial performance review (continued)

Statutory result

Overall, the statutory profit for the year was £0.8bn (2022: loss of £1.3bn), which includes a re-measurement gain of £1.1bn on derivative energy contracts, exceptional items of £102m and depreciation and amortisation of £66m.

The re-measurement gain relates to commodity derivatives designated as 'held for trading'. Although the Company routinely enters into sale and purchase derivative contracts for electricity and gas to meet customers' future energy use, many of these arrangements are considered to be derivative financial instruments under IFRS 9. This requires some of the contracts to be recognised at fair value with re-measurements recognised in the income statement (for further details please see Note 2).

As of 31 December 2023, the Company held derivative financial assets relating to commodity derivatives and a re-measurement gain of £69m was recognised. The energy purchased in advance under these contracts will be used to meet the future energy needs of customers and the assets will unwind as these contracts are utilised in future periods. The remainder of the re-measurement gain for the period relates to the unwinding of commodity derivative financial liabilities held at 31 December 2022. The majority of these contracts unwound during the period as the energy purchased under these contracts was utilised to fulfil customer energy requirements during 2023. The re-measurements had no cash impact and will not result in an impact on energy costs for our customers.

Exceptional items of £102m (2022: £71m) consist of integration and reorganisation costs of £103m (2022: £70m) and an impairment of investment in subsidiary of £31m (2022: £nil), offset by gains on disposals of £32m (2022: loss of £2m on disposal of software and gain of £1m on write off of amounts due to subsidiary).

Of the £102m exceptional items, £60m relates to the de-recognition of energy supply revenue resulting from customer migration from the legacy billing platform to a new Kaluza platform. The Company's revenue includes an estimate of consumption between meter reads. Through customer migration, we identified historical system issues which resulted in estimates of customers' consumption being recalibrated. This meant that revenue previously recognised (though not billed to customers) was not recoverable, leading to a re-estimate of unbilled and billed revenue in the year.

Other integration and reorganisation costs of £43m were £27m lower than last year, as integration activities reduced towards the final phase of integrating SSE Energy Services (SSE) into the Company.

During the year the Company saw a significant increase in intangibles assets resulting from the acquisition of the domestic gas supply trade and assets of OVO (S) Gas Ltd with £232m of goodwill and customer relationship intangibles recognised. Creditors balances reduced by £1.5bn, primarily as a result of the remeasurement gain on derivative energy contracts and the phasing of the Government support schemes, with debtors balances also reduced as deferred tax assets relating to derivative energy contracts unwound.

OVO Energy Ltd

Strategic Report for the Year Ended 31 December 2023 (continued)

Our Strategy and Focus 2024

What we're planning for 2024.

Here's how we'll build on 2023's achievements to keep making energy better for our customers - and the planet.

We'll support customers struggling with the cost of living

Since 2022, we've launched bespoke customer support packages every year to support those who need it most. We know we have a responsibility as an industry to help customers with the challenges they face, and we work with our charity partners to deliver this support. In 2023, we launched a £40 million customer support package, including free energy saving products. We know the cost of living is still financially punishing for many people, so we'll continue to work with our partners to support our customers throughout 2024.

We'll help more customers adopt green technology in their homes

Whether it's solar panels, electric car charging, smart thermostats, or heat pumps, we're already set up to install the latest green tech. Coupled with our team of Energy Experts, who provide bespoke advice to customers on making their homes more energy efficient, these products help our customers save energy and money.

This year, we'll build on our innovative add-ons, including Power Move and Charge Anytime, as well as offering tailored energy insights through our app. We'll keep creating unique propositions, market-leading tariffs, and innovative trials for those customers taking big steps on their journey to net zero.

We'll buy energy responsibly to keep things stable

Despite a slight calming after the record wholesale energy prices in 2021-22, 2023 saw more volatility in the global energy markets. Our prudent hedging strategy - how we buy energy in advance - means we can keep doing the right thing for our customers in 2024. Throughout 2023, we absorbed costs so that we could continue to support our customers. For example, in autumn, we didn't pass on the permitted standing charge increase to customers. Whilst wholesale energy prices have come down, we'll continue to work with the government and the regulator to restore the stability of our sector.

We'll attract and retain the brightest and best talent

Our Belonging strategy builds a more diverse workforce - more women, more young people, more people from different backgrounds - so that we're bringing as many new skills and experiences on board as possible. In 2024, we'll do even more to develop and support our talent at OVO through training. We're building a safe, inclusive and open environment to empower everyone to be their best selves - wherever they're from, whatever they believe and however they live their lives.

We'll campaign for greater change

As we enter another challenging year for households, we'll keep campaigning for policy change to help the most vulnerable in society. We've been calling for a social tariff to protect those who cannot afford to heat and power their homes through sustained periods of high prices. We'll keep banging that drum. 2024 will be a politically charged year, and OVO will be campaigning for fairer bills to support the public and work with policymakers.

We'll go Beyond everyday energy

We're always looking for new ways to help customers track their home's energy use and find personalised ways to save costs and cut carbon. At the end of 2023, we trialled OVO Beyond - our game-changing new app upgrade. Now we're set to disrupt the energy market with the nationwide launch in 2024. Beyond includes exclusive savings on green tech - but it also goes beyond energy. We've partnered with exciting music venues to bring entertainment to even more households.

OVO Energy Ltd

Strategic Report for the Year Ended 31 December 2023 (continued)

Our Strategy and Focus 2024 (continued)

2024 so far.

OVO announces a new Chair and CEO

At the start of 2024, we announced the appointment of retail leader Justin King CBE as Chair. OVO's Founder Stephen Fitzpatrick and Justin King thanked outgoing Chair Stephen Murphy for his guidance and support over the past 9 years. His counsel has been invaluable during his tenure, with headline events including OVO acquiring SSE Energy Services.

We also announced the arrival of David Buttress as OVO's new CEO in May 2024. An entrepreneur, investor and former CEO, David took his first company, Just Eat, from a start-up created 'in a basement' to Europe's largest technology IPO in a decade. He was named by Glassdoor as one of the UK's Top 5 CEOs in successive years and is credited with several major acquisitions including the takeover of two sector rivals. David described his appointment at OVO as an "incredible opportunity to create a world class customer experience for millions of UK customers."

OVO Energy Ltd

Strategic Report for the Year Ended 31 December 2023 (continued)

Stakeholder engagement & Section 172(1) Statement

A focus on those around us.

Keeping our stakeholders updated on progress.

The Company's operations are integrated within the wider OVO group headed by Energy Transition Holdings Ltd and therefore the strategic decisions made by the Directors are made in parallel with those of the board of Energy Transition Holdings Ltd. The summary of stakeholder engagement discussed therefore applies to the wider OVO group and not just the Company. References to OVO and Board made below refer to the group headed by Energy Transition Holdings Ltd and its board respectively.

Stakeholders underpin both our strategy and business model, and our Board aims to uphold the highest standards of conduct while ensuring that all decisions are taken with consideration for the long-term interests of our stakeholders.

OVO recognises the central role it can play in supporting customers to reduce the carbon footprint of their homes and support the global effort to fight climate change. Plan Zero underpins our entire company culture. In an increasingly complex, changing and competitive market, the Board recognises that the Company will only grow, thrive and deliver on the ambitions set out in Plan Zero if it understands, respects, and responds to the views and needs of our stakeholders.

Embedding Section 172 into Board decision-making processes

Section 172 is well embedded into the duties of the Board and its decision-making processes. Our Chair sets the agenda for each Board meeting and has taken steps to ensure we're meeting the requirements and carefully considering the needs of our stakeholders through a combination of the following:

- Strategically significant topics are reviewed through the Risk and Audit Committees. Regular consideration of regulatory and political risks is provided through this forum, and feedback from engagement with priority stakeholders across Government and the regulator is shared with Committee members.
- Board papers ensure that stakeholders' views have been considered and responded to, where required.
- The views and needs of stakeholders are considered thoroughly by the Board as part of any significant decisions it makes throughout the course of the year.
- Direct engagement by the Chair and Board with relevant stakeholders via a mix of bilateral meetings, committees, forums, and conferences on key strategic issues for the Company.
- Board presentations and reports are scheduled regularly. Covering issues such as customer engagement, risks, health and 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 Company. They regularly receive and consider feedback on stakeholders' views from dedicated teams within Corporate Affairs.

OVO Energy Ltd

Strategic Report for the Year Ended 31 December 2023 (continued)

Stakeholder engagement & Section 172(1) Statement (continued)

Our planet

Plan Zero is our response to the climate crisis. As part of it, we've assessed our own carbon footprint, and also the impact of our products and services. We recognise that our business operations have environmental impacts, including carbon emissions, air pollution, the use of natural resources, water consumption, and the generation of waste. OVO has a formalised Environment Policy, which sets out our commitment to minimise the negative impacts of our business activities on the environment.

Our customers

We launched in 2009 with a belief that energy could be better, and our mission remains to power human progress with clean, affordable energy for all.

To support our customers most in need during the energy crisis, 2023 saw our award-winning Customer Support Package launch for the second year in a row. Totalling £40 million worth of support, the package included payment support, emergency top-up credit, and temporary payment reductions. We also gave out free energy-saving products, including electric blankets and mattress toppers.

During the year, we also raised the importance of social impact and affordability in our Plan Zero report. To make it easier for our external stakeholders to see how we're getting along, we introduced a new live reporting structure. Throughout 2023, we reported our environmental performance regularly to OVO's leadership team and annually to the Board.

Our people

OVO's highly progressive people offering focuses on support for our teams. We include unlimited compassionate and pregnancy loss leave, as well as 'moments that matter' and 'recharge' leave.

Throughout the year, our surveys give colleagues at all levels the chance to share views with their fellow team members, line managers, and leadership. Our Board also regularly engages with our people through forums and OVO Together (OVO's Town Hall style monthly meeting).

One of the Company's core values is treating people fairly, giving equal opportunities to all of our people. We give fair and full consideration to applications for employment from disabled persons (as defined in the Disability Discrimination Act 1995). We also arrange appropriate training for any of our people who have become disabled during employment at OVO. In line with the Equality Act 2010, we will make every effort to give the person suitable responsibilities and reasonable adjustments in their current role. Where this is not possible, the Company will try to find the team member another role within OVO and provide additional training (as necessary).

OVO Energy Ltd

Strategic Report for the Year Ended 31 December 2023 (continued)

Stakeholder engagement & Section 172(1) Statement (continued)

Our communities

The OVO Charitable Foundation exists to help create a greener, brighter future - for every child. OVO Foundation invests in projects that address a real and genuine need, can demonstrate measurable and meaningful impact, and have the potential to scale.

During the year ended 31 December 2023, the Company made charitable donations of £3,013,000 (2022: £2,349,000). This amount includes donations to The OVO Charitable Foundation and other charities, including those supporting OVO's initiative to support UK consumers in relation to the cost of living crisis.

We aim to keep all relevant external stakeholders informed of our community and charitable investments.

Governments and regulators

Our Board members engage regularly with the UK Government, devolved administrations, respective Parliaments and the regulator.

In 2023, we conducted a standout programme of events during the party conference season, hosting discussions on green skills, Path to Zero and the economic opportunities of a net zero transition, alongside Ministers and senior Parliamentarians. Our dedicated Public Affairs, Policy and Regulation teams actively manage our external stakeholder plan and regularly update Board members on external developments. During 2023, the key issues discussed with stakeholders included: the energy crisis; support for financially vulnerable customers; future retail market design; and policy levers to accelerate the transition to zero carbon living.

Our suppliers

We build relationships with our suppliers based on trust. This means we can provide the best quality products and services at the most competitive prices, while mitigating data, social and environmental risks in our supply chain. In 2023, we continued to operate our Supplier Code of Conduct for all new key suppliers as part of our standard procurement process. We also continued to operate our sustainable procurement controls and made sure sustainability criteria were considered as part of any supplier selection.

OVO Energy Ltd

Strategic Report for the Year Ended 31 December 2023 (continued)

Opportunity and risk

The Board has overall responsibility for setting OVO's strategic direction and making sure risk is effectively managed with appropriate internal controls.

OVO's leadership team is accountable for effective management of risk on a day-to-day basis by identifying risk in OVO's businesses and taking action to manage risk to a tolerable level. OVO's leadership team collectively considers risk as a routine part of their regular meetings with quarterly oversight provided by the Risk Committee.

OVO's Risk Framework provides a governance approach that defines the processes, systems, and tools to support effective risk management.

OVO has reviewed its key risks and has identified 8 principal risks and uncertainties which could stop the Company from offering the best customer service, prevent it from delivering Plan Zero and adversely impact its financial health.

- Commodity Demand and Volatility
- Credit and Liquidity
- Service Delivery
- Innovation and Market Position
- Regulation, Legislation and Compliance
- People and Culture
- Cyber Security
- Climate Change

Commodity Demand and Volatility

Risk that OVO is exposed to fluctuations in the energy market caused by volatilities in commodity prices, geopolitics, macroeconomics, and regulatory interventions, and that unexpected events change the supply, demand, and pricing of gas and power.

During 2023, some of the immediate pressures from the global energy crisis have eased, but energy markets, geopolitics, and the global economy are unsettled and further major disruptive events are still a very real possibility. Macroeconomic uncertainty and cost of living pressures remain a concern as customers continue to face affordability challenges.

OVO continues to anticipate, monitor and react to these external events so we can source energy products at a reasonable price for our customers. And we are also leading the way to a clean energy economy that is less exposed to global fossil fuel price shocks, led by solar PV, electric storage heating and electric vehicles (EVs).

We actively manage our market exposures with a dedicated in-house commodity trading team reviewing and adjusting our hedging position and strategy in response to market conditions. Our pricing policy is regularly reviewed to ensure we can offer products at competitive and affordable prices.

Weather is one of the main drivers of sudden changes in demand and price. We actively model weather scenarios and their impact. We review our modelling assumptions to align to observed conditions and to consider the impact of climate change on seasonal norms. We seek hedging proposals that factor in these adjustments and other changes in demand.

OVO Energy Ltd

Strategic Report for the Year Ended 31 December 2023 (continued)

Opportunity and risk (continued)

Credit and Liquidity

Risk that OVO does not manage its finances such that it maintains sufficient liquid assets to meet financial liabilities as they fall due, deliver strategic growth plans, and fund future investment opportunities.

OVO can face risks both in terms of our ability to meet our payment obligations towards our lenders and suppliers, and because our customers and suppliers may not meet their payment or supply obligations to us. These risks are closely linked to our liquidity.

We recognise and plan for these internal and external causes of financial risk, and maintain resilient working models to ensure we meet our financial liabilities as they fall due. We continuously monitor economic and market factors, such as cost and wage inflation, along with energy price movements, and regularly stress test our liquidity position. We keep our funding arrangements under regular review alongside internal systems, policies, and reporting to ensure discipline and oversight on all financial matters including tax, financial reporting, customer debt, and fraud.

Cost of living and pricing pressures have led to increasing levels of bad debt. We've delivered initiatives to improve our understanding of customer bad debt risk, provide debt support to customers earlier, and to encourage the use of Direct Debit.

We proactively monitor risk in our supply chain and actively engage key suppliers to manage counterparty risk.

Service Delivery

Risk that we don't meet the service expectations of our customer or provide the tools and knowledge to drive towards net zero; not earning the customer trust we need to decarbonise energy.

OVO aims to become one of the UK's most trusted brands as our customers make their transition to a lower carbon lifestyle. It is essential that we deliver service levels and experience in line with our aims and our customer expectations.

The migration of customers from multiple brands and systems to a single brand and billing platform has greatly simplified our operations, leading to improved customer service, reduced customer contact volumes, and associated overhead costs. However, the migration created some disruption for certain customer groups and this has led to elevated complaint volumes. We are working hard to fix these issues and are seeing improvement, but we recognise there is more to do.

We're improving our operational controls and our quality assurance to strengthen our customer service, and investing to provide our frontline care teams with the skills and technology they need to best support our customers.

We've introduced incident teams to quickly identify service problems, improve controls, and ensure customers get the right response. Alongside focusing on continuously improving controls around customer payments, billing, complaints, and data, to make sure we're performing effectively.

For our vulnerable customers, we delivered a support package totalling £40m for 2023, supporting the most vulnerable during winter. This follows OVO's calls for customer protections and campaign to introduce a social tariff for the most vulnerable.

Our 'Customer Experience Forum' and 'Voice of the Customer' analysis provides insight into our customer journeys through a range of independent review platforms and satisfaction surveys. This allows us to adapt our service to respond to customer needs and helps us make decisions as though our customers are in the room.

OVO Energy Ltd

Strategic Report for the Year Ended 31 December 2023 (continued)

Opportunity and risk (continued)

Innovation and Market Position

Risk that we don't respond to customer demand for reliable, low carbon, low cost, quality, innovative products and services; and we lose competitive advantage.

Energy and decarbonising homes is an evolving market driven by advances in technology, changes in government policy, geopolitics, macroeconomics, and customer appetite for greener energy. To achieve long term growth, we need to invest in innovation focusing on providing low cost, low carbon, high quality products and services.

Our challenger mentality and entrepreneurial culture means we're in a solid position to create further value for customers. Our focus is on continuing to invest in the technology and services that customers really need to decarbonise their homes, and growth through acquisitions of innovative businesses to provide pioneering products and services. We focus on opportunity areas, ensuring we have the necessary expertise to deliver development at pace.

We know that in a competitive market we must raise our brand awareness, so that customers recognise OVO as being an energy provider they can trust. In 2023, we made significant investments in our brand through a series of campaigns aimed at raising awareness of both our offering and our Plan Zero mission.

Regulation, Legislation and Compliance

Risk that, in a sector subject to increased scrutiny with increasing regulation from both government and Ofgem, OVO may not meet new and existing requirements, and may face additional cost to respond to changing requirements.

As wholesale prices have reduced since 2022, Ofgem has refocused to ensure that energy companies can return to profitability, demonstrating a healthy market. As a result, they have introduced additional market stability obligations and have strengthened standards to help support customers struggling with their bills. OVO welcomes these improvements but we're aware of the risk of regulatory overcorrection. We believe that regulation can have a positive impact on the market, and we encourage a culture that promotes customers' interests.

It's essential we continue to interpret and comply with such obligations, as well as behave responsibly and ethically. Our Board provides tone from the top, clearly communicating OVO's expectations for our conduct, corporate values, and leadership behaviours.

We maintain positive engagement with policy makers, Ofgem, and consumer groups to ensure that we're aware of any future political and regulatory requirements. This aids our understanding of the rules and the possible impacts to our business.

We make sure our leaders are accountable for compliance and ethical behaviour and make sure they're supported by dedicated and experienced compliance and legal professionals.

OVO Energy Ltd

Strategic Report for the Year Ended 31 December 2023 (continued)

Opportunity and risk (continued)

People and Culture

Risk that we're unable to attract, retain, and develop capable people with the right knowledge, skills and mindset to drive and deliver business growth, while embedding an inclusive culture, which is key to our strategy.

The energy sector, OVO included, has been affected by global and economic disruptive events which have shaped people's sentiment, ways-of-working, and cultural expectations significantly.

We still see challenges around the shortage of talent in our sector, including upskilling and retention in this highly competitive, dynamic and innovative industry. Preserving our unique culture and staying 'current' will be critical to our success. Things are changing rapidly - for example cost-of-living, the climate, AI - which makes it increasingly important to anticipate how our future People approach will evolve. We recognise there might be shifts away from traditional career paths, engineering and technology skills gaps for renewables and digitalisation, and intensified competition from peers.

Our People strategies, policies, and processes are regularly reviewed and updated to ensure they're relevant to our fast-changing landscape. We conduct regular reviews for pay, incentives, and wellbeing to support and prepare our people during changing times - a good example being the cost-of-living crisis. We continue to engage with our leaders and teams to reduce attrition through talent management and tools to develop potential.

Our People feedback surveys are carried out to measure and improve engagement, diversity, and inclusion, and to learn about the needs of our community. Our People Team works closely with business areas to understand current and future people requirements, which supports the development of our strategic plans.

Cyber Security

Risk that our technology infrastructure and our customers' data is compromised in the face of increasing geopolitical risk, commoditisation and automation of cyber attacks; leading to a loss of customer trust.

There is an increasingly connected and fast changing ecosystem of data, technology, and third parties that we have to adapt and respond to in order to keep our data safe. We are continuously learning from cyber security incidents that have occurred in other organisations to ensure we're better equipped to respond to any attacks in the future.

We're focused on preventing unauthorised access to customer and individual team members' data by working to continuously assess and improve the controls in place to stop any accidental disclosure or loss of information. Keeping customer data protected within our systems so we can provide expected levels of service is of paramount importance.

Security of our internal systems, infrastructures, and third-party-hosted applications are an area of continual focus and control improvements to ensure we're responding to the ever-changing cyber landscape.

Our customers expect their data to be protected while it's in our care, so any breaches across our third-party services could also result in reputational damage to OVO. We're focused on protecting customers' data from cyber attacks, embedding customer trust, and avoiding any regulatory fines that could come from the impacts of a cyber attack, by following best practice for reporting.

OVO Energy Ltd

Strategic Report for the Year Ended 31 December 2023 (continued)

Opportunity and risk (continued)

Climate Change

Risk that we do not meet our commitments to transition to a zero carbon energy system and that transitional climate risks impact our strategy.

OVO is committed to reaching net zero by 2035. We're leading the transition to a zero carbon energy system, and calling for greater action on the climate crisis. We'll suffer reputational risk if our claims don't stand up to scrutiny or if we don't act to decarbonise energy.

OVO is working with government and industry bodies to develop policy that supports the net zero transition, including our Ten Point Plan in 2022, and engaging on the introduction of a social tariff and better protections for vulnerable customers.

Our focus is to reduce the carbon emissions from the energy we sell, and help drive the move to a low carbon energy system. "Climate" is a core pillar of our refreshed strategy to help our people focus on the big and small pictures when it comes to Plan Zero. This helps day-to-day organisation, allows everybody to track progress and ensures claims are backed by action.

We've moved away from selling "renewable electricity" tariffs backed by REGO "as standard" and instead we're investing in the next generation of small-scale wind and solar farms in the UK, as well as other decarbonisation technology. This supports a greener electricity grid while helping customers to cut costs and carbon, as well providing transparency and trust in our green offerings.

We're helping customers cut carbon from their heating and reduce their reliance on fossil fuels. We incentivise customers to track and change their energy consumption, and provide app-based tools to help reduce the energy used by heating.

We talk more about our strategy to decarbonise the energy system and our Climate-related Financial Disclosures in the annual report of Energy Transition Holdings Ltd of which the Company is a member.

Approved by the Board on 9 August 2024 and signed on its behalf by:



Vincent Casey
Director

OVO Energy Ltd

Directors' Report for the Year Ended 31 December 2023

The Directors present their report and the audited financial statements for the year ended 31 December 2023.

Directors of the Company

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

Vincent Casey

Raman Bhatia (resigned 31 May 2024)

The following director was appointed after the year end:

David Buttress (appointed 31 May 2024)

Principal activities

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

Dividends

The Directors do not propose a dividend for the year (2022: no dividends proposed).

Financial risk management

Financial risk management objectives and policies have been established for the purpose of managing the exposure of the Company to commodity price risk, credit risk and liquidity risk. Financial risk management objectives and policies are established and maintained at the OVO Group level and are discussed further within the annual report of Energy Transition Holdings Ltd.

Charitable donations

During the year, the Company made charitable donations of £3,013,000 (2022: £2,349,000). The donations are part of OVO's initiative to support UK consumers in response to the cost of living crisis.

People 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. People engagement is further discussed in the Stakeholder engagement & Section 172(1) Statement in the Strategic Report.

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 period. Other stakeholder engagement is further discussed in the Stakeholder engagement & Section 172(1) Statement in the Strategic Report.

Employment of disabled persons

One of the Company's core values is treating people fairly, giving equal opportunities to all of our people and applicants. The Company ensures all team members get the same chances for training, development and career progression depending on their performance, including any disabled team members. If a person becomes disabled whilst in employment, the Company will make every effort to give the person 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 team member 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: <http://www.ovenergy.com>. Also refer to the Strategic Report for the Company's future developments.

OVO Energy Ltd

Directors' Report for the Year Ended 31 December 2023 (continued)

Research and development

The Company engages in the development of technology solutions to support the energy market.

Subsequent events since the year ended 31 December 2023

Details of subsequent events are disclosed in Note 35 of the financial statements.

Going concern

The financial statements have been prepared on a going concern basis. Details on this can be found in Note 2 of the financial statements.

Directors' liabilities

The Company purchased and maintained throughout the financial period Directors' and Officers' liability insurance in respect of itself and its Directors.

Disclosure of information to the auditors

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

Climate-related financial disclosures

Climate-related financial disclosures, including disclosures in relation to the Streamlined Energy and Carbon Reporting Framework Regulations are included in the annual report of Energy Transition Holdings Ltd of which the Company is a member.

Statement of corporate governance arrangements

For the year ended 31 December 2023, the Company met the qualifying conditions to provide a statement on corporate governance arrangements under The Companies (Miscellaneous Reporting) Regulations 2018. The Boards of OVO parents and subsidiaries are largely made up of the same members of the OVO leadership team and senior management. Energy Transition Holdings Ltd, the Company's parent, has reported its corporate governance arrangements in its annual report which also apply to the Company.

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law, Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the Directors are required to:

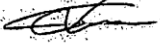
- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

OVO Energy Ltd

Directors' Report for the Year Ended 31 December 2023 (continued)

Approved by the Board on 9 August 2024 and signed on its behalf by:



.....
Vincent Casey
Director

Independent auditors' report to the members of OVO Energy Ltd

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 2023 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, including 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 2023; the Profit and Loss Account, the Statement of Comprehensive Income and the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, comprising material accounting policy information and other explanatory information.

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, as applicable to other entities of public interest, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in the notes to the financial statements, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Testing the mathematical integrity of the cash flow forecasts and the models and reconciling these to Board approved budgets.

- Assessing management's ability to accurately forecast, based on historical results.
- Obtaining key financing and creditor agreements and ensuring that financial covenant tests have been accurately computed based on forecast information in the Board approved budget.
- Assessing the key assumptions management has applied in developing their base case and severe but plausible downside scenarios.
- Understanding the key mitigating actions and assessing whether they are under management's control.
- Performing enquiries and reviewing correspondence with regulators.
- Assessing the impact of the Minimum Capital Requirement, effective 31 March 2025.
- Assessing the going concern disclosures given in the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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.

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

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 the 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 the Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and the Directors' Report for the year ended 31 December 2023 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 the 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 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 the Companies Act 2006 and UK tax legislation. 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 the financial statements, 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 and in house legal counsel, 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.

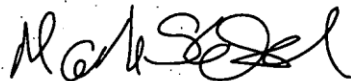
Other required reporting

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.



Mark Skedgel (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
20 August 2024

OVO Energy Ltd

Profit and Loss Account for the Year Ended 31 December 2023

	Note	Underlying 2023 £ m	Exceptional 2023 ¹ £ m	Total 2023 £ m	Underlying 2022 £ m	Exceptional 2022 ¹ £ m	Total 2022 £ m
Turnover	4	8,226	(60)	8,166	5,044	-	5,044
Cost of sales		<u>(7,282)</u>	-	<u>(7,282)</u>	<u>(4,657)</u>	-	<u>(4,657)</u>
Gross profit		944	(60)	884	387	-	387
Administrative expenses		(596)	(74)	(670)	(343)	(70)	(413)
Net impairment losses on financial assets - debtors	5	(214)	-	(214)	(113)	-	(113)
Re-measurement of derivative energy contracts	30	-	1,086	1,086	-	(1,446)	(1,446)
Other operating income	6	<u>1</u>	<u>32</u>	<u>33</u>	<u>4</u>	<u>(1)</u>	<u>3</u>
Operating profit/(loss)	7	135	984	1,119	(65)	(1,517)	(1,582)
Interest receivable and similar income	9	29	-	29	13	-	13
Interest payable and similar expenses	10	<u>(87)</u>	-	<u>(87)</u>	<u>(75)</u>	-	<u>(75)</u>
Profit/(loss) before tax		77	984	1,061	(127)	(1,517)	(1,644)
Tax on (profit)/loss	14	<u>(13)</u>	<u>(238)</u>	<u>(251)</u>	<u>33</u>	<u>338</u>	<u>371</u>
Profit/(loss) for the financial year		<u>64</u>	<u>746</u>	<u>810</u>	<u>(94)</u>	<u>(1,179)</u>	<u>(1,273)</u>

The above results were derived from continuing operations.

¹Refer to Note 8 for details of current year and prior year exceptional items.

The notes on pages 31 to 83 form an integral part of these financial statements.

OVO Energy Ltd

Statement of Comprehensive Income for the Year Ended 31 December 2023

	Note	2023 £ m	2022 £ m
Profit/(loss) for the financial year		<u>810</u>	<u>(1,273)</u>
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of defined benefit pension surplus	31	2	10
Deferred tax on defined benefit pension surplus	14	-	(3)
		<u>2</u>	<u>7</u>
Total comprehensive income/(expense) for the year		<u><u>812</u></u>	<u><u>(1,266)</u></u>

The notes on pages 31 to 83 form an integral part of these financial statements.

OVO Energy Ltd

(Registration number: 06890795)
Balance Sheet as at 31 December 2023

	Note	31 December 2023 £ m	31 December 2022 £ m
Fixed assets			
Intangible assets	15	288	69
Tangible assets	16	17	8
Right-of-use assets	17	24	38
Investments	18	431	428
		<u>760</u>	<u>543</u>
Current assets			
Stocks	21	27	34
Debtors:			
Amounts falling due within one year	22	1,016	1,414
Amounts falling due after more than one year	22	262	554
Cash at bank and in hand	23	379	379
Total current assets		<u>1,684</u>	<u>2,381</u>
Creditors: Amounts falling due within one year	24	<u>(2,914)</u>	<u>(4,425)</u>
Net current liabilities		<u>(1,230)</u>	<u>(2,044)</u>
Total assets less current liabilities		(470)	(1,501)
Creditors: Amounts falling due after more than one year	25	(75)	(52)
Provisions for liabilities	27	<u>(72)</u>	<u>(43)</u>
Net liabilities		<u>(617)</u>	<u>(1,596)</u>
Capital and reserves			
Called up share capital	28	-	-
Other reserves	29	3	(164)
Profit and loss account		<u>(620)</u>	<u>(1,432)</u>
Total shareholders' deficit		<u>(617)</u>	<u>(1,596)</u>

The financial statements on pages 27 to 83 were approved by the Board of Directors on 9 August 2024 and signed on its behalf by:



.....
Vincent Casey
Director

The notes on pages 31 to 83 form an integral part of these financial statements.

OVO Energy Ltd

Statement of Changes in Equity for the Year Ended 31 December 2023

	Share capital £ m	Other reserves £ m	Profit and loss account £ m	Total £ m
At 1 January 2022	-	2	(166)	(164)
Loss for the year	-	-	(1,273)	(1,273)
Other comprehensive income	-	-	7	7
Total comprehensive expense	-	-	(1,266)	(1,266)
Decrease in equity from merger adjustment ¹	-	(166)	-	(166)
At 31 December 2022	-	(164)	(1,432)	(1,596)

	Share capital £ m	Other reserves £ m	Profit and loss account £ m	Total £ m
At 1 January 2023	-	(164)	(1,432)	(1,596)
Profit for the year	-	-	810	810
Other comprehensive income	-	-	2	2
Total comprehensive income	-	-	812	812
Share based payment transactions	-	1	-	1
Increase in equity from merger adjustment ¹	-	166	-	166
At 31 December 2023	-	3	(620)	(617)

¹ See Note 19 for further details on the merger adjustments.

The notes on pages 31 to 83 form an integral part of these financial statements.

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2023

1 General information

The Company is a private company limited by share capital, incorporated and domiciled in the the United Kingdom. The nature of the Company's operations and principal activities is set out in the Directors' Report.

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 9 August 2024.

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.

The financial statements have been prepared under the historical cost convention, except for derivative financial instruments and defined benefit plan assets, 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.

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.

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

2 Accounting policies (continued)

Basis of preparation (continued)

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:

- The requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 Impairment of assets;
- 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 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.

Going concern

The Company made a profit of £810m for the year ended 31 December 2023 but has net liabilities of £617m and net current liabilities of £1,230m as at the balance sheet date. The financial statements have been prepared on a going concern basis.

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

OVO Finance Ltd has sufficient liquidity over the full going concern period under both its base case and stress-tested forecast. Accordingly 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.

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.

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

2 Accounting policies (continued)

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 its annual reporting period commencing 1 January 2023:

- Amendments to IAS 8 'Accounting policies, Changes in Accounting Estimates and Errors', distinguishing changes in accounting policies from changes in accounting estimates;
- Amendments to IAS 1 'Presentation of Financial Statements', disclosure of material accounting policies;
- Annual Improvements to IFRS Standards 2018-2020; and
- Amendments to IAS 12 'Income Taxes', deferred tax related to assets and liabilities arising from a single transaction; and International tax reform - pillar two model rules.

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

Government support schemes

In light of the cost of living crisis, the UK Government established the Energy Price Guarantee Scheme (EPG), the Energy Bills Support Scheme (EBSS) and the Alternative Fuel Payment Scheme (AFP) which form part of the Government's cost of living assistance package for consumers from October 2022 to April 2024.

Energy Price Guarantee Scheme

The Energy Price Guarantee Scheme (EPG) protected consumers from increases in energy costs as the scheme limited the amount suppliers could charge per unit of energy used. The scheme reduced the average annual domestic household bill for the period from 1 October 2022 to 30 June 2023 to approximately £2,500 per annum. The scheme remained in place until April 2024. Energy suppliers were compensated by the Government for the savings delivered to households, which represented the difference between the expected price cap and the guarantee rates. Management determined it appropriate to apply the requirements of IAS 20 Government Grants to EPG grant income. The Company recognised EPG grant income over the support period as customers were charged reduced rates. The Company recognised EPG grant income to the extent there was reasonable assurance that the Company would comply with the scheme conditions which mainly related to the operating activities of the Company and that the income would be received. Non-compliance with the scheme conditions could result in the repayment of EPG grant income. The Company presented EPG grant income within revenue as it judged the income arose from the ordinary activities of the Company. During the year, the Company recognised EPG grant income of £1,995m (2022: £746m) which represented the amount of savings delivered to households.

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

2 Accounting policies (continued)

Energy Bills Support Scheme and Alternative Fuel Payment Scheme

The Energy Bills Support Scheme (EBSS) provided domestic electricity customers in Great Britain with £400 of support, delivered by electricity suppliers over six months from October 2022. Households received a discount of £66 applied to their energy bills in October and November, rising to £67 each month from December through to March 2023. In addition, the Alternative Fuel Payment scheme (AFP) was also established in 2023 and provided domestic users of alternative fuels with a £200 payment, delivered by electricity suppliers in February 2023. The Company delivered this support as either a cash benefit or a credit to customers' energy account, depending on their payment type. The Company received funding from the Government monthly in advance. The funding from the Government was restricted to the use of delivering the support to customers. The Company recognised a cash asset disclosed as restricted cash and a corresponding liability related to the obligation to deliver the support to customers to the extent that the cash had been received but not yet distributed at a reporting period end. The Company received £583m (2022: £1,021m) from the Government under the schemes during the year and distributed £828m (2022: £729m) to customers. These schemes ended in 2023 and any surplus grants were repaid to the Government as of the balance sheet date. No assets or liabilities were recognised as at the balance sheet date relating to obligations not yet satisfied under the schemes (2022: £292m which consist of £269m cash received from BEIS and £23m unredeemed vouchers issued to prepayment customers).

Revenue

Revenue recognition

The principles in IFRS are applied to revenue recognition criteria using the following five-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 to the extent it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur.

(ii) Consideration payable to a customer

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

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

2 Accounting policies (continued)

Revenue recognition

Sale of gas and electricity

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 such as paperless billing, or government schemes such as the Warm Home Discount.

Installation and rental of meters

Installation and rental of 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. The Company recognises revenue from the supply and installation of smart meters at a point in time, as control passes to the customer.

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.

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

2 Accounting policies (continued)

Renewable obligation certificates (ROCs)

The Company participates in the Renewables Obligation ("RO") scheme administered by Ofgem, under which energy suppliers are required to fulfil their obligation by either presenting a specified number of ROCs in respect of each MWh of electricity supplied to customers or by making a payment to cover the shortfall.

Where the Company purchases and takes delivery of ROCs to meet its obligation under the scheme, the certificates are initially recognised at cost within inventories. The costs of the certificates are recognised in cost of sales within the income statement when the obligation arises. The Company accrues for its obligation to deliver ROCs at the amount of the purchased ROCs with any estimated shortfall based on the relevant buy-out price at the reporting date.

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.

The Company is part of the group headed by Energy Transition Holdings Ltd which has undertaken a lengthy transformation programme which has spanned more than a year. Transformation programmes are generally of a one-off nature as the incurrence of costs associated to them ceases when they are complete. The costs of these programmes are considered exceptional and may be reported in more than one year.

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 charge 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. Deferred tax is not discounted.

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.

Tax assets and tax liabilities are offset in the balance sheet where they relate to taxes levied by the same tax authority and the Company has a legally enforceable right to set off.

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

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
Meter assets and miscellaneous equipment	4 to 10 years straight line

Intangible assets

a) Goodwill

Goodwill arising on the acquisition of a business represents the excess of the cost of acquisition over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the business recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

Goodwill is not subject to amortisation but is tested for impairment. This is a departure from Companies Act 2006 and is a requirement of FRS 101.

b) 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.

c) Internally generated software development costs

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.

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

2 Accounting policies (continued)

Intangible assets (continued)

Directly attributable costs that are capitalised as part of the software product include 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 assets in subsequent periods.

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 five years.

Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

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

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 to 5 years straight line
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 depreciation or 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.

Cash and cash equivalents which are not available for use by the Company are presented as restricted cash.

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

2 Accounting policies (continued)

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 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.

Stocks

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.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, and 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.

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).

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

2 Accounting policies (continued)

Leases (continued)

Initial recognition and measurement

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

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

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

Subsequent measurement

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

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

Interest on the lease liability in each period during the lease term is the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability. Interest charges are included in interest payable and similar expenses 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.

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 basis 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.

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

2 Accounting policies (continued)

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.

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

Classification and measurement

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

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

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

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

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

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

As at 31 December 2023, the Company had no financial assets measured at FVOCI.

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

2 Accounting policies (continued)

Financial instruments (continued)

Financial assets at amortised cost

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

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

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

If a financial asset meets the amortised cost criteria, the Company may choose to designate the financial asset as 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

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

Impairment of financial assets

The Company applies the IFRS 9 expected credit loss model to financial assets measured at amortised cost. For trade debtors and accrued income, the Company applies the simplified approach to measuring expected credit losses which uses a lifetime expected credit loss allowance.

For other financial assets carried at amortised cost, the Company applies the three-stage general impairment model and recognises either a lifetime expected credit loss or a 12-month expected credit loss depending on the Company's assessment of whether there has been a significant increase in the credit risk associated with the financial asset since initial recognition.

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 re-measurement to fair value is recognised immediately in profit or loss.

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

2 Accounting policies (continued)

Defined contribution pensions

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

For defined contribution plans, contributions are paid 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.

Defined benefit pension obligation

Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of the defined benefit pension plans is the present value of the defined benefit obligation at the reporting date minus the fair value of plan assets. The defined benefit obligation is measured using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future payments by reference to market yields at the reporting date on high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses are charged or credited to other comprehensive income in the period in which they arise.

Past-service costs are recognised immediately in profit or loss.

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 automatically enrolled employees in its 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.

Transfers of business

Transfers of trade and assets between members of the OVO Group are outside the scope of IFRS 3 Business Combinations and are accounted for using predecessor accounting principles. Under these principles assets and liabilities are transferred to the acquirer at the carrying value they were measured at by the transferor. No goodwill is recognised as a result of these transactions with any gains or losses taken to the Merger reserve.

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

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 and derivative financial instruments:

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.

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 2023 revenue arising from estimated consumption amounted to £1,227m (2022: £1,382m). 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. Management believes that based on latest industry data the amount of revenue recognised could decrease by up to £12m based on a reasonable change in the consumption assumed in reaching this estimate.

Revenue recognition - Energy Price Guarantee government grants (estimation uncertainty)

The Company recognises revenue arising from government grants under the Energy Price Guarantee Scheme (EPG). The government grants are determined by a support rate on a p/kWh basis determined by the government and the volume of electricity and gas treated as supplied by the Company and, therefore, are subject to the same estimation uncertainty in energy supply revenue recognition (refer to Revenue recognition - energy supplied but not yet measured for further information).

The scheme is subject to industry reconciliation procedures which can result in a higher or a lower value of industry deemed supply than has been estimated as being supplied to customers by the Company and, as a result, can impact the amount of EPG income recognised. There are also conditions attached to the scheme that the Company is required to comply with in order to receive the support payment. The Company recognises EPG income to the extent it has reasonable assurance that it has complied with the conditions attaching to the EPG scheme and that the EPG income recognised thus far will be received.

The judgments applied, and the assumptions underpinning these judgements, are considered to be appropriate. However, a change in these assumptions would have an impact on the revenue recognised. The primary source of estimation uncertainty relating to unread revenue arising from eligible customers under the scheme amounted to £113m (2022: £507m). Management believes that based on latest industry data the amount of revenue recognised could decrease by up to £1m based on a reasonable change in the consumption assumed in reaching this estimate.

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

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

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 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 the underlying provision rates worsening by 10%. This would lead to a £42m increase in the expected credit loss provision in 2023.

Deferred tax assets (accounting judgement and estimation uncertainty)

Deferred tax assets have been recognised in respect of UK 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 of £187m in respect of UK tax losses are expected to be utilised over the next twelve to fifteen years (2022: nine to thirteen 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.

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

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

Derivative financial instruments (accounting judgement)

The Company classifies derivative energy contracts as 'own-use' in accordance with the Company's expected sale, purchase or usage requirements. 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.

The Company regularly re-assesses the volume threshold at which contracts are deemed to be highly probable of resulting in physical delivery to reflect the latest best view of forecasted volume. The increase in the value of derivative energy contracts in the year is due to the decrease in commodity prices towards the balance sheet date. As at 31 December 2023, the Company has £69m (2022: £1,017m) of derivative energy contracts that are not designated as own-use contracts and are measured at fair value through profit or loss.

This follows a comprehensive review of the "own-use" column thresholds during the year that resulted in a materially higher percentage of contracts being designated as "own-use" compared to the prior year.

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

4 Turnover

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

	2023	2022
	£ m	£ m
Sale of gas and electricity	6,054	4,198
Government grants - Energy Price Guarantee Scheme	1,995	746
Installation and rental of meters	106	86
Other revenue	11	14
	8,166	5,044

The Company has recognised grant income of £1,995m (2022: £746m) in the year which represents the amounts of support delivered to households and compensated by the Government under the Energy Price Guarantee Scheme (EPG). Refer to Government support schemes in the Summary of significant accounting policies for further details on the scheme.

All turnover was generated in the UK.

Assets and liabilities related to contracts with customers

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

	31 December 2023	31 December 2022	1 January 2022
	£ m	£ m	£ m
Contract assets			
Trade debtors	896	515	111
Accrued income	187	278	86
Provision for impairment of trade debtors and accrued income	(510)	(252)	(117)
Total contract assets	573	541	80
Contract liabilities			
Deferred income	(737)	(783)	(145)
Total contract liabilities	(737)	(783)	(145)

All deferred income recognised as of 31 December 2022 has been recognised in revenue in the current year and the balance at 31 December 2023 is expected to be fully recognised in the financial year ended 31 December 2024.

Net trade receivables and accrued income decreased in 2023 due to an increase in expected credit loss allowance as a result of the cost of living crisis and the suspension of warrant activity increasing the impairment risk on aged debts. Deferred income decreased as a result of falling energy prices.

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

5 Net impairment losses on financial assets - debtors

The analysis of the Company's net impairment losses on financial assets for the year is as follows:

	2023	2022
	£ m	£ m
Impairment losses of financial assets	(217)	(115)
Reversal of previously recognised impairment losses	3	2
Net impairment losses on financial assets - debtors	(214)	(113)

6 Other operating income

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

	2023	2022
	£ m	£ m
Research and development tax credit	1	4
Gain on disposal of businesses	32	-
Loss on disposal of intangible assets	-	(2)
Gain on write-off of amounts due to group undertakings	-	1
	33	3

7 Operating profit/(loss)

Arrived at after charging/(crediting)

	2023	2022
	£ m	£ m
Net impairment losses on financial assets - debtors	214	113
Depreciation expense - tangible assets	5	3
Depreciation expense - right-of-use assets	11	8
Amortisation expense - intangible assets	50	25
Loss on disposal of intangible assets	-	2
Impairment of investment in subsidiaries	31	-
Renewable obligation certificates	321	261
Government grants - Energy Price Guarantee Scheme	(1,995)	(746)

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

8 Exceptional items

	2023	2022
	£ m	£ m
Integration	98	32
Group reorganisation	5	38
Gain on disposal of businesses	(32)	-
Loss on disposal of intangible assets	-	2
Gain on write-off of amounts due to group undertakings	-	(1)
Impairment of investment in subsidiaries	31	-
Re-measurement of derivative energy contracts	(1,086)	1,446
Exceptional items included within operating profit/(loss)	(984)	1,517
Net taxation on exceptional items	238	(338)

Integration

The Company continued to engage in activities to integrate SSE operations and systems into OVO throughout the year, following the acquisition of OVO (S) Energy Services Limited Group (SSE) in 2020. The majority of the costs within integration are associated with staff personnel and professional services supporting customer migration from the SSE legacy customer operating platform to a new platform, and integrating and simplifying the SSE legacy technology estate within the Company. The total costs incurred in relation to integration activities during the year were £38m (2022: £32m).

During the year, the Company changed its accounting estimate for unbilled and billed revenue in relation to customers migrated from the SSE legacy customer operating platform to the new platform, resulting in a de-recognition of energy supply revenue of £60m (2022: £nil). The Company's energy supply revenue includes an estimate of consumption between meter reads. Through customer migration, the Company identified historical system issues which resulted in estimates of customers' consumption being recalibrated. This meant that revenue previously recognised (though not billed to customers) was not recoverable, leading to a re-estimate of unbilled and billed revenue in the year. The de-recognition of unbilled and billed revenue is treated as exceptional as the underlying issues resulting in the de-recognition were attributed to customer migration.

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

8 Exceptional items (continued)

Group reorganisation

The OVO Group continued its restructuring programme throughout the year which was initiated following the acquisition of SSE in 2020. The majority of the costs within group reorganisation relate to redundancy costs being recognised in relation to both incurred and expected future severance costs.

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 cross more than one accounting period as the programme spans over more than a year. The programme was largely complete by the end of 2023. Lower further costs are expected to be incurred as the Company concludes the programme in 2024.

Net gain on disposal of businesses

Net gain on disposal of businesses consists of the gain on disposal of the heritage meter portfolio of £32m. Refer to Note 20 Disposals for further details.

Impairment of investment in subsidiaries

Impairment of investment in subsidiaries consists of the provision recognised against the Company's investment in Kaluza Ltd. Refer to Note 18 Investments for further details.

Re-measurement of derivative energy contracts

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. Re-measurement of derivative energy contracts has resulted in a net gain of £1.1bn (2022: loss of £1.4bn). The significant gain relates to the unwind of the derivative financial liabilities at 31 December 2022 as the majority of the related contracts were utilised in the current year.

Income statement classification

Recognised in revenue is the £60m de-recognition of unbilled and billed revenue as a result of a change in estimate (2022: £nil). The £1.1bn gain arising from the re-measurement of derivative energy contracts is recognised in re-measurement of derivative energy contracts (2022: £1.4bn loss). The £32m gain on disposal of businesses is recognised in other operating income (2022: £2m loss on disposal of intangible assets and £1m gain on write-off of amounts due to group undertakings). The remaining total of £74m exceptional costs is recognised in administrative expenses (2022: £70m).

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

8 Exceptional items (continued)

Adjusted EBITDA

Management reports adjusted performance measures in the financial statements as management considers they provide additional useful information on business performance and underlying trends. They are also the primary measure management uses to monitor performance internally and are also reported to our lenders as part of covenants reporting.

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

Adjusted EBITDA is defined as operating profit/(loss), after adjusting for depreciation, amortisation, impairment and exceptional items (i.e., expenses or credits that are deemed unusual by nature and/or scale and significance including fair value gains/(losses) on derivatives). Adjusted operating profit/(loss) is defined as operating profit/(loss), after adjusting for exceptional items (i.e., expenses or credits that are deemed unusual by nature and/or scale and significance including fair value gains/(losses) on derivatives). Adjusted profit/(loss) before tax is defined as profit/(loss) before tax, after adjusting for exceptional items (i.e., expenses or credits that are deemed unusual by nature and/or scale and significance including fair value gains/(losses) on derivatives).

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

	2023 £ m	2022 £ m
Statutory profit/(loss) for the year	810	(1,273)
Add: Tax on profit/(loss)	251	(371)
Profit/(loss) before tax	1,061	(1,644)
(Less)/Add: Exceptional items	(984)	1,517
Adjusted profit/(loss) before tax	77	(127)
Less: Interest receivable and similar income	(29)	(13)
Add: Interest payable and similar expenses	87	75
Adjusted operating profit/(loss)	135	(65)
Add: Depreciation of tangible assets and right-of-use assets	16	11
Add: Amortisation of intangible assets	50	25
Adjusted EBITDA	<u>201</u>	<u>(29)</u>

9 Interest receivable and similar income

	2023 £ m	2022 £ m
Interest income on bank deposits	26	4
Interest on amounts owed by group undertakings	2	9
Net interest income on defined benefit pension asset	1	-
Total interest receivable and similar income	<u>29</u>	<u>13</u>

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

10 Interest payable and similar expenses

	2023	2022
	£ m	£ m
Interest on amounts due to group undertakings	84	72
Interest expense on leases	3	2
Unwinding of discount on provisions	-	1
Total interest payable and similar expenses	87	75

11 Staff costs

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

	2023	2022
	£ m	£ m
Wages and salaries	198	171
Social security costs	20	19
Pension costs - defined contribution scheme	11	11
Pension costs - defined benefit scheme	8	5
Capitalised staff costs	(20)	(11)
	217	195

Capitalised staff costs are included in internally generated software development costs within intangible assets.

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

	2023	2022
	No.	No.
People & operations	3,144	2,796
Technology & business change	383	434
Commercial & finance	571	529
Group	71	28
	4,169	3,787

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

12 Directors' remuneration

The Directors' remuneration for the year is as follows:

	2023 £ 000	2022 £ 000
Directors' remuneration	1,200	2,599
Company contributions to defined contribution pension scheme	-	25
Compensation for loss of office	-	1,229
	<u>1,200</u>	<u>3,853</u>

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

	2023 £ 000	2022 £ 000
Directors' remuneration	622	1,609
Company contributions to defined contribution pension scheme	-	5
	<u>622</u>	<u>1,614</u>

During the year, retirement benefits were accruing to no Directors (2022: three) 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 plan is one (2022: nil). No 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 plan (2022: No shares were received). Total aggregate share-based payment recognised in the year in respect of the Directors' qualifying services is £28,000 (2022: £39,000).

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.

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

13 Auditors' remuneration

	2023	2022
	£ 000	£ 000
Audit of Company	536	320
Audit of subsidiaries	24	147
	560	467

Non-audit services amounting to £94k were provided. These services include limited assurance over selected sustainability information reported in the Energy Transition Holdings Ltd's Annual Report and agreed upon procedures in connection with the Group's term loan facilities reporting requirements.

14 Tax on profit/(loss)

Tax charged/(credited) in profit or loss:

	2023	2022
	£ m	£ m
Current taxation		
Current taxation	(2)	(1)
Adjustments in respect of prior periods	2	4
Total current taxation	-	3
Deferred taxation		
Arising from origination and reversal of temporary differences	258	(311)
Arising from changes in tax rates and laws	-	(58)
Adjustments in respect of prior periods	(7)	(5)
Total deferred taxation	251	(374)
Tax charged/(credited) in profit or loss	251	(371)

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

14 Tax on profit/(loss) (continued)

The tax on profit/(loss) for the year is higher than the standard rate of corporation tax in the UK (2022: higher than the standard rate of corporation tax in the UK) of 23.5% (2022: 19%).

The differences are reconciled below:

	2023	2022
	£ m	£ m
Profit/(loss) before tax	<u>1,061</u>	<u>(1,644)</u>
Corporation tax at standard rate	249	(312)
Adjustments in respect of prior periods	(5)	(1)
Effect of revenues exempt from taxation	-	(1)
Effect of expenses not deductible in determining tax (loss)/profit	7	1
Deferred tax credit relating to changes in tax rates or laws	-	(58)
Total tax charge/(credit)	<u>251</u>	<u>(371)</u>

Deferred tax

Deferred tax assets and liabilities

	Asset	Liability	Net deferred
31 December 2023	£ m	£ m	tax
			£ m
Tax losses carry-forwards	187	-	187
Accelerated tax depreciation	39	-	39
Restricted interest deductions carried forward	29	-	29
Revaluation of intangible assets	-	(33)	(33)
Derivatives	-	(17)	(17)
Pension benefit obligations	-	(6)	(6)
Provisions	1	-	1
Other items	6	-	6
	<u>262</u>	<u>(56)</u>	<u>206</u>

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

14 Tax on profit/(loss) (continued)

31 December 2022	Asset £ m	Liability £ m	Net deferred tax £ m
Tax losses carry-forwards	186	-	186
Accelerated tax depreciation	46	-	46
Restricted interest deductions carried forward	30	-	30
Revaluation of intangible assets	-	(5)	(5)
Derivatives	238	-	238
Pension benefit obligations	-	(8)	(8)
Provisions	1	-	1
Other items	-	-	-
	<u>501</u>	<u>(13)</u>	<u>488</u>

Deferred tax movement during the year:

	At 1 January 2023 £ m	Recognised in profit and loss £ m	Recognised on business combinations £ m	At 31 December 2023 £ m
Tax losses carry-forwards	186	1	-	187
Accelerated tax depreciation	46	(7)	-	39
Restricted interest deductions carried forward	30	(1)	-	29
Revaluation of intangible assets	(5)	3	(31)	(33)
Derivatives	238	(255)	-	(17)
Pension benefit obligations	(8)	2	-	(6)
Provisions	1	-	-	1
Other items	-	6	-	6
Net deferred tax assets	<u>488</u>	<u>(251)</u>	<u>(31)</u>	<u>206</u>

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

14 Tax on profit/(loss) (continued)

Deferred tax movement during the prior year:

	At 1 January 2022 £ m	Recognised in profit and loss £ m	Recognised in other comprehensive income £ m	Recognised on business combinations £ m	At 31 December 2022 £ m
Tax losses carry-forwards	54	32	-	100	186
Accelerated tax depreciation	1	8	-	37	46
Restricted interest deductions carried forward	14	16	-	-	30
Revaluation of intangible assets	(2)	(3)	-	-	(5)
Derivatives	(82)	320	-	-	238
Pension benefit obligations	-	-	(3)	(5)	(8)
Provisions	-	1	-	-	1
Net deferred tax (liabilities)/assets	<u>(15)</u>	<u>374</u>	<u>(3)</u>	<u>132</u>	<u>488</u>

Deferred tax assets of £187m (2022: £186m) 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 (2022: £19m) has not been recognised in relation to indefinite carry forward tax losses of £74m (gross) (2022: £74m) for which it is not considered probable that the losses will be utilised based on assessment of available evidence.

A deferred tax liability of £17m (2022: asset of £238m) is also recognised in respect of the remeasurement gain on derivative energy commodity contracts which is not taxable in the period. This deferred tax liability will be reversed when the relevant contracts unwind in future periods.

The main UK corporation tax rate effective from 1 April 2023 is now 25% increased from the previous rate of 19%. The average rate applicable for the year ended 31 December 2023 is 23.5%. 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, which is currently 25% for future periods. The impact of this remeasurement in the period is £nil (2022: credit of £58m).

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

15 Intangible assets

	Goodwill £ m	Contractual customer relationships £ m	Internally generated software development costs £ m	Total £ m
Cost				
At 1 January 2023	-	22	126	148
Additions	-	-	37	37
Acquired on corporate restructuring	109	234	-	343
Disposals	-	-	(82)	(82)
At 31 December 2023	<u>109</u>	<u>256</u>	<u>81</u>	<u>446</u>
Accumulated amortisation				
At 1 January 2023	-	17	62	79
Amortisation charge	-	10	40	50
Amortisation eliminated on disposals	-	-	(82)	(82)
Acquired on corporate restructuring	-	111	-	111
At 31 December 2023	<u>-</u>	<u>138</u>	<u>20</u>	<u>158</u>
Carrying amount				
At 31 December 2023	<u>109</u>	<u>118</u>	<u>61</u>	<u>288</u>
At 31 December 2022	<u>-</u>	<u>5</u>	<u>64</u>	<u>69</u>

Amortisation charge of £50m (2022: £25m) is recognised in administrative expenses.

Included within the carrying amount of internally generated software development costs of £61m (2022: £64m) are intangible assets under construction of £37m (2022: £26m), which are not subject to amortisation. Contractual customer relationships include customer relationships acquired on corporate restructuring with a carrying value of £118m (2022: £nil). The remaining amortisation period is between one and four years.

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

16 Tangible assets

	Leasehold property £ m	Fixtures and fittings £ m	Office equipment £ m	Meter assets and miscellaneous equipment £ m	Total £ m
Cost					
At 1 January 2023	12	3	9	1	25
Additions	7	-	3	4	14
Disposals	-	(1)	(3)	-	(4)
At 31 December 2023	<u>19</u>	<u>2</u>	<u>9</u>	<u>5</u>	<u>35</u>
Accumulated depreciation					
At 1 January 2023	9	3	5	-	17
Charge for the year	1	-	3	1	5
Eliminated on disposals	-	(1)	(3)	-	(4)
At 31 December 2023	<u>10</u>	<u>2</u>	<u>5</u>	<u>1</u>	<u>18</u>
Carrying amount					
At 31 December 2023	<u>9</u>	<u>-</u>	<u>4</u>	<u>4</u>	<u>17</u>
At 31 December 2022	<u>3</u>	<u>-</u>	<u>4</u>	<u>1</u>	<u>8</u>

The depreciation charge of £5m (2022: £3m) is recognised in administrative expenses. The amount of contractual commitments for the acquisition of tangible assets as at the balance sheet date is £nil (2022: £3m).

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

17 Right-of-use assets

	Property £ m	Fleet £ m	Total £ m
Cost			
At 1 January 2023	62	31	93
Additions	-	1	1
Disposals	(20)	(25)	(45)
Modifications	-	1	1
At 31 December 2023	<u>42</u>	<u>8</u>	<u>50</u>
Accumulated depreciation			
At 1 January 2023	37	18	55
Charge for the year	6	5	11
Eliminated on disposals	(20)	(20)	(40)
At 31 December 2023	<u>23</u>	<u>3</u>	<u>26</u>
Carrying amount			
At 31 December 2023	<u>19</u>	<u>5</u>	<u>24</u>
At 31 December 2022	<u>25</u>	<u>13</u>	<u>38</u>

Depreciation charge of £11m (2022: £8m) is recognised in administrative expenses.

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

18 Investments

Subsidiaries	£ m
Cost	
At 1 January 2022	428
At 31 December 2022	<u>428</u>
Additions	128
Transferred to assets held for sale	<u>(125)</u>
At 31 December 2023	<u>431</u>
Provision	
At 1 January 2022	<u>-</u>
At 31 December 2022	<u>-</u>
Provision recognised in the year	31
Transferred to assets held for sale	<u>(31)</u>
At 31 December 2023	<u>-</u>
Carrying amount	
At 31 December 2023	<u>431</u>
At 31 December 2022	<u>428</u>

On 1 January 2023, Kaluza Ltd issued 900 ordinary shares of £1 each to the Company in exchange for settlement of £125m owed to the Company by Kaluza Ltd. Subsequently, the Company's holding in Kaluza Ltd was impaired by £31m to reflect the assessed recoverable amount of the investment of £94m. On 17 October 2023, the Company acquired the entire share capital of Bonnet Ltd for consideration totalling £3m, of which £1m is deferred.

On 21 December 2023, the Company agreed to the sale of its holding in Kaluza Ltd to the Company's immediate parent OVO Finance Ltd. As a result, the Company's investment in Kaluza Ltd has been classified as an asset held for sale as at 31 December 2023. The sale completed on 1 January 2024 with consideration of £94m being received as a reduction in the amount due to OVO Finance Ltd by the Company.

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

18 Investments (continued)

Details of the subsidiaries as at 31 December 2023 and 31 December 2022 are as follows:

Name of subsidiary	Principal activity	Registered office / Country of incorporation	Proportion of ownership interest and voting rights held at 31 December	
			2023	2022
OVO Electricity Ltd*	Electricity supply licence holder and 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*	Gas supply licence holder and 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*	Dissolved	Grampian House, 200 Dunkeld Road, Perth, Scotland, PH1 3GH UK	0%	100%
Spark Gas Shipping Ltd*	Non-trading company	1 Rivergate, Temple Quay, Bristol, England, BS1 6ED UK	100%	100%
Kaluza Ltd*	Development of intelligent energy platform	69 Notting Hill Gate, London, England, W11 3JS UK	100%	100%
Kaluza (US) LLC	Management services	Capitol Services, Inc, 1675 South State St., Suite B, Dover, DE 19901, Kent County USA	100%	100%
Kaluza Pty Ltd	Engineering services	Tower Five, Collins Square, Level 22, 727 Collins Street, Docklands, VIC 3008 Australia	100%	0%
OVO (S) Energy Services Limited*	Intermediate holding company	1 Rivergate Temple Quay, Bristol, England, BS1 6ED UK	100%	100%
OVO (S) Electricity Limited**	Dormant	1 Rivergate Temple Quay, Bristol, England, BS1 6ED UK	100%	100%
OVO (S) Gas Limited***	Sale of products and services enabling decarbonisation	1 Rivergate Temple Quay, Bristol, England, BS1 6ED UK	100%	100%

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

18 Investments (continued)

Name of subsidiary	Principal activity	Registered office / Country of incorporation	Proportion of ownership interest and voting rights held at 31 December	
			2023	2022
OVO (S) Energy Solutions Limited	Installation of energy efficiency measures in domestic properties	Cadworks, 41 West Campbell Street, Glasgow, Scotland, G2 6SE UK	100%	100%
OVO (S) Home Services Limited	Sale of boiler, central heating and electrical wiring services, breakdown cover and installation services	Cadworks, 41 West Campbell Street, Glasgow, Scotland, G2 6SE UK	100%	100%
OVO (S) Metering Limited**	Dissolved	Cadworks, 41 West Campbell Street, Glasgow, Scotland, G2 6SE UK	0%	100%
Bonnet Ltd*	Development of software application	1 Rivergate, Temple Quay, Bristol, England, BS1 6ED UK	100%	0%

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

* indicates direct investment of the Company.

** The Company acquired the trades and assets of OVO (S) Electricity Limited and OVO (S) Metering Limited during the prior year. Refer to Note 19 for further information.

*** The Company acquired the trade and assets of OVO (S) Gas Limited relating to the supply of natural gas to domestic customers during the year. Refer to Note 19 for further information.

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

19 Acquisitions

Acquisitions under OVO Group reorganisation

On 1 November 2023, the Company acquired the trade and assets of OVO (S) Gas Limited (OSG), an indirect subsidiary of the Company, relating to the supply of natural gas to domestic customers. In the prior year, the Company also acquired the trade and assets of OVO (S) Electricity Limited (OSE) and OVO (S) Metering Limited (OSM), indirect subsidiaries of the Company, and OVO Field Force Ltd (OFF), a fellow subsidiary of OVO Finance Ltd, on 1 April 2022. As part of the transactions, customers, employees, businesses and individual assets or liabilities were transferred between the subsidiaries of Energy Transition Holdings Ltd.

The principal activities of the transferees were as follows:

Subsidiary	Principal activity	Acquisition date
OVO (S) Gas Limited	Supply of natural gas to domestic customers in the UK	1 November 2023
OVO (S) Electricity Limited	Supply of electricity to domestic customers in the UK	1 April 2022
OVO (S) Metering Limited	Installation and maintenance of smart meters in the UK	1 April 2022
OVO Field Force Ltd	Installation and maintenance of smart meters in the UK	1 April 2022

The acquisitions are part of a wider OVO Group internal reorganisation to simplify the business. The assets and liabilities were purchased from OFF and OSM for consideration equal to their book value and the acquisition of the trade and assets of OSE and OSG were transacted at the market value of £1 and £521m, respectively. Identifiable assets acquired and liabilities assumed from the acquisition of OSG's trade and assets were recognised at the book value from the highest level of consolidation.

The difference between the consideration and the book value of net assets or liabilities acquired for both OSG's and OSE's ((£166m) and £166m respectively) was taken to the merger reserve.

OSG and OSM subsequently distributed the consideration due to them to their immediate parent company, OVO (S) Energy Services Limited (OSES), resulting in the consideration payable assigned to OSES. At 31 December 2023, £12m of the consideration payable to OSG remains outstanding at 31 December 2023. The consideration payable to OFF was satisfied by the discharging of amounts due to the Company in 2022.

The amounts recognised in respect of the book value from the highest level of consolidation of identifiable assets acquired and liabilities assumed from the acquisition of OSG's trade and assets are as set out in the table below:

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

19 Acquisitions (continued)

	OVO (S) Gas Limited £ m
Goodwill	109
Intangible assets	123
Trade and other debtors	492
Cash at bank and in hand	7
Trade and other creditors	(6)
Income tax liability	(7)
Deferred tax liabilities	(31)
Total net assets acquired	687
Total consideration	521

The amounts recognised in respect of the book value of identifiable assets acquired and liabilities assumed on 1 April 2022 are as set out in the table below:

	OVO (S) Electricity Limited £ m	OVO (S) Metering Limited £ m	OVO Field Force Ltd £ m	Total £ m
Intangible assets	54	-	2	56
Tangible assets	2	1	-	3
Right-of-use assets	10	6	5	21
Defined benefit pension asset	20	-	-	20
Trade and other debtors	483	26	35	544
Deferred tax assets	118	9	5	132
Income tax asset	-	-	5	5
Stocks	28	-	8	36
Trade and other creditors	(808)	(7)	(6)	(821)
Lease liabilities	(18)	(3)	(3)	(24)
Income tax liability	(10)	(1)	-	(11)
Provisions	(45)	(2)	-	(47)
Total net (liabilities assumed)/assets acquired	(166)	29	51	(86)
Total consideration	-	29	51	80

Acquisition of Bonnet Ltd

On 17 October 2023, the Company acquired the entire share capital of Bonnet Ltd (Bonnet), a company which develops technology connecting electric vehicle drivers to charging networks. Bonnet was acquired to expand the Company's existing Electric Vehicle product and service offerings. The purchase consideration was £3m of which £1m was deferred.

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

20 Disposals

On 9 October 2023, the Company disposed of its traditional meter rental operation (heritage meter portfolio) which generates revenue from the rental of traditional meters. The operation does not represent a major line of business or geographical area of operation for the Company. The Company recognised a total gain of £32m on the disposal which is recognised in other operating income in the income statement. The carrying values of assets disposed of as at the date of completion was £nil.

The amount of deferred consideration is dependent on the number of meters that have been removed or have had their MAPIDs updated to reflect the ownership of the meters by the new meter asset provider. At the time of the sale, the fair value of the deferred consideration was determined to be £10m. It has been recognised as a financial asset at fair value through profit or loss.

The carrying amounts of assets and liabilities disposed of as at the date of completion are as set out in the table below:

	9 October 2023 £ m
Gain on disposal	
Total consideration	32
Net assets disposed of	-
Gain on disposal before income tax	32
Income tax expense	(8)
Gain on disposal after income tax	24
Satisfied by:	
Cash	22
Deferred consideration	10
Total consideration	32

21 Stocks

	31 December 2023 £ m	31 December 2022 £ m
Finished goods and goods for resale	27	34

Finished goods and goods for resale primarily comprises smart meter and related assets. The cost of stocks recognised as an expense in the year amounted to £29m (2022: £24m). Write-down of stocks amounted to £3m in the year (2022: £8m). These are included within cost of sales.

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

22 Debtors

	31 December 2023 £ m	31 December 2022 £ m
Amounts falling due within one year:		
Trade debtors and accrued income	1,083	793
Provision for impairment of trade debtors and accrued income	(510)	(252)
Net trade debtors and accrued income	573	541
Amounts owed by group undertakings	93	378
Prepayments	49	210
Income tax asset	12	9
Grants debtor	-	101
Derivative financial assets	59	-
Cash collateral	58	85
Cash-in-transit	-	50
Other debtors	78	40
Assets held for sale	94	-
Total amounts due within one year	1,016	1,414
Amounts falling due after more than one year:		
Income tax asset	3	-
Deferred tax assets	223	488
Defined benefit pension asset	26	29
Derivative financial assets	10	37
Total amounts due after more than one year	262	554
Total debtors	1,278	1,968

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.

Grant debtors consist of grant income receivable from the Government in relation to the Energy Price Guarantee Scheme. As at the balance sheet date, the Company is in a payable position under the scheme. The grant creditors are included in Creditors.

Derivative financial assets relate to certain energy contracts classified 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. Refer to Note 30 for further details.

Assets held for sale relate to investment in Kaluza Ltd. Refer to Note 18 for further information.

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

23 Cash at bank and in hand

	31 December	31 December
	2023	2022
	£ m	£ m
Cash at bank	223	379
Short-term deposits	156	-
	379	379

Restricted cash

Of the £379m (2022: £379m) cash at bank, £nil (2022: £269m) relates to cash received from the Government not yet distributed to customers under the Energy Bills Support Scheme. The use of this cash is restricted to distributing to eligible customers to reduce their energy bills under the scheme.

Cash available for use as at 31 December 2023 is therefore £379m (2022: £110m).

Short-term deposits

Short-term deposits relate to term deposits placed with banks and have an original maturity of three months or less.

24 Creditors: amounts falling due within one year

	31 December	31 December
	2023	2022
	£ m	£ m
Trade creditors	419	383
Accruals	554	531
Amounts due to group undertakings	1,070	1,346
Amounts due to related parties	15	15
Social security and other taxes	6	5
Current lease liabilities	6	9
Grants creditor	40	-
Other creditors	67	299
Deferred income	737	783
Derivative financial liabilities	-	1,054
	2,914	4,425

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

24 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 £446m to OVO Finance Ltd (2022: £505m), 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 which carry an average interest rate of 13.71%. Interest is incurred at either 7% or 8.55% on other interest bearing balances.

Grant creditors relate to net overpayment of government grants received under the Energy Price Guarantee Scheme.

Of the other creditors amount as at 31 December 2022, £292m relates to obligations not yet satisfied under the Energy Bills Support Scheme as at the balance sheet date which consist of cash received from the Government of £269m not yet distributed to customers and £23m unredeemed vouchers issued to prepayment customers. As at 31 December 2023, the Company has no other payables relating to obligations not yet satisfied under the Energy Bills Support Scheme. Refer to Government support schemes in the Summary of significant accounting policies for further details on the scheme.

The Company's commodity purchasing arrangement gives rise to a variable liability to the creditor which is a combination of trade creditors and future purchase commitments secured on the cash and debtors of the Company.

25 Creditors: amounts falling due after more than one year

	31 December 2023 £ m	31 December 2022 £ m
Amounts due to related parties	46	18
Non-current lease liabilities	29	34
	<u>75</u>	<u>52</u>

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

26 Leases

Leases included in creditors

	31 December 2023 £ m	31 December 2022 £ m
Current lease liabilities	6	9
Non-current lease liabilities	<u>29</u>	<u>34</u>

Lease liabilities maturity analysis

A maturity analysis of lease liabilities based on undiscounted gross cash flows is as follows:

	31 December 2023 £ m	31 December 2022 £ m
Less than one year	9	11
Between two and five years	22	25
Greater than five years	<u>16</u>	<u>21</u>
Total lease liabilities (undiscounted)	<u>47</u>	<u>57</u>

The Company leases various offices and vehicles. 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 £3m (2022: £2m).

The total cash outflow for leases for the year ended 31 December 2023 was £12m (2022: £11m).

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

27 Provisions for liabilities

	Meter rental agreements provisions £ m	Deferred tax liabilities £ m	Other provisions £ m	Total £ m
At 1 January 2023	19	-	24	43
Additional provisions	16	17	19	52
Provisions used	(5)	-	(17)	(22)
Unused provision reversed	-	-	(4)	(4)
Decrease due to passage of time or unwinding of discount	(1)	-	-	(1)
Increase from transfers and other changes	4	-	-	4
At 31 December 2023	<u>33</u>	<u>17</u>	<u>22</u>	<u>72</u>

Meter rental agreements provisions

Meter rental agreements provisions of £33m (2022: £19m) consist of obligations under agreements with meter assets providers (MAPs) whereby the Company is liable to pay termination charges when commissioned metering equipment has been removed. The costs of £25m (2022: £19m) are expected to be utilised over the lifespan of the agreements and therefore, the timing of the cash outflows is uncertain. In addition, the Company has recognised £8m (2022: £nil) provision in relation to penalties payable for falling short of minimum committed volumes under these agreements. The penalties are expected to be utilised over the lifespan or at the end of the agreements, depending on the MAPs.

Deferred tax liabilities

See note 14 for further details on deferred tax liabilities.

Other provisions

Other provisions consist of the following.

a. Onerous contracts provisions - £6m (2022: £10m)

Included in onerous contracts provisions are £3m IT-related service contracts. These contracts related to services supporting and maintaining the operations of the SSE legacy customer operating platform. The platform has been decommissioned during the year and therefore, these IT contracts are deemed unfavourable. The costs under these contracts are expected to be fully utilised in the next 12 months.

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

27 Provisions for liabilities (continued)

b. Restructuring provision - £4m (2022: £7m)

Following the acquisition of SSE in 2020, the OVO Group initiated an integration programme which has resulted in the redundancy of a number of employees in the Company. The programme was aimed at simplifying the business to reduce costs. Restructuring costs currently provided for are expected to be fully utilised over the next 12 months.

c. Dilapidation provisions - £2m (2022: £4m)

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.

d. Facility agreement exit fee provision- £2m (2022: £2m)

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 OVO Group at the date of the event. The recognised provision reflects the Directors' best estimate of the fair value of this fee at 31 December 2023.

The remaining provisions included within other provisions of £8m (2022: £nil) consist of obligations under Ofgem schemes and are expected to be utilised in 2024.

28 Called up share capital

Allotted, called up and fully paid shares

	31 December 2023		31 December 2022	
	No.	£	No.	£
Ordinary share capital of £0.01 each	<u>12,500</u>	<u>125.00</u>	<u>12,500</u>	<u>125.00</u>

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.

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

29 Other reserves

Share-based payment reserve

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.

Merger reserve

Merger reserve arose as a result of the trade and assets acquisitions. The reserve is £nil (2022: £166m) as at the balance sheet date. Refer to Note 19 for further information.

30 Derivatives and financial instruments

Summary fair values

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

	31 December 2023 Carrying value £ m	31 December 2023 Fair value £ m	31 December 2022 Carrying value £ m	31 December 2022 Fair value £ m
Financial assets				
Derivative financial assets (current)	59	59	-	-
Derivative financial assets (non-current)	10	10	37	37
Trade and other debtors	801	801	1,189	1,189
Cash at bank and in hand	379	379	379	379
Financial liabilities				
Derivative financial liabilities (current)	-	-	(1,054)	(1,054)
Trade and other creditors	(2,210)	(2,210)	(2,593)	(2,593)
Lease liabilities (current)	(6)	(6)	(9)	(9)
Lease liabilities (non-current)	(29)	(29)	(34)	(34)

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

30 Derivatives and financial instruments (continued)

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.

Deferred consideration of £10m arising from the disposal of heritage meter portfolio has been recognised as a financial asset at fair value through profit or loss and included in trade and other debtors.

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 debtors mainly relate to customers from whom it is unlikely that full payment will ever be received. The primary inputs used to impair the debtor 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 creditors 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.

The Company designates 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. The amount of derivative re-measurement that has been recognised through the profit or loss is as follows:

	2023	2022
	£ m	£ m
Opening value of derivative financial (liabilities (net of assets))/ assets (net of liabilities)	(1,017)	429
Movement recognised through profit or loss	1,086	(1,446)
Closing value of derivative financial assets (net of liabilities)/ (liabilities (net of assets))	69	(1,017)

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

31 Pension and other schemes

The Company operates both defined contribution and benefit pension schemes. The pension cost charge under the defined contribution scheme for the year represents contributions payable by the Company to the scheme and amounted to £11m (2022: £11m).

Defined benefit pension scheme

Introduction

The Company sponsors a funded defined benefit pension plan for qualifying UK employees - the OVO Energy Group of the ESPS. The scheme was established on 14 January 2020 following the acquisition of OVO (S) Energy Services Limited Group by the Company in order to provide retirement benefits for eligible company employees. Sponsorship of the scheme has transferred to the Company following the transfer of OVO (S) Electricity Limited's trade and assets on 1 April 2022.

The scheme is sectionalised with separate sections for former members of the Southern Electricity Group of the ESPS and former members of the Scottish Hydro-Electric Pension Scheme. The assets in each section are ringfenced to provide benefits solely for the members of that section. The scheme is administered by an independent trustee, which is legally separate from the Company. The trustee is required by law to act in the interest of all relevant beneficiaries, and is responsible for the investment policy for the assets and day-to-day administration of the benefits. Under the scheme, employees are entitled to annual pensions, and in some cases also lump sum benefits, on retirement at age 60 or 63 calculated with reference to pensionable service and final pensionable salary. Benefits are also payable on death and following other events such as withdrawing from active service. No other post-retirement benefits are provided to these employees.

Profile of the scheme

The Defined Benefit Obligation (DBO) includes benefits for current employees, former employees and current pensioners. Broadly, about 29% of the DBO is attributable to current employees, 14% to deferred pensioners and 57% to current pensioners.

The scheme duration is an indicator of the weighted-average time until benefit payments are made. For the scheme as a whole, the duration is approximately 17 years.

Funding requirements

UK legislation requires that pension schemes are funded prudently. The first formal valuation of the scheme since inception on 14 January 2020 had an effective date of 31 March 2020, and resulted in a surplus of £10m relative to technical provisions overall. Following the scheme's first formal valuation, the Company is paying contributions equivalent to 32.7% of salaries for employees in the Southern section and 39.0% of salaries for employees in the Hydro section to meet the expected cost of benefits being built up by these employees.

The formal valuation at 31 March 2023 is currently underway.

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

31 Pension and other schemes (continued)

Risks associated with the scheme

The scheme exposes the Company to some risks, the most significant of which are:

Asset volatility

The DBO is calculated using a discount rate set with reference to corporate bond yields. If assets underperform this yield, this will create a deficit.

The scheme holds approximately 14% of its assets in equities which, though expected to outperform corporate bonds in the long term, create volatility and risk in the short term. The allocation to growth assets is monitored to ensure it remains appropriate given the scheme's long term objectives.

Changes in bond yields

A decrease in corporate bond yields will increase the value placed on the scheme's DBO for accounting purposes, although this will be partially offset by an increase in the value of the scheme's bond holdings.

Inflation risk

The majority of the scheme's DBO is linked to inflation, and higher inflation leads to a higher DBO (although, in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation).

Most of the assets are either unaffected by or only loosely correlated with inflation, meaning that an increase in inflation will also increase the deficit.

Life expectancy risk

The majority of the scheme's obligations are to provide benefits for the lifetime of the member, so increases in life expectancy will result in an increase in the DBO.

Risk management

The Company and trustees have agreed a long term strategy for reducing investment risk as and when appropriate. This includes an asset-liability matching policy which aims to reduce the volatility of the funding level of the scheme. By investing in assets such as index-linked gilts and swaps, which perform in line with the liabilities of the scheme, the scheme is protected against inflation being higher than expected.

The trustees insure certain benefits which are payable on death before retirement.

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

31 Pension and other schemes (continued)

Reporting at 31 December 2023

The preliminary results of the latest formal valuation at 31 March 2023 have been adjusted to the balance sheet date, taking account of experience over the period since 31 March 2023, changes in market conditions, and differences in the financial and demographic assumptions. The present value of the Defined Benefit Obligation, and the related current service cost, were measured using the projected unit credit method.

The principal assumptions used to calculate the liabilities under IAS 19 are as follows.

Principal actuarial assumptions

The significant actuarial assumptions used to determine the present value of the defined benefit obligation at the balance sheet date are as follows:

	31 December 2023 %	31 December 2022 %
Discount rate	4.50	4.70
RPI Inflation	3.00	3.10
CPI Inflation	2.60	2.70
Rate of general long term increase in salaries	3.10	3.20
Pension increases in payment (RPI max 5% p.a.)	2.80	2.90
Pension increases in payment (RPI max 3% p.a.)	2.20	2.30
Pension increases in payment (CPI max 3% p.a.)	<u>2.10</u>	<u>2.10</u>

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

31 Pension and other schemes (continued)

Post retirement mortality assumptions

	31 December 2023 Years	31 December 2022 Years
Life expectancy for male currently aged 60	25.40	26.40
Life expectancy for female currently aged 60	27.60	28.40
Life expectancy at 60 for male currently aged 40	26.90	27.90
Life expectancy at 60 for female currently aged 40	29.20	29.90

	31 December 2023	31 December 2022												
	SAPS S3 Tables	SAPS S3 Tables												
	'All' for males and 'Middle' for females with the following scaling factors:	'All' for males and 'Middle' for females												
Mortality base table adopted	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 30%; text-align: center;">Southern section</th> <th style="width: 35%; text-align: center;">Male member*</th> <th style="width: 35%; text-align: center;">Female member*</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">Active</td> <td style="text-align: center;">117%</td> <td style="text-align: center;">103%</td> </tr> <tr> <td style="text-align: center;">Deferred</td> <td style="text-align: center;">102%</td> <td style="text-align: center;">102%</td> </tr> <tr> <td style="text-align: center;">Pensioner</td> <td style="text-align: center;">105%</td> <td style="text-align: center;">107%</td> </tr> </tbody> </table>	Southern section	Male member*	Female member*	Active	117%	103%	Deferred	102%	102%	Pensioner	105%	107%	Scaled by 105% for Southern section and by 109% for Hydro section
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Active	97%	127%												
Deferred	97%	92%												
Pensioner	101%	120%												
	*Different scaling factors apply to future dependents													
Mortality future improvements adopted	CMI 2022 projections model with Sk parameter of 7.0, A parameter of 0.25% p.a., 2020 and 2021 weighting parameters ("w2020" and "w2021" respectively) of 0% and 2022 weighting parameter ("w2022") of 25%, and long-term improvement rate of 1.25% p.a	CMI 2021 projections model with Sk parameter of 7.0 and A parameter of 0.25, and long term improvement rate of 1.25% p.a.												
GMP equalisation	Cost of equalising benefits for differences in GMPs between males and females taken to be around 0.2% of liabilities	Cost of equalising benefits for differences in GMPs between males and females taken to be around 0.2% of liabilities												
Cash commutation	Allowance made for members to take maximum permitted lump sump at retirement by commuting pension based on current commutation terms	Allowance made for members to take maximum permitted lump sump at retirement by commuting pension based on current commutation terms												

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

31 Pension and other schemes (continued)

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

The amounts recognised on the balance sheet as at the balance sheet date are as follows:

	31 December	31 December
	2023	2022
	£ m	£ m
Fair value of scheme assets	88	85
Present value of scheme liabilities	(62)	(56)
Defined benefit pension scheme surplus	26	29

Minimum funding requirement

When determining the adjustment in respect of the minimum funding requirement, it has been assumed that the Company would be entitled to a refund from the scheme of any surplus arising in the scheme in future. This is on the basis of the gradual settlement of liabilities over time until there are no remaining members, and takes into account the respective powers of the Company and the trustees under the scheme's governing documentation.

Scheme assets

Changes in the fair value of scheme assets during the year are as follows:

	2023	2022
	£ m	£ m
Fair value at start of year	85	-
Interest income on scheme assets	4	2
Re-measurement gains/(losses) on scheme assets	1	(37)
Contributions by the employer	2	3
Net benefits paid out	(4)	(3)
Assets acquired in business combinations	-	120
Fair value at end of year	88	85

Analysis of assets

The scheme assets are invested in the following asset classes:

	31 December	31 December
	2023	2022
	£ m	£ m
Cash/net current assets	6	9
Equities	13	12
Corporate bonds	35	33
Index-linked gilts	34	31
Total market value of assets	88	85

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

31 Pension and other schemes (continued)

Actual return on scheme assets

	2023	2022
	£ m	£ m
Actual return on scheme assets	<u>5</u>	<u>(35)</u>

The pension scheme has not invested in any of the Company's own financial instruments or in properties or other assets used by the Company. All scheme assets are quoted.

Scheme liabilities

Changes in the present value of scheme liabilities over the year are as follows:

	2023	2022
	£ m	£ m
Present value at start of year	56	-
Current service cost	1	3
Past service cost (including curtailments)	7	2
Actuarial (gains)/losses on scheme liabilities arising from changes in demographic assumptions	(1)	1
Actuarial losses/(gains) on scheme liabilities arising from changes in financial assumptions	1	(49)
Actuarial (gains)/losses on scheme liabilities arising from experience	(1)	1
Interest expense on DBO	3	2
Net benefits paid out	(4)	(4)
Liabilities assumed in business combinations	-	100
Present value at end of year	<u>62</u>	<u>56</u>

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

31 Pension and other schemes (continued)

Amounts recognised in the income statement

	2023 £ m	2022 £ m
Amounts recognised in operating profit/(loss)		
Current service cost	1	3
Past service cost	7	2
Recognised in arriving at operating profit/(loss)	8	5
Amounts recognised in interest receivable and similar income		
Net interest	(1)	-
Total recognised in the income statement	7	5

Amounts taken to the statement of comprehensive income

	2023 £ m	2022 £ m
Actuarial gains/(losses) on scheme liabilities arising from changes in demographic assumptions	1	(1)
Actuarial (losses)/gains on scheme liabilities arising from changes in financial assumptions	(1)	49
Actuarial gains/(losses) on scheme liabilities arising from experience	1	(1)
Re-measurement gains/(losses) on scheme assets	1	(37)
Amounts recognised in the statement of comprehensive income	2	10

Sensitivity to key assumptions

The key assumptions used for IAS 19 are: discount rate, inflation and mortality. If different assumptions were used, this could have a material effect on the results disclosed. The sensitivity of the results to these assumptions is set out below.

The sensitivity information shown has been prepared by approximately adjusting the IAS 19 liabilities calculated at the balance sheet date using the same method used to adjust the results of the latest formal valuation to the balance sheet date.

	2023		2022	
£ m	Change	New value	Change	New value
DBO at 31 December	-	62	-	56
0.25% p.a. decrease in the discount rate	3	65	3	60
0.25% p.a. increase in the inflation assumptions	2	64	3	59
One-year increase in life expectancy	1	63	1	58

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

32 Share-based payments

OVO Group share scheme

Scheme description

The OVO Group operates a number of employee share schemes applicable to senior and middle management employees. Under the terms of the schemes, employees of the Company are awarded class B, C, D and E Ordinary shares in OVO Group Ltd. The schemes have different vesting periods and conditions depending on the class of the shares awarded. Schemes awarding shares vest in tranches over a four year period, with a portion of the shares vesting at certain time intervals. The vesting of shares is subject to continued employment in the companies of the Group. Employees leaving prior to the vesting date will forfeit their rights to unvested share awards. Vested shares under the schemes are acquired on a future sale, initial public offering, or return of capital of the issuing company. As the Company is the employing company of the employees awarded shares, the share-based payment expense is recognised in the income statement of the Company. The schemes are equity settled and a fair value liability is calculated on grant date. The expense is charged to the income statement on a straight-line basis over the expected vesting period of the awards.

33 Related party transactions

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

Transactions with entities with the same the ultimate controlling party

Imagination Industries Ltd

During the year, the Company incurred costs of £40m payable to Imagination Industries Ltd (2022: £24m). As at 31 December 2023, £61m remained outstanding (2022: £33m).

34 Parent and ultimate parent undertaking

The Company's immediate parent is OVO Finance Ltd.

The ultimate parent is Energy Transition Holdings Ltd which is the largest group of undertakings for which group financial statements are drawn up and of which the Company is a member. These financial statements are available upon request from the registered office at 1 Rivergate, Temple Quay, Bristol, BS1 6ED, UK.

The smallest group of undertakings for which group financial statements are drawn up and of which the Company is a member is OVO Finance Ltd, which are available upon request from the registered office shown in Note 2.

The ultimate controlling party is Stephen Fitzpatrick.

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Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

35 Subsequent events since the year ended 31 December 2023

On 21 December 2023, the Company agreed to the sale of its holding in Kaluza Ltd to the Company's immediate parent OVO Finance Ltd. On 1 January 2024, the sale of Kaluza Ltd to OVO Finance Ltd was completed for consideration of £94m.

In July 2024, the Company successfully renewed its energy trading arrangements with its key supplier which include various deferred payment facilities, with a combined total facility limit of up to £325m.

In July 2024, the Company subscribed for additional 57,781,701,900 and 20,731,337,300 £0.01 Ordinary shares in its subsidiaries, OVO Electricity Ltd and OVO Gas Ltd for consideration of certain assets valued at £48,272,360 and £18,823,019 and cash of £529,544,659 and £188,490,354 respectively.