

Registration number: 04094263

OVO (S) Electricity Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2021



OVO (S) Electricity Limited

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OVO (S) Electricity Limited

Company Information

Directors	Vincent Casey Raman Bhatia
Company secretary	Vincent Casey
Registered office	1 Rivergate Temple Quay Bristol England BS1 6ED
Independent auditors	PricewaterhouseCoopers LLP 2 Glass Wharf Temple Quay Bristol BS2 0FR
Registered number	04094263

OVO (S) Electricity Limited

Strategic Report for the Year Ended 31 December 2021

The Directors present their report and audited financial statements of OVO (S) Electricity Limited (the "Company") for the year ended 31 December 2021.

This Strategic Report has been prepared in accordance with the requirements of Section 414 of the Companies Act 2006. Its purpose is to inform shareholders and help them assess how the Directors have performed their duty to promote the success of OVO (S) Electricity Limited.

The Business review sets out the main trends and factors underlying the development and performance of the Company during the year ended 31 December 2021, as well as those matters which are likely to affect its future development and performance.

1 Business review

The Company is a private company limited by shares. The principal activity of the Company is the supply of electricity to domestic customers in Great Britain. At 31 December 2021 the Company supplied electricity to 2.79 million household accounts (31 December 2020: 3.26 million).

The Company is a wholly owned subsidiary of OVO (S) Energy Services Limited. On 15 January 2020, OVO completed the transformational acquisition of SSE plc's GB domestic retail business (SSE Energy Services Group Limited, now trading as "OVO (S) Energy Services Limited") including OVO (S) Electricity Limited.

OVO's investment in scalable operating platforms, smart data capabilities and innovative technology combined with SSE's excellence at scale makes the two businesses a great fit. Combining the best of both our businesses will enable us to bring OVO's energy technology to millions more customers to provide a market leading customer experience.

The profit and loss account for the year ended 31 December 2021 is set out on page 18. The reporting period for the Company was shortened from 1 April to 31 March previously to 1 April to 31 December in the prior period to align with the reporting period for OVO group of companies. Subsequent periods will end on the same day and month in future years. As a result, the amounts presented in the current year's financial statements are not entirely comparable.

The profit after taxation for the year ended 31 December 2021 amounts to £81.1m (Period from 1 April 2020 to 31 December 2020: profit of £8.0m). This reflects exceptional costs incurred in the year of £20.7m (Period from 1 April 2020 to 31 December 2020: £60.7m) associated with the integration and reorganisation of the Company with the wider OVO group. The balance sheet at 31 December 2021 is set out on page 20 and indicates net liabilities of £343.8m (31 December 2020: £432.4m).

OVO (S) Electricity Limited

Strategic Report for the Year Ended 31 December 2021 (continued)

1 Business review (continued)

2021 Strategic Update

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

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

Our principal strategy focused on customer retention within the OVO Group and the continuation of the integration of SSE Energy Services onto OVO systems and platforms. This has resulted in some of the Company's customer contracts being migrated to OVO Energy Ltd, and this trend is expected to continue in 2022 and beyond. The end of 2021 marked the start of the energy crisis, which saw the doubling of energy prices and many energy suppliers ceasing to trade. This situation required urgent action, and the need for the industry, the government and the regulator to work together to protect consumers and strengthen the energy system.

Digital transformation

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

Subsequent events since the end of the reporting period

Non-adjusting events

Energy crisis

In early 2022 energy prices continued to remain extremely volatile. 27 energy companies ceased trading in 12 months, adding billions of pounds to energy bills. Market volatility was exacerbated by Russia's invasion of Ukraine. Whilst OVO does not source any gas from Russia, the impact was felt across global energy markets. OVO continues to remain in a strong position due to our prudent hedging strategy. However, with a large number of energy companies having collapsed in 2021, it is clear that the sector needs urgent and meaningful reform if more failures are to be avoided.

High energy prices resulted in over 50% increase in bills in April 2022, which means that millions more households will struggle to heat their homes in winter. We are working with industry and with the Government to find a solution to smooth out price shocks and ensure government support is there for families who need it most.

Voluntary redundancy programme

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

OVO (S) Electricity Limited

Strategic Report for the Year Ended 31 December 2021 (continued)

1 Business review (continued)

Plan Zero

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

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

2 Principal risks and uncertainties

The Directors of the Company acknowledge that they have responsibility for the systems of internal control and risk management and for monitoring their effectiveness. The purposes of these systems are to manage, rather than eliminate, the risk of failure to achieve business objectives, to provide reasonable assurance as to the quality of management information and to maintain proper control over the income, expenditure, assets and liabilities of the Company. No system of control can, however, provide absolute assurance against material misstatement or loss. Accordingly, the Directors have regard to what controls, in their judgement, are appropriate to the Company's businesses, to the materiality of the risks inherent in these businesses, and to the relative costs and benefits of implementing specific controls.

Control is maintained through an organisation structure with clearly defined responsibilities, authority levels and lines of reporting; the appointment of suitably qualified staff in specialised business areas; and continuing investment in high quality information systems. These controls are subject to periodic review as to their implementation and continued suitability.

The main risks which OVO (S) Electricity Limited could face are as follows:

- Competition impacting on volumes sold;
- Exposure to volatility in wholesale electricity prices;
- Payment default from trade debtors;
- Interest rates, inflation and liquidity;
- Economic and Government regulation and
- Weather conditions varying significantly from normal seasonal trends.

The Board reviews and agrees policies for addressing each of these risks. There is relatively little exposure to foreign currency risk as the United Kingdom is the Company's main area of operation. If wholesale power is contracted in foreign currency or indexed to foreign currency, it is policy to hedge all material purchases through the use of foreign currency swaps and forward rate contracts. There is always a risk of payment default from trade debtors and comprehensive credit vetting and effective payment terms are exercised for all significant customer accounts. Good payment discipline is achieved in the domestic market by use of direct debit budget schemes. There is also the risk of mechanical or process failure in the Company's operations. Any material failure in the Company's licensed operations in electricity supply is particularly significant. Operating risk is addressed through the Company's focus on seeking operational excellence and on maintaining the highest standards of safety and quality. The Company is exposed to economic regulation and government policy. There are management structures in place to mitigate, influence and respond to such developments, and to engage with the Industry Regulator, government ministers and officials, and other key bodies.

OVO (S) Electricity Limited

Strategic Report for the Year Ended 31 December 2021 (continued)

2 Principal risks and uncertainties (continued)

There are established procedures in place for regular budgeting and reporting of financial information. The Company's performance is reviewed by the OVO Group Board and the Group Executive Committee. Reports include variance analysis and projected forecasts of the period compared to approved budgets and non-financial performance indicators. There are Company policies in place covering a wide range of issues and risks such as financial authorisations, IT procedures, health, safety and environmental risks, crisis management, and a policy on ethical principles. The effectiveness of the Company's systems of internal control is monitored by the OVO Group internal audit department which distributes reports and, where appropriate, action plans to senior managers, Directors and the external auditors.

3 Financial risk management

The Company's activities expose it to a variety of financial risks including commodity price risk, credit risk, liquidity risk and operational risk. Risk management is carried out by the OVO Group Risk Management Committee, under policies approved by the Directors and the Group management team.

Commodity price risk

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

Credit risk

Credit risk is the risk of financial loss to the Company if a customer fails to meet its contractual obligations.

The Company's principal financial assets are trade and other debtors. The amounts presented in the balance sheet are net of expected credit losses, and the carrying amount of financial assets represents the maximum exposure. The Company has no significant concentration of credit risk, with exposure spread over a large number of customers. The Company manages credit risk relating to trade debtors and accrued income by monitoring the ageing of outstanding balances regularly and, depending on the business units, assessing the creditworthiness of a new customer before trade commences.

Liquidity risk

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

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

Operational risk

The Group manages operational risk arising from its processes, systems and controls by regularly assessing risk from its operations, investing in key technology controls, and monitoring and improving its processes.

4 Key performance indicators

The Directors believe that the following key financial and other performance indicators will provide shareholders with sufficient information to assess how effectively the Company is performing. Electricity supplied, gross profit and adjusted EBITDA in the year ended 31 December 2021 are not comparable to the period from 1 April 2020 to 31 December 2020 as the Company supplied a larger proportion of electricity in the first quarter of the calendar year.

OVO (S) Electricity Limited

Strategic Report for the Year Ended 31 December 2021 (continued)

4 Key performance indicators (continued)

	Unit	Year ended 31 December 2021	Period from 1 April 2020 to 31 December 2020
Electricity supplied to average household	kWh	4,024.0	2,446.0
Domestic electricity customers (as at period end)	millions	2.8	3.3
Gross profit	£m	332.3	215.9
Adjusted EBITDA*	£m	131.6	68.0
Net liabilities	£m	(343.8)	(432.4)

*Earnings before interest, taxation, depreciation, amortisation, fair value (losses)/gains on derivatives and exceptional expenses.

5 Section 172 Statement

The Company's operations are integrated within the wider OVO group and therefore the strategic decisions made by the Directors are made in parallel with those of the OVO group board. The summary of stakeholder engagement discussed therefore applies to the wider OVO group and not just the Company.

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

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

Our stakeholders

Our members

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

Our people

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

OVO (S) Electricity Limited

Strategic Report for the Year Ended 31 December 2021 (continued)

5 Section 172 Statement (continued)

Our planet

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

Governments and regulators

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

Our communities

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

Our suppliers

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

OVO (S) Electricity Limited

Strategic Report for the Year Ended 31 December 2021 (continued)

5 Section 172 Statement (continued)

Embedding Section 172 in Board decision-making

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

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

Case Study: Responding to the energy crisis

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

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

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

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

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

OVO (S) Electricity Limited

Strategic Report for the Year Ended 31 December 2021 (continued)

5 Section 172 Statement (continued)

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

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

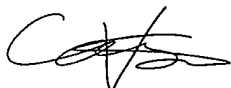
6 Conclusion and priorities

OVO (S) Electricity Limited delivered a solid performance in the year ended 31 December 2021. In 2022, the Company will continue its integration within the OVO Group which will see customers migrated to OVO Energy Ltd over time.

In its continuing activity of supply of electricity to the Great Britain domestic market, the Company remains focused on:

- reducing its operating costs;
- stabilising customer numbers within the OVO Group; and
- delivering the benefits of smart metering for both customers and the business.

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



.....
Vincent Casey
Director

OVO (S) Electricity Limited

Directors' Report for the Year Ended 31 December 2021

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

Reporting requirements on the Company's business review, its principal risks and uncertainties and its key performance indicators can be found in the Strategic Report on pages 2 to 9.

1 Principal activities

The Company's principal activity is the supply of electricity to domestic customers in Great Britain.

2 Results and dividends

The profit for the financial year ended 31 December 2021 amounts to £81.1m (Period from 1 April 2020 to 31 December 2020: profit of £8.0m).

The balance sheet at 31 December 2021 is set out on page 20 and indicates net liabilities of £343.8m (31 December 2020: £432.4m).

The Directors do not recommend the payment of a dividend for the year ended 31 December 2021 (Period from 1 April 2020 to 31 December 2020: £nil).

3 Directors

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

Stephen Fitzpatrick (resigned 18 January 2021)

Anthony Keeling (resigned 15 January 2021)

Adrian Letts (resigned 1 March 2022)

Vincent Casey

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

David Walter (resigned 3 September 2021)

Raman Bhatia (appointed 3 September 2021)

In accordance with the Articles of Association of the Company the Directors are not required to retire by rotation.

4 Political and charitable donations

The Company did not make any political or charitable donations during the year ended 31 December 2021 (Period from 1 April 2020 to 31 December 2020: £nil).

5 Financial instruments

Financial risk management objectives and policies have been established making use of financial instruments for the purpose of managing the exposure of the Company to commodity price risk, credit risk, liquidity risk. Financial risk management objectives and policies are established and maintained at the OVO Group level. This is discussed in further details in the Strategic Report on page 2.

OVO (S) Electricity Limited

Directors' Report for the Year Ended 31 December 2021 (continued)

6. Employee policies

Employee engagement

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

Other stakeholder engagement

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

Employment of disabled persons

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

7 Directors' liabilities

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

8 Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

9 Streamlined Energy and Carbon Reporting Framework Regulations

Disclosures in relation to the Streamlined Energy and Carbon Reporting Framework Regulations are included in the group financial statements of OVO Finance Ltd, which is the smallest group of undertakings for which group financial statement are drawn up and of which the Company is a member.

OVO (S) Electricity Limited

Directors' Report for the Year Ended 31 December 2021 (continued)

10 Statement of corporate governance arrangements

For the year ended 31 December 2021, the Company met the qualifying conditions to provide a corporate governance statement under The Companies (Miscellaneous Reporting) Regulations 2019. The Boards of OVO parents and subsidiaries are largely made up of the same members of the OVO leadership team and senior management. OVO Group Ltd, the Company's parent, has reported its corporate governance arrangements in the Strategic Report in its annual report which also apply to the Company.

11 Going concern

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

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

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

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

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

12 Future developments

The Directors believe that the Company remains well positioned in the market place, although the level of activity is expected to reduce as customers are migrated to OVO Energy Ltd. Further information is included in the Strategic Report.

13 Subsequent events since the end of the reporting period

Details of subsequent events are disclosed in the Strategic Report under the heading 'Subsequent events since the end of the reporting period'.

OVO (S) Electricity Limited

Directors' Report for the Year Ended 31 December 2021 (continued)

14 Statement of Directors' Responsibilities

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

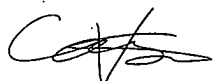
Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework' (FRS 101).

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the balance sheet of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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



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Vincent Casey
Director



Independent auditors' report to the members of OVO (S) Electricity Limited

Report on the audit of the financial statements

Opinion

In our opinion, OVO (S) Electricity Limited's financial statements:

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

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2021; the 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, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

We have provided no non-audit services to the company in the period under audit.

Material uncertainty related to going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 2 to the financial statements concerning the company's ability to continue as a going concern. The company relies on the continued financial support of the parent company OVO Group Ltd and the continued trading with other companies within the same group. The group is exposed to short term volatility in wholesale commodity prices and credit losses caused by the UK cost of living crisis and are limited by the UK regulatory environment in the way they can react to such matters. The group is forecasting to breach financial covenants with trading creditors under the base case and the

OVO (S) Electricity Limited

Independent Auditor's Report to the Members of OVO (S) Electricity Limited (formerly SSE Electricity Limited) (continued)

downside case scenarios which could allow the counterparties to terminate such arrangements or request additional collateral. If this were to happen, the group may not be able to secure an alternative counterparty to facilitate continued trading on a sustainable basis. These conditions, along with the other matters explained in note 2 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company were unable to continue as a going concern.

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

Our 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 profits and cash flows based on historical results.
- Obtaining key financing and creditor agreements and ensuring that financial covenant tests have been accurately computed both at the year end and based on forecasted information in the Board approved budget.
- Assessing whether management have considered appropriate plausible downside sensitivities, their potential impact on financial covenants, and the potential consequences of breaching covenants.
- Understanding the key mitigating actions under management's control and evaluating their reasonableness.

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

Reporting on other information

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

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

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

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

Strategic report and Directors' Report

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

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

OVO (S) Electricity Limited

Independent Auditor's Report to the Members of OVO (S) Electricity Limited (formerly SSE Electricity Limited) (continued)

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

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

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

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

OVO (S) Electricity Limited

Independent Auditor's Report to the Members of OVO (S) Electricity Limited (formerly SSE Electricity Limited) (continued)

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

KE RM

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

OVO (S) Electricity Limited

Profit and Loss Account for the Year Ended 31 December 2021

		Underlying	Exceptional	Total	Underlying	Exceptional	Total
		Year ended	Year ended	Year ended	Period	Period	Period
		31 December	31 December	31 December	from 1	from 1	from 1
		2021	2021*	2021	April 2020	April 2020	April 2020
		2021	2020*	2020	to 31	to 31	to 31
		£ m	£ m	£ m	December	December	December
	Note				2020	2020*	2020
					£ m	£ m	£ m
Revenue	4	2,300.4	-	2,300.4	1,565.0	-	1,565.0
Cost of sales		(1,957.3)	(10.8)	(1,968.1)	(1,350.3)	1.2	(1,349.1)
Gross profit		343.1	(10.8)	332.3	214.7	1.2	215.9
Administrative expenses		(185.7)	(9.9)	(195.6)	(125.0)	(61.9)	(186.9)
Impairment of financial assets		(50.1)	-	(50.1)	(41.4)	-	(41.4)
Fair value (losses)/gains on derivatives	24	(18.2)	-	(18.2)	22.7	-	22.7
Other operating income	5	-	-	-	3.7	-	3.7
Operating profit	6	89.1	(20.7)	68.4	74.7	(60.7)	14.0
Interest receivable and similar income	8	0.2	-	0.2	0.3	-	0.3
Interest payable and similar expenses	9	(3.5)	-	(3.5)	(4.4)	-	(4.4)
Profit before taxation		85.8	(20.7)	65.1	70.6	(60.7)	9.9
Income tax credit/(expense)	13	10.8	5.2	16.0	(13.4)	11.5	(1.9)
Profit for the financial period		96.6	(15.5)	81.1	57.2	(49.2)	8.0

The above results were derived from continuing operations.

* Refer to Note 7 for details of exceptional items.

OVO (S) Electricity Limited

Statement of Comprehensive Income for the Year Ended 31 December 2021

		Year ended 31 December 2021 £ m	Period from 1 April 2020 to 31 December 2020 £ m
	Note		
Profit for the financial period		<u>81.1</u>	<u>8.0</u>
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of post-employment benefit obligations	25	10.8	(7.9)
Deferred tax on defined benefit pension obligations	14	<u>(3.3)</u>	<u>1.5</u>
Total other comprehensive income/(expense)		<u>7.5</u>	<u>(6.4)</u>
Total comprehensive income for the period		<u><u>88.6</u></u>	<u><u>1.6</u></u>

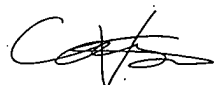
The notes on pages 22 to 61 form an integral part of these financial statements.

OVO (S) Electricity Limited

(Registration number: 04094263)
Balance Sheet as at 31 December 2021

	Note	31 December 2021 £ m	31 December 2020 £ m
Fixed assets			
Intangible assets	15	54.5	63.4
Tangible assets	16	1.5	-
Right-of-use assets	17	11.0	15.5
		<u>67.0</u>	<u>78.9</u>
Current assets			
Stocks		20.8	8.2
Debtors:			
amounts falling due within one year	18	510.1	702.4
amounts falling due after more than one year	18	138.9	103.8
Total current assets		<u>669.8</u>	<u>814.4</u>
Creditors: Amounts falling due within one year	19	<u>(1,016.2)</u>	<u>(1,236.4)</u>
Net current liabilities		<u>(346.4)</u>	<u>(422.0)</u>
Total assets less current liabilities		<u>(279.4)</u>	<u>(343.1)</u>
Creditors: Amounts falling due after more than one year	20	(14.0)	(20.6)
Provisions for liabilities	22	<u>(50.4)</u>	<u>(68.7)</u>
Net liabilities		<u>(343.8)</u>	<u>(432.4)</u>
Capital and reserves			
Called up share capital	23	-	-
Profit and loss account		<u>(343.8)</u>	<u>(432.4)</u>
Total shareholders' deficit		<u>(343.8)</u>	<u>(432.4)</u>

The financial statements on pages 18 to 61 were approved by the Board on 23 June 2022 and signed on its behalf by:.....



Vincent Casey
Director

OVO (S) Electricity Limited

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

	Share capital £ m	Accumulated losses £ m	Total £ m
At 1 April 2020	-	(434.0)	(434.0)
Profit for the period	-	8.0	8.0
Other comprehensive expense	-	(6.4)	(6.4)
Total comprehensive income	-	1.6	1.6
At 31 December 2020	-	(432.4)	(432.4)

	Share capital £ m	Accumulated losses £ m	Total £ m
At 1 January 2021	-	(432.4)	(432.4)
Profit for the year	-	81.1	81.1
Other comprehensive income	-	7.5	7.5
Total comprehensive income	-	88.6	88.6
At 31 December 2021	-	(343.8)	(343.8)

The notes on pages 22 to 61 form an integral part of these financial statements.

OVO (S) Electricity Limited

Notes to the Financial Statements for the Year Ended 31 December 2021

1 General information

OVO (S) Electricity Limited ("the Company") is a private company limited by shares and incorporated, domiciled and registered in the United Kingdom. The registered number is 04094263 and the registered office is 1 Rivergate, Temple Quay, Bristol, England, BS1 6ED.

2 Accounting policies

Summary of significant accounting policies and key accounting estimates

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

Basis of preparation

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

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

The financial statements have been prepared under the historical cost convention, except for derivative financial instruments and defined benefit pension plan - 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 (S) Electricity Limited

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

2 Accounting policies (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:

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

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

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

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

The financial statements are rounded to the nearest 0.1 million (£ m) except where otherwise stated.

Going concern

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

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

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

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

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

OVO (S) Electricity Limited

Notes to the Financial Statements for the Year Ended 31 December 2021 (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 their annual reporting period commencing 1 January 2021:

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

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

Change in reporting period

The current reporting period for the Company is for a full year from 1 January 2021 to 31 December 2021 and the prior period was for 9 months from 1 April 2020 to 31 December 2020.

Revenue recognition

Recognition

The Company earns revenue on the supply of electricity, which comprises sales to domestic end-user customers based on actual electric consumption including an estimate of the value of electricity supplied to customers between the date of the last meter reading and the period end. Revenue is recognised "over time" consistent with the delivery of electricity to the customer, as we consider the receipt and consumption of the benefits of the electricity to be simultaneous.

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

Installation and rental of smart meters

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

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

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

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).

OVO (S) Electricity Limited

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

2 Accounting policies (continued)

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 customers or 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. The model used to determine the netting of customer balances was changed during the year. This has resulted in a materially higher level of netting as at 31 December 2021 compared with 31 December 2020.

Capitalisation of costs to obtain or fulfil a contract

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

Exceptional items

Exceptional items are those charges or credits that are considered unusual by nature and/or scale and of such significance that separate disclosure is required for the financial statements to be properly understood. The trigger points for exceptional items will tend to be non-recurring.

Government grants

Grants from the government are recognised in profit or loss over the period in which the related costs are recognised and once the Company complies with all the attached conditions.

Interest income and expense

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

OVO (S) Electricity Limited

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

2 Accounting policies (continued)

Tax

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

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

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and on unused tax losses or tax credits in the Company. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

The carrying amount of deferred tax assets are reviewed at each reporting date and a valuation allowance is set up against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profit.

Intangible assets

Software and IT development costs include the costs of developing the Company's customer service platform.

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

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

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant attributable overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

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

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.

OVO (S) Electricity Limited

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

2 Accounting policies (continued)

Depreciation

Depreciation is charged using the straight-line method so as to write off the cost of assets over their estimated useful lives as follows:

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

Impairment of non-financial assets

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

Financial instruments

Initial recognition

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

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

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

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

OVO (S) Electricity Limited

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

2 Accounting policies (continued)

Classification and measurement

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

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

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

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

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

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

At 31 December 2021, the Company had no assets measured at FVTOCI.

Financial assets at amortised cost

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

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

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

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

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

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

Financial liabilities at amortised cost

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

Financial liabilities at fair value through the profit or loss

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

OVO (S) Electricity Limited

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

2 Accounting policies (continued)

Derivative financial instruments

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

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

Cash at bank and in hand

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

Trade debtors

Trade debtors are amounts due from customers for the sale of electricity or other services performed in the ordinary course of business.

Trade debtors are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for the impairment of trade debtors is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the debtors.

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.

Stocks

Smart meter stocks are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method.

The cost of smart meter stocks comprises direct materials and, where applicable, those overheads that have been incurred in bringing the stocks to their present location and condition. At each reporting date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell; the impairment loss is recognised immediately in profit or loss.

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 current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

OVO (S) Electricity Limited

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

2 Accounting policies (continued)

Provisions

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

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

Leases

Definition

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

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

Initial recognition and measurement

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

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

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

OVO (S) Electricity Limited

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

2 Accounting policies (continued)

Subsequent measurement

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

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

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

Lease modifications

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

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

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

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

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

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

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

OVO (S) Electricity Limited

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

2 Accounting policies (continued)

Short term and low value leases

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

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

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

Share capital

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

Defined contribution pension obligation

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

For defined contribution plans, contributions are paid 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 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.

OVO (S) Electricity Limited

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

3 Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The key areas involving estimates and judgements that has the most significant effect on the amounts recognised in the financial statements are explained below.

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

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

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

A change in the assumptions underpinning the calculation would have an impact on the amount of revenue recognised in any given period. This estimate is subject to an internal validation process which compares calculated unbilled volumes to a theoretical real-time billing benchmark measure of unbilled volumes with reference to historical consumption patterns adjusted for seasonality/weather and aggregated metering data used in industry reconciliation processes. At 31 December 2021 revenue arising from estimated consumption amounted to £653.5m. The judgements applied, and the assumptions underpinning these judgements in arriving at this estimated amount, are considered to be appropriate. However, a change in these assumptions would have an impact on the amount of revenue recognised. A 1% change in the overall assumptions made in reaching this estimate would impact the amount of revenue recognised by approximately £6.5m.

OVO (S) Electricity Limited

Notes to the Financial Statements for the Year Ended 31 December 2021 (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. 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 are based on the most up to date assumptions and use forward looking information. Provision for impairment of trade debtors and accrued income recognised on the Balance sheet at 31 December 2021 was £125.4m (31 December 2020: £95.9m). In order to test the sensitivity of the impairment of the Company's trade debtors balance, the Directors have considered the impact of an additional ageing of trade debtors which required an extra 0.5% of revenue being provided for. This would lead to a £4m increase in the expected credit loss provision in 2021.

Deferred tax assets (accounting judgement and estimation uncertainty)

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

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

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

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.

Pensions and other post-employment benefits (accounting judgement)

The cost of providing benefits under defined benefit pension schemes is determined separately for each of the Group's schemes under the projected unit credit actuarial valuation method. Any actuarial gains or losses are recognised in the period which they occur. The key assumptions used for the actuarial valuation are based on the best estimate of the factors which will determine the cost of providing post employment benefits. The Group recognises a pension scheme asset as it has the unconditional right to a refund on the event of winding up of the schemes assuming the gradual settlement of the plan liabilities over time until all members have left the plan.

OVO (S) Electricity Limited

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

4 Revenue

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

	Year ended 31 December 2021 £ m	Period from 1 April 2020 to 31 December 2020 £ m
Sale of electricity	2,216.3	1,507.8
Installation of smart meters	79.5	57.2
Other revenue	4.6	-
	<u>2,300.4</u>	<u>1,565.0</u>

All the revenue reported in the period is sold within the UK. Other revenue relates to recharges to other group companies and income under the transition service agreement with SSE plc.

Assets and liabilities related to contracts with customers

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

	31 December 2021 £ m	31 December 2020 £ m	1 April 2020 £ m
Assets related to contracts with customers			
Trade debtors	329.8	284.6	337.7
Accrued income	172.8	322.9	339.5
Provision for impairment of trade debtors and accrued income	(125.4)	(95.9)	(67.4)
Total assets related to contracts with customers	<u>377.2</u>	<u>511.6</u>	<u>609.8</u>
Contract liabilities			
Deferred income	(234.7)	(339.5)	(336.3)
Total contract liabilities	<u>(234.7)</u>	<u>(339.5)</u>	<u>(336.3)</u>
	<u>142.5</u>	<u>172.1</u>	<u>273.5</u>

Amounts have been reclassified between accrued income and deferred income which results in the decrease in accrued income and deferred income.

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

OVO (S) Electricity Limited

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

5 Other operating income

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

	Year ended 31 December 2021 £ m	Period from 1 April 2020 to 31 December 2020 £ m
Government grants	-	3.7

Government grants relate to grants in respect of furloughed employees under the Coronavirus Job Retention Scheme. During the period from 1 April 2020 to 31 December 2020, the Company received government grants under the Coronavirus Job Retention Scheme, a scheme introduced by the UK government to support organisations during the COVID-19 pandemic. The scheme offers grants to cover a proportion of the salaries of furloughed staff.

The grants are recognised as other operating income to the extent that management considers the grants will be received.

6 Operating profit

Arrived at after charging/(crediting)

	Year ended 31 December 2021 £ m	Period from 1 April 2020 to 31 December 2020 £ m
Impairment of financial assets	50.1	41.4
Depreciation expense - tangible assets	1.3	-
Depreciation expense - right-of-use assets	4.3	2.8
Impairment - right-of-use assets	0.5	8.5
Amortisation expense - intangible assets	18.7	13.2
Government grants	-	(3.7)

OVO (S) Electricity Limited

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

7 Exceptional items

	Year ended 31 December 2021 £ m	Period from 1 April 2020 to 31 December 2020 £ m
Industry and regulatory	10.8	-
Integration	7.3	8.8
Group reorganisation	2.6	51.9
Exceptional included within operating profit/(loss)	20.7	60.7
Exceptional included within profit/(loss) before tax	20.7	60.7
Net taxation on exceptional items	(5.2)	(11.5)

Industry & Regulatory Costs

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

Group reorganisation

The OVO Group continued its restructuring programme throughout the year which was initiated following the acquisition of SSE Energy Services Group Limited (SSE) in 2020. The majority of the costs within group reorganisation relates to redundancy costs being recognised in relation to both incurred and expected future severance costs. Group reorganisation is part of a wider cost efficiency initiative which also consists of the rationalisation of the OVO Group's property portfolio, metering operations, employee rewards as well as other transformational activities. Redundancies, property rationalisation projects were initiated as part of wider cost efficiency programme as a result of SSE acquisition. Most properties being disposed of are properties transferred as part of the acquisition. Restructuring costs, right-of-use asset impairment and onerous contract and lease costs in the prior period have been aggregated in company reorganisation in the current year's presentation.

Integration

The OVO Group continued to engage in activities to integrate SSE operations and systems into OVO throughout 2021. In addition, technology rationalisation saw various legacy technologies acquired from SSE decommissioned. Costs within integration are primarily associated with technologies and staff personnel supporting customer migration and technology integration. The Company also incurred costs associated with SSE rebranding.

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

OVO (S) Electricity Limited

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

7 Exceptional items (continued)

Adjusted EBITDA

Management reports adjusted EBITDA in the annual report as management considers it provides additional useful information on business performance and underlying trends. It is also the primary measure management use to monitor performance internally and is also reported to our lenders as part of covenants reporting. Adjusted EBITDA is a non-GAAP measure and is not defined by IFRS. The presentation of APMs is a judgment and policy choice made by management and therefore, not comparable.

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

A reconciliation of the adjusted performance measure to operating profit is shown below.

	Year ended 31 December 2021 £ m	Period from 1 April 2020 to 31 December 2020 £ m
Operating profit/(loss)	68.4	14.0
Exceptional items	20.7	60.7
Fair value losses/(gains) on derivatives	18.2	(22.7)
Depreciation and impairment of tangible assets and right-of-use assets	5.6	2.8
Amortisation and impairment of intangible assets	18.7	13.2
Adjusted EBITDA	131.6	68.0

8 Interest receivable and similar income

	Year ended 31 December 2021 £ m	Period from 1 April 2020 to 31 December 2020 £ m
Interest on net defined benefit assets	0.2	0.3

9 Interest payable and similar expenses

	Year ended 31 December 2021 £ m	Period from 1 April 2020 to 31 December 2020 £ m
Interest on bank overdrafts and borrowings	-	0.4
Unwinding of discount on provisions	2.4	2.4
Interest expense on leases	1.1	1.6
	3.5	4.4

OVO (S) Electricity Limited

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

10 Staff costs

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

	Year ended 31 December 2021 £ m	Restated Period from 1 April 2020 to 31 December 2020 £ m
Wages and salaries	97.8	75.6
Social security costs	9.2	7.4
Pension costs, defined contribution scheme	8.7	5.0
Pension costs, defined benefit scheme	8.8	8.1
	<u>124.5</u>	<u>96.1</u>

The above include payroll costs capitalised of £nil (Period from 1 April 2020 to 31 December 2020: £nil). Certain employees provide services to certain fellow subsidiaries for which those fellow subsidiaries are recharged. The staff costs of these employees are included in the disclosures above.

Prior period payroll costs have been restated in the current year as the disclosure of the costs was misstated.

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

Employee numbers

	Year ended 31 December 2021 No.	Restated Period from 1 April 2020 to 31 December 2020 No.
People & operations	2,335	2,568
Technology & business change	212	227
Commercial & finance	142	160
Group	1	7
Total	<u>2,690</u>	<u>2,962</u>

Prior period employee numbers have been restated in the current year as the employee numbers were misstated. The categories of employees in the prior period have also been restated to better reflect how management regards company activities are organised.

OVO (S) Electricity Limited

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

11 Directors' remuneration

The Directors' remuneration for the period is as follows:

	Year ended 31 December 2021 £ '000	Period from 1 April 2020 to 31 December 2020 £ '000
Remuneration	261.6	410.4
Company contributions to defined contribution pension schemes	20.3	19.4
Compensation for loss of office	230.2	-
	<u>512.1</u>	<u>429.8</u>

In respect of the highest paid Director:

	Year ended 31 December 2021 £ '000	Period from 1 April 2020 to 31 December 2020 £ '000
Remuneration	261.6	274.9
Company contributions to defined contribution pension schemes	20.3	-
	<u>282.0</u>	<u>274.9</u>

The above value for the year ended 31 December 2021 is for 1 Director (Period from 1 April 2020 to 31 December 2020: 2 Directors), who was remunerated directly by the Company. The remaining Directors were remunerated via OVO Energy Ltd (Period from 1 April 2020 to 31 December 2020: OVO Group Ltd and OVO Energy Ltd). The Directors' compensation paid by OVO Group Ltd and OVO Energy Ltd is not recharged to the Company. These Directors are additionally Directors of a number of parent entities and fellow subsidiaries, and it is not possible to make a reasonable apportionment of their compensation in respect of each of the parent entities and subsidiaries. Accordingly, the total compensation of the Directors is included in the aggregate of Directors' remuneration disclosed in the financial statements of OVO Energy Ltd and the consolidated financial statements of OVO Group Ltd.

Retirement benefits were accruing to 1 of the Directors remunerated directly by the Company (Period from 1 April 2020 to 31 December 2020: 1).

OVO (S) Electricity Limited

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

12. Auditors' remuneration

The audit fee in relation to the audit of OVO (S) Electricity Limited in the year ended 31 December 2021 was £130,000 (Period from 1 April 2020 to 31 December 2020: £130,000). In the year ended 31 December 2021, the audit fee was borne by OVO Energy Ltd (Period from 1 April 2020 to 31 December 2020: OVO Energy Ltd).

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

13 Income tax credit/(expense)

Tax (credited)/charged in the profit and loss account

	Year ended 31 December 2021 £ m	Period from 1 April 2020 to 31 December 2020 £ m
Current taxation		
UK corporation tax	16.3	(1.6)
UK corporation tax adjustment to prior periods	(0.8)	0.1
	<u>15.5</u>	<u>(1.5)</u>
Deferred taxation		
Arising from origination and reversal of temporary differences	(4.0)	3.5
Adjustment in respect of prior periods	0.9	(0.1)
Arising from changes in tax rates and laws	(28.4)	-
Total deferred taxation	<u>(31.5)</u>	<u>3.4</u>
Tax (credited)/charged in the profit and loss account	<u>(16.0)</u>	<u>1.9</u>

OVO (S) Electricity Limited

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

13 Income tax credit/(expense) (continued)

The tax on profit before tax for the year ended 31 December 2021 is lower than the standard rate of corporation tax in the UK (Period from 1 April 2020 to 31 December 2020 - the same as the standard rate of corporation tax in the UK) of 19% (Period from 1 April 2020 to 31 December 2020 - 19%).

The differences are reconciled below:

	Year ended 31 December	Period from 1 April 2020 to 31 December
	2021	2020
	£ m	£ m
Profit before tax	65.1	9.9
Corporation tax at standard rate of 19%	12.4	1.9
Arising from changes in tax rates and laws	(28.4)	-
Total tax (credit)/charge	(16.0)	1.9

OVO (S) Electricity Limited

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

14 Deferred tax

Deferred tax assets and liabilities

	Asset £ m	Liability £ m	Net deferred tax £ m
At 31 December 2021			
Accelerated tax depreciation	26.6	-	26.6
Provisions	-	-	-
Tax losses carry-forwards	95.0	-	95.0
Pension benefit obligations	-	(4.5)	(4.5)
Derivatives	1.5	-	1.5
Restricted interest deductions carry-forwards	0.5	-	0.5
	<u>123.6</u>	<u>(4.5)</u>	<u>119.1</u>
At 31 December 2020			
Accelerated tax depreciation	20.8	-	20.8
Provisions	0.6	-	0.6
Tax losses carry-forwards	73.9	-	73.9
Pension benefit obligations	-	(2.4)	(2.4)
Derivatives	-	(2.0)	(2.0)
Restricted interest deductions carry-forwards	-	-	-
	<u>95.3</u>	<u>(4.4)</u>	<u>90.9</u>

OVO (S) Electricity Limited

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

14 Deferred tax (continued)

Deferred tax movement during the current year:

	At 1 January 2021 £ m	Recognised in profit or loss £ m	Recognised in other comprehensive income £ m	At 31 December 2021 £ m
Accelerated tax depreciation	20.8	5.8	-	26.6
Provisions	0.6	(0.6)	-	-
Tax losses carry-forwards	73.9	21.1	-	95.0
Pension benefit obligations	(2.4)	1.2	(3.3)	(4.5)
Derivatives	(2.0)	3.5	-	1.5
Restricted interest deductions carry-forwards	-	0.5	-	0.5
Net tax assets/(liabilities)	<u>90.9</u>	<u>31.5</u>	<u>(3.3)</u>	<u>119.1</u>

Deferred tax movement during the prior period:

	At 1 April 2020 £ m	Recognised in profit or loss £ m	Recognised in other comprehensive expense £ m	At 31 December 2020 £ m
Accelerated tax depreciation	19.4	1.4	-	20.8
Provisions	0.9	(0.3)	-	0.6
Tax losses carry-forwards	74.1	(0.2)	-	73.9
Pension benefit obligations	(3.9)	-	1.5	(2.4)
Derivatives	2.3	(4.3)	-	(2.0)
Restricted interest deductions carry-forwards	-	-	-	-
Net tax assets/(liabilities)	<u>92.8</u>	<u>(3.4)</u>	<u>1.5</u>	<u>90.9</u>

Deferred tax assets have been recognised in respect of carried forward 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.

The change to the main UK corporation tax rate to 25% announced in the 2021 Finance Bill was substantively enacted on 24 May 2021. The rate effective from 1 April 2023 is now 25% increased from the current rate of 19%. Deferred tax assets and liabilities have been remeasured based on the applicable tax rate in the period that the balances are expected to be realised. The impact of this remeasurement in the period is a tax credit of £28.4m.

OVO (S) Electricity Limited

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

15 Intangible assets

	Software and IT development costs £ m	Total £ m
Cost or valuation		
At 1 January 2021	529.5	529.5
Additions	9.8	9.8
At 31 December 2021	539.3	539.3
Accumulated amortisation		
At 1 January 2021	466.1	466.1
Amortisation charge	18.7	18.7
At 31 December 2021	484.8	484.8
Carrying amount		
At 31 December 2021	54.5	54.5
At 31 December 2020	63.4	63.4

Amortisation charge of £18.7m (Period from 1 April 2020 to 31 December 2020: £13.2m) is recognised in administrative expenses.

Included within the carrying amount of the Software and IT development costs of £54.5m (31 December 2020: £63.4m) are intangible assets under construction of £25.8m (31 December 2020: £22.6m), which are not subject to amortisation.

OVO (S) Electricity Limited

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

16 Tangible assets

	Leasehold property £ m	Office equipment £ m	Total £ m
Cost or valuation			
At 1 January 2021	-	-	-
Additions	<u>2.6</u>	<u>0.2</u>	<u>2.8</u>
At 31 December 2021	<u>2.6</u>	<u>0.2</u>	<u>2.8</u>
Accumulated depreciation			
At 1 January 2021	-	-	-
Charge for the year	<u>1.3</u>	<u>-</u>	<u>1.3</u>
At 31 December 2021	<u>1.3</u>	<u>-</u>	<u>1.3</u>
Carrying amount			
At 31 December 2021	<u>1.3</u>	<u>0.2</u>	<u>1.5</u>
At 31 December 2020	<u>-</u>	<u>-</u>	<u>-</u>

Depreciation charge of £1.3m (Period from 1 April 2020 to 31 December 2020: £nil) is recognised in administrative expenses.

OVO (S) Electricity Limited

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

17 Right-of-use assets

	Vehicles £ m	Property £ m	Total £ m
Cost or valuation			
At 1 April 2020	0.5	31.9	32.4
Modifications	(0.2)	1.9	1.7
At 31 December 2020	0.3	33.8	34.1
At 1 January 2021	0.3	33.8	34.1
Modifications	1.7	(1.4)	0.3
At 31 December 2021	2.0	32.4	34.4
Accumulated depreciation			
At 1 April 2020	0.1	7.2	7.3
Charge for period	-	2.8	2.8
Impairment	-	8.5	8.5
At 31 December 2020	0.1	18.5	18.6
At 1 January 2021	0.1	18.5	18.6
Charge for the year	0.6	3.7	4.3
Impairment	-	0.5	0.5
At 31 December 2021	0.7	22.7	23.4
Carrying amount			
At 31 December 2021	1.3	9.7	11.0
At 31 December 2020	0.2	15.3	15.5

OVO (S) Electricity Limited

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

18 Debtors

	31 December 2021 £ m	31 December 2020 £ m
Amounts falling due within one year:		
Trade debtors	329.8	284.6
Accrued income	172.8	322.9
Provision for impairment of trade debtors and accrued income	<u>(125.4)</u>	<u>(95.9)</u>
Net trade debtors and accrued income	377.2	511.6
Amounts owed by group undertakings	-	30.3
Prepayments	7.4	16.8
Other debtors	125.5	123.0
Corporation tax debtor	-	2.5
Corporation tax - group relief receivable	-	6.7
Derivative financial assets (see note 24)	<u>-</u>	<u>11.5</u>
	<u>510.1</u>	<u>702.4</u>
Amounts falling due after more than one year:		
Deferred tax asset (see note 14)	119.1	90.9
Defined benefit pension asset (see note 25)	<u>19.8</u>	<u>12.9</u>
	<u>138.9</u>	<u>103.8</u>

OVO (S) Electricity Limited

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

19 Creditors: amounts falling due within one year

	31 December 2021 £ m	31 December 2020 £ m
Trade creditors	14.0	39.4
Accrued expenses	89.2	91.1
Amounts due to group undertakings	622.2	725.7
Social security and other taxes	9.5	2.6
Corporation tax payable	8.8	-
Current lease liabilities (see note 21)	5.1	5.1
Other creditors	24.8	33.0
Deferred income	234.7	339.5
Derivative financial liabilities (see note 24)	7.9	-
	<u>1,016.2</u>	<u>1,236.4</u>

20 Creditors: amounts falling due after more than one year

	31 December 2021 £ m	31 December 2020 £ m
Non-current lease liabilities (see note 21)	14.0	19.4
Derivative financial liabilities (see note 24)	-	1.2
	<u>14.0</u>	<u>20.6</u>

All derivative financial liabilities held as at 31 December 2021 and 31 December 2020 have a maturity date of March 2022 and therefore, are classified as creditors: amounts falling due within one year in the current year (31 December 2020: creditors: amounts due after more than one year).

OVO (S) Electricity Limited

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

21 Leases

Leases included in creditors

	31 December 2021 £ m	31 December 2020 £ m
Current lease liabilities	5.1	5.1
Non-current lease liabilities	14.0	19.4

Lease liabilities maturity analysis

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

	31 December 2021 £ m	31 December 2020 £ m
Less than one year	5.9	6.2
Between one and five years	8.6	12.9
Over 5 years	8.3	10.2
Total lease liabilities (undiscounted)	22.8	29.3

The Company leases property and motor 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 £1.1m (Period from 1 April 2020 to 31 December 2020: £1.6m).

Total cash outflows for leases for the current year was £6.9m (Period from 1 April 2020 to 31 December 2020: £4.7m).

OVO (S) Electricity Limited

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

22 Provisions for liabilities

	Onerous contracts provisions	Dilapidation provision	Restructuring provision	Other provisions	Total
	£ m	£ m	£ m	£ m	£ m
At 1 January 2021	64.2	-	4.3	0.2	68.7
Additional provisions	1.7	2.3	0.8	4.1	8.9
Utilised during the year	(21.5)	-	(4.4)	-	(25.9)
Released during the year	(0.9)	-	-	(4.2)	(5.1)
Increase due to passage of time or unwinding of discount	2.4	-	-	-	2.4
(Decrease)/increase from transfers and other changes	-	-	(0.5)	1.9	1.4
At 31 December 2021	<u>45.9</u>	<u>2.3</u>	<u>0.2</u>	<u>2.0</u>	<u>50.4</u>
Non-current liabilities	<u>9.4</u>	<u>2.3</u>	<u>-</u>	<u>2.0</u>	<u>13.7</u>
Current liabilities	<u>36.5</u>	<u>-</u>	<u>0.2</u>	<u>-</u>	<u>36.7</u>

Onerous contracts provisions

As part of the acquisition by OVO, the Company entered into a Master Services Agreement (MSA) with SSE Telecommunications Limited in connection with the supply of telephony services. At the time of the acquisition, the agreement was deemed an unfavourable contract as the Company considered the costs of meeting the obligations under the contract exceed the economic benefits expected to be received from it. It is management's intention to terminate the MSA at the earliest possible period. The costs will be incurred during the lifespan of the contract.

Restructuring provision

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

Dilapidation provision

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.

Other provisions

Other provisions mainly relate to obligations under agreements with meter assets providers.

OVO (S) Electricity Limited

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

23 Called up share capital

Allotted, called up and fully paid shares

	31 December 2021		31 December 2020	
	No.	£	No.	£
1 ordinary share of £1.00 each	1	1	1	1

Rights, preferences and restrictions

The share has attached to it full voting, dividend and capital distribution (including on a winding up rights); it does not confer any rights on redemption.

24 Derivatives and financial instruments

Summary fair values

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

	31 December 2021 Carrying value £ m	31 December 2021 Fair value £ m	31 December 2020 Carrying value £ m	31 December 2020 Fair value £ m
Financial assets				
Derivative financial assets	-	-	11.5	11.5
Trade and other debtors	502.7	502.7	662.6	662.6
Financial liabilities				
Trade and other creditors	(984.9)	(984.9)	(1,228.7)	(1,228.7)
Derivative financial liabilities (Current)	(7.9)	(7.9)	-	-
Derivative financial liabilities (Non-current)	-	-	(1.2)	(1.2)
Lease liabilities (current)	(5.1)	(5.1)	(5.1)	(5.1)
Lease liabilities (non-current)	(14.0)	(14.0)	(19.4)	(19.4)

OVO (S) Electricity Limited

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

24 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.

Financial assets at amortised cost

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

Financial liabilities at amortised cost

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

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

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

Recognised in profit or loss

The amount of derivative re-measurement that has been recognised through the profit and loss is as follows:

	Year ended 31 December 2021 £ m	Period from 1 April 2020 to 31 December 2020 £ m
Opening value of derivative financial assets/(liabilities)	10.3	(12.4)
Movement recognised through profit or loss	(18.2)	22.7
Closing value of derivative financial (liabilities)/assets	<u>(7.9)</u>	<u>10.3</u>

25 Pension and other schemes

Defined contribution pension scheme

The Company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the Company to the scheme and amounted to £8.7m (Period from 1 April 2020 to 31 December 2020: £5.0m).

OVO (S) Electricity Limited

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

25 Pension and other schemes (continued)

Defined benefit pension schemes

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 the Company by the OVO group in order to provide retirement benefits for eligible company employees.

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. The vast majority of the DBO is attributable to current employees.

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 23 years.

OVO (S) Electricity Limited

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

25 Pension and other schemes (continued)

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 £10.4m 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.

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 a third 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

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.

Reporting at 31 December 2021

The results of the latest formal valuation at 31 March 2020 have been adjusted to the new balance sheet date, taking account of any material experience over the period since 31 March 2020, 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.

OVO (S) Electricity Limited

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

25 Pension and other schemes (continued)

Main financial 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 2021 %	31 December 2020 %
Discount rate	1.90	1.40
RPI inflation	3.10	2.80
CPI inflation	2.70	2.40
Rate of general long-term increase in salaries	3.20	2.90
Pension increases in payment		
RPI max 5% p.a.	3.00	2.70
RPI max 3% p.a.	<u>2.40</u>	<u>2.20</u>

The financial assumptions reflect the nature and term of the scheme's liabilities.

Main demographic assumptions

	31 December 2021	31 December 2020
Mortality base table adopted	SAPS S3 Tables "All" for males and "Middle" for females Scaled by 105% for Southern Section and by 109% for Hydro Section	SAPS S3 Tables "All" for males and "Middle" for females Scaled by 105% for Southern Section and by 109% for Hydro Section
Mortality future improvements adopted	CMI 2020 projections model with Sk parameter of 7.0 and A parameter of 0.25, and long-term improvement rate of 1.25% p.a.	CMI 2019 projections model with Sk parameter of 7.0 and A parameter of 0.25, and long-term improvement rate of 1.25% p.a.
Life expectancy for male currently aged 60	26.3	26.3
Life expectancy for female currently aged 60	27.8	27.8
Life expectancy at 60 for male currently aged 40	28.2	28.2
Life expectancy at 60 for female currently aged 40	29.8	29.8
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

OVO (S) Electricity Limited

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

25 Pension and other schemes (continued)

	Allowance made for members to take maximum permitted lump sum at retirement by commuting pension based on current commutation terms	Allowance made for members to take maximum permitted lump sum at retirement by commuting pension based on current commutation terms
Cash commutation		

Scheme assets

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

	31 December 2021 £ m	31 December 2020 £ m
Fair value at start of year	107.9	78.2
Interest income on scheme assets	1.5	1.3
Remeasurement gains on scheme assets	5.7	15.7
Contributions by the employer	4.7	5.9
Net benefits paid out	(2.3)	(2.9)
Net increase in assets from bulk transfers	2.7	9.7
Fair value at end of year	<u>120.2</u>	<u>107.9</u>

Actual return on scheme assets

	31 December 2021 £ m	31 December 2020 £ m
Interest income on scheme assets	1.5	1.3
Remeasurement gain on scheme assets	5.7	15.7
Actual return on scheme assets	<u>7.2</u>	<u>17.0</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.

OVO (S) Electricity Limited

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

25 Pension and other schemes (continued)

Analysis of assets

The major categories of scheme assets are as follows:

	31 December 2021 £ m	31 December 2020 £ m
Equities	37.5	34.8
Index-linked gilts	36.0	35.3
Corporate bonds	40.7	37.0
Cash/net current assets	6.0	0.8
Total market value of assets	<u>120.2</u>	<u>107.9</u>

Reconciliation of funded status to balance sheet

	31 December 2021 £ m	31 December 2020 £ m
Fair value of scheme assets	120.2	107.9
Present value of funded Defined Benefit Obligation	<u>(100.4)</u>	<u>(95.0)</u>
Funded status	<u>19.8</u>	<u>12.9</u>
Asset recognised in the balance sheet	<u>19.8</u>	<u>12.9</u>

Scheme liabilities

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

	31 December 2021 £ m	31 December 2020 £ m
Present value at start of year	(95.0)	(55.5)
Current service cost	(5.9)	(4.5)
Past service cost (including curtailments)	(2.9)	(3.6)
Actuarial gains arising from changes in demographic assumptions	0.1	-
Actuarial gains/(losses) arising from changes in financial assumptions	5.0	(26.4)
Interest expense on Defined Benefit Obligation	(1.3)	(1.0)
Net benefits paid out	2.3	2.9
Net increase in liabilities from bulk transfers	<u>(2.7)</u>	<u>(6.9)</u>
Present value at end of year	<u>(100.4)</u>	<u>(95.0)</u>

Analysed as:

Present value of scheme liabilities arising from wholly or partly funded schemes

<u>(100.4)</u>	<u>(95.0)</u>
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OVO (S) Electricity Limited

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

25 Pension and other schemes (continued)

Amounts recognised in profit or loss

	Year ended 31 December 2021 £ m	Period from 1 April 2020 to 31 December 2020 £ m
Amounts recognised in operating profit		
Current service cost	5.9	4.5
Past service cost (including curtailments)	2.9	3.6
Recognised in arriving at operating profit	<u>8.8</u>	<u>8.1</u>
Amounts recognised in interest receivable and similar income		
Interest on net defined benefit assets	(0.2)	(0.3)
Total recognised in profit or loss	<u>8.6</u>	<u>7.8</u>

Amounts taken to the Statement of Comprehensive Income

	Year ended 31 December 2021 £ m	Period from 1 April 2020 to 31 December 2020 £ m
Return on scheme assets in excess of that recognised in net interest	5.7	15.7
Actuarial gains arising from changes in demographic assumptions	0.1	-
Actuarial gains/(losses) due to changes in financial assumptions	5.0	(26.4)
Actuarial gains due to bulk transfers	-	2.8
Amounts recognised in the Statement of Comprehensive Income	<u>10.8</u>	<u>(7.9)</u>

Sensitivity analysis

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.

OVO (S) Electricity Limited

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

25 Pension and other schemes (continued)

	31 December 2021		31 December 2020	
	Change	Value	Change	Value
Defined benefit obligations at the end of period	-	100.4	-	95.0
0.25% p.a. decrease in the discount rate	6.2	106.6	5.4	100.4
0.25% p.a. increase in the inflation assumptions	6.1	106.5	5.3	100.3
One-year increase in life expectancy	4.1	104.5	3.5	98.5

26 Contingent liabilities

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

27 Related party transactions

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

28 Parent and ultimate parent undertaking

The Company's immediate parent is OVO (S) Energy Services Limited.

The ultimate parent is Imagination Industries 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 9 Pembridge Road Notting Hill London W11 3JY.

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 1.

The ultimate controlling party is Stephen Fitzpatrick.

OVO (S) Electricity Limited

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

29 Subsequent events since the end of the reporting period

Non-adjusting events

Energy crisis

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

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

Voluntary redundancy programme

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