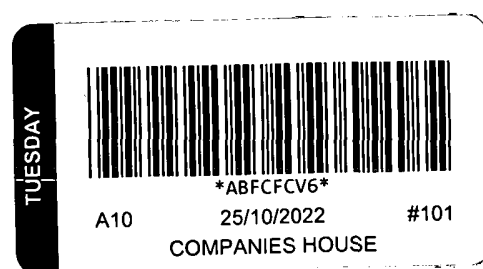


Registration number: 06890468

Imagination Industries Ltd

Annual Report and Consolidated Financial Statements

for the Year Ended 31 December 2021



Imagination Industries Ltd

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Imagination Industries Ltd

Company Information

Directors	Stephen Fitzpatrick Vincent Casey
Registered office	9 Pembridge Road Notting Hill London United Kingdom W11 3JY
Independent Auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 2 Glass Wharf Bristol BS2 0FR

Imagination Industries Ltd

Strategic Report for the Year Ended 31 December 2021

The Directors present their strategic report for the year ended 31 December 2021.

Strategic Report

Business Overview

The Imagination Industries Group comprises the OVO Group and other non-energy related investments. The OVO Group makes up 100% of the revenue of the Imagination Industries Group, and 97% of the Imagination Industries Group's total assets.

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

Since our foundation in 2009, OVO became symbolic of a new model in retail energy - providing cheaper, greener, simpler energy to homes in Britain. This position was dramatically boosted in 2020 with the acquisition of SSE Energy Services Group Limited, increasing overall customer numbers across our Group's brands to 4.5 million.

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

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

2021 Strategic Update

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

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

Our principal strategy focused on the continuation of the integration of SSE Energy Services Group Limited onto OVO systems and platforms, developing customer propositions that reduce energy consumption in the home and save money whilst providing an excellent customer experience.

The end of 2021 marked the start of the energy crisis, which saw the doubling of energy prices and many energy suppliers ceasing to trade. This situation required urgent action, and the need for the industry, the government and the regulator to work together to protect consumers and strengthen the energy system.

Digital transformation

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

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.

Imagination Industries Ltd

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

2021 Strategic Update (continued)

Kaluza

Energy companies across the world are simultaneously solving how to engage customers, flexibly respond to market needs and drive progress towards an affordable, zero-carbon grid. Kaluza's software platform enables energy companies to lower their running costs, deliver outstanding customer service and invest in innovating new tariffs around low-carbon smart devices at pace.

2021 saw the Kaluza business grow to nearly 450 employees and appoint Scott Neuman, formerly the VP at Oracle and Head of Opower, as its new US-based CEO.

Kaluza completed its first international licensing agreement in Australia, with AGL, Australia's largest energy retailer, investing in OVO Energy Australia, enabling Kaluza to adapt its platform to the new market and help transform the customer experience for millions more households. In the UK, Kaluza continued to ramp up migration of customer accounts and helped reduce call volumes per customer by 50%, improving its cost to serve.

Kaluza launched its sustainability pledge, 'Mission Transition' in October committing the business to achieving carbon negative status by 2030 and accelerating decarbonisation for its energy retail clients.

In November, Kaluza partnered with Mitsubishi Corporation in Japan to facilitate the development of innovative electric vehicle services, including smart charging, insurance and leasing.

Zero Carbon Homes

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

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

Imagination Industries Ltd

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

Key Financial and Performance Indicators

The Group made an adjusted EBITDA of £169m for the year ended 31 December 2021 (2020: adjusted EBITDA of £108m) and has net assets of £131m at 31 December 2021 (2020: net liabilities of £187m). The Group has seen a decrease in customer numbers from 2020 to 2021 in the year which was in line with expected levels of churn. Despite this, both annualised gross profit margin and adjusted EBITDA have increased as a result of decreased realised commodity costs and increased prices. Cash has also increased in the year which is reflective of improved working capital practices year-on-year. Net assets have increased significantly in the current year due to the recognition of £422m derivative energy contracts carried at fair value. During the year the Group has re-assessed the volume threshold at which contracts are deemed to be highly probable of resulting in physical delivery which has led to a larger proportion of the contract book being designated as trading. In the prior year all contracts were assessed as own use and hence no asset or liability was recognised. These contracts will be used to fulfill customer contracts which are priced below market spot prices in the short term and therefore, the derivative financial assets recognised as at 31 December 2021 will be reversed when these contracts unwind in future periods.

The Group's key financial and other performance indicators during the year are as follows:

	Unit	2021	2020
UK Retail customer numbers	No.	4,500,000	4,700,000
Cash	£ m	151	54
Annualised gross profit margin	%	17	14

The Company's net assets at 31 December 2021 were £37m (2020: £32m). The Company recognised a profit of £5m in the year (2020: profit of £3m).

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, OVO 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.

Sale of Revenue Protection business

Subsequent to year end, the Group sold its Revenue Protection business, which is a line of business within OVO (S) Metering Limited, an indirect subsidiary of Imagination Industries Ltd. The sale completed in April 2022.

Imagination Industries Ltd

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

Streamlined Energy and Carbon Reporting Framework Regulations

OVO Group is subject to the Streamlined Energy and Carbon Reporting Framework Regulations (SECR). We therefore report our energy consumption and associated greenhouse gas emissions figures for the year ended 31 December 2021 (current year) and the year ended 31 December 2020 (prior year), an intensity ratio and information relating to our energy and greenhouse gas emissions reduction actions.

Energy consumption figures - OVO Group

Area	Energy source	Unit	2021 energy consumption	2020 energy consumption
			UK	UK
Building energy consumption	Natural gas	kWh	5,544,066	5,713,972
	Diesel	kWh	71,602	527,471
	Electricity	kWh	7,963,469	9,184,680
	District heating and cooling	kWh	-	-
Fleet energy consumption	Diesel	kWh	18,418,538	22,158,509
	Petrol	kWh	1,814,587	2,079,611
	Electric	kWh	245,287	178,170
	Hybrid	kWh	31,840	-
	Plug-in hybrid	kWh	1,350	-
Business travel energy consumption	Diesel	kWh	721,444	750,801
	Petrol	kWh	92,455	544,129
	Electric	kWh	-	-
	Hybrid	kWh	4,828	4,083
	Plug-in hybrid	kWh	-	80
	Unspecified	kWh	-	210,391
Total energy consumption		kWh	34,909,466	41,351,897

Imagination Industries Ltd

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

Streamlined Energy and Carbon Reporting Framework Regulations (continued)

Greenhouse gas emissions figures - OVO Group

Emissions scope	Area	Emissions source	Unit	2021 greenhouse gas emissions	2020 greenhouse gas emissions
				UK	UK
Scope 1 emissions	1 Building energy consumption	Natural gas	Tonnes CO2e	1,015	1,051
		Diesel	Tonnes CO2e	18	133
	Fugitive emissions	R410A	Tonnes CO2e	60	124
		R407C	Tonnes CO2e	-	8
	Fleet energy consumption	Diesel	Tonnes CO2e	4,364	5,332
		Petrol	Tonnes CO2e	418	477
		Hybrid	Tonnes CO2e	8	-
		Plug-in hybrid	Tonnes CO2e	-	-
	Total Scope 1 emissions		Tonnes CO2e	5,883	7,125
Scope 2 emissions	2 Building energy consumption	Electricity (Location-based)	Tonnes CO2e	1,691	2,141
		Electricity (Market-based)	Tonnes CO2e	410	275
		District heating and cooling (Location-based)	Tonnes CO2e	-	-
		District heating and cooling (Market-based)	Tonnes CO2e	-	-
	Fleet energy consumption	Electricity	Tonnes CO2e	52	42
	Total Scope 2 emissions (Location-based)		Tonnes CO2e	1,743	2,183
	Total Scope 2 emissions (Market-based)		Tonnes CO2e	462	317
Total Scope 1 and Scope 2 emissions	Total Scope 1 and Scope 2 emissions (Location-based)		Tonnes CO2e	7626^	9,308
	Total Scope 1 and Scope 2 emissions (Market-based)		Tonnes CO2e	6345^	7,442
	Total Scope 1 and Scope 2 emissions intensity relative to revenue (Location-based)		Tonnes CO2e/£ m	1.70	2.09
	Total Scope 1 and Scope 2 emissions intensity relative to revenue (Market-based)		Tonnes CO2e/£ m	1.41	1.67

Imagination Industries Ltd

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

Streamlined Energy and Carbon Reporting Framework Regulations (continued)

Emissions scope	Area	Emissions source	Unit	2021 greenhouse gas emissions	2020 greenhouse gas emissions
				UK	UK
Scope 3 emissions	3	Building energy consumption Diesel	Tonnes CO2e	180	191
		Petrol	Tonnes CO2e	22	131
		Hybrid	Tonnes CO2e	1	1
		Plug-in hybrid	Tonnes CO2e	-	-
		Unknown	Tonnes CO2e	-	52
		Total Scope 3 emissions in-scope for SECR	Tonnes CO2e	203	375
Revenue	OVO Group Ltd revenue		£ m	4,493	4,455

PricewaterhouseCoopers LLP (PwC) was engaged to provide independent limited assurance over selected information in the Annual Report for the year ended 31 December 2021. Information that is within PwC's limited assurance scope is marked with the symbol ^. See PwC's Assurance Statement here: www.ovo.com/sustainability-assurance-report/.

Performance

Our absolute Scope 1 and Scope 2 market-based emissions and location-based emissions decreased by 15% and 18% respectively between 2021 and 2020.

Energy and greenhouse gas emissions reduction actions

Over the course of 2021, we continued to navigate the ever-changing landscape of pandemic-related restrictions. At the start of the year, restrictions remained in place across the UK which slowed, and in some cases halted, our ability to conduct some business activities. This had a particular impact on our field services team, who carry out in-home visits to our customers.

As restrictions began to ease, our people started to come back to our offices to work. Whilst we saw a steady return to the office, many of our employees continued to work from home meaning we continued to operate with reduced occupancy across our property portfolio.

However, against the backdrop of easing restrictions we managed to make good progress against some of our Plan Zero initiatives: increasing the proportion of EVs across our fleet and driving energy efficiency programmes across our offices.

Imagination Industries Ltd

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

Property

When sites come into our operational control, we aim to power them with renewable energy. This year, we continued to increase the proportion of our properties on renewable energy tariffs by switching the supplier for two of our sites. These sites totalled an annual renewable energy consumption of 3,542,200 kWh. We also transitioned ten of our sites shared with SSE to renewable electricity tariffs, which added a further 96,000 kWh of green power to our portfolio this year.

This year, we also focused on consolidating the number of properties across our portfolio. We exited 19 properties in 2021, driving a 30% reduction in our total building energy consumption this year.

We continued to respond to the latest government guidance regarding COVID-19 which saw a continuation of remote working and reduced office occupancy. However, we did see an increase in our buildings energy consumption as the use of air ventilation systems increased to mitigate COVID-19 infection risk. This year, we also used more energy to power our heating systems as 2021 was a much colder year on average than 2020.

The reduced level of office occupancy did enable us to reduce floor space in some shared buildings. This drove a significant reduction in our energy consumption for those sites and supported our EP100 initiative target of doubling energy productivity across our operations by 2030.

We also activated new building energy management platforms for our core offices. Energy consumption at these sites was frequently monitored and any spikes in consumption was flagged for investigation.

To support decarbonisation of our buildings, we continued to implement energy efficiency measures across our portfolio. This included installation of LED lighting and reducing plant operating times to align to the reduced occupancy levels (where practical).

We also welcomed onboard our new Energy Manager, who looks after our properties and makes sure we're taking a systematic approach to our energy management priorities.

Overall, we saw a 13% reduction in building electricity consumption this year, as well as a 3% reduction in gas consumption.

Fleet

In 2021, we continued to make some progress towards our aim of electrifying 100% of the vehicles in our company fleet by 2025. We removed 350 diesel or petrol powered vehicles and added over 30 new electric vehicles (EVs) to our fleet. This increased the percentage of EVs in our fleet from 8% to 12%. Looking forward, we will continue with the EV rollout, with plans to significantly increase the proportion of EVs in our fleet during 2022.

We supported more of our engineers to switch to EVs by installing over 75 EV charge points at their homes. We also started a trial with MINA, a third-party payments solution provider, to ensure that drivers are reimbursed for the exact amount of electricity used to power their vehicles at home or at public charging points.

Smart meter installations by our field services team continued to be impacted by COVID-19 related restrictions, however these fluctuations were relatively minor in comparison with 2020. Towards the end of 2021, we were impacted by the rising cost of fuel and national fuel distribution challenges. We worked with our drivers to shift refuelling behaviours slightly, asking them to fill up little and often.

Imagination Industries Ltd

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

Business travel

As pandemic-related restrictions (national lockdowns and limitations on non-necessary travel) continued into 2021, we continued to see reduced level of travel across the business compared to pre-pandemic times. Our employees continued to connect virtually, meaning our impact from business travel remained relatively low.

Customers

Our most significant source of carbon emissions continues to be the use of energy we sell to customers (which forms part of our Scope 3 emissions). This makes up over 99% of our total carbon footprint and is primarily driven by our customers' use of gas.

In 2020, these emissions totalled 11,645,643 tCO₂e¹ which was 23% lower than our re-baselined 2018 carbon footprint. This decrease in emissions was driven primarily by reductions in total gas and electricity sold and an increasing proportion of renewables in our electricity fuel mix.

The calculation of these emissions for 2021 depends upon our final 2021-2022 electricity fuel mix figures, which reflect the different energy sources from which the electricity we supply originates (e.g. wind, solar, etc.). Fuel mix figures are published for all UK suppliers by the energy sector regulator, Ofgem, in the summertime. Due to the 2021-2022 fuel mix figures being unavailable at the time of writing, our 2021 Scope 3 emissions from energy sold are not included here.

We will calculate these Scope 3 emissions for 2021 once our fuel mix is published and will disclose our complete emissions profile in our Plan Zero 2021 progress report, due to be published in September 2022.

¹In 2020, PricewaterhouseCoopers LLP (PwC) was engaged to provide independent limited assurance over OVO's 2020 Scope 3 emissions from fuel and energy-related activities and use of sold products (electricity and gas) for the year ended 31 December 2020. See PwC's 2020 Assurance Statement at www.ovo.com/sustainability-assurance-report/ and OVO's 2020 Basis of Preparation at <https://company.ovo.com/basis-of-preparation/>.

Reporting methodology

Our reporting approach is aligned with the WRI GHG Reporting Protocol Corporate Standard. The Basis of Preparation document outlining the reporting methodology in detail can be found here: www.ovo.com/basis-of-preparation/.

Assurance

PricewaterhouseCoopers LLP (PwC) was engaged to provide independent limited assurance over selected information in the Annual Report for the year ended 31 December 2021. Information that is within PwC's limited assurance scope is marked with the symbol ^. See PwC's Assurance Statement here: www.ovo.com/sustainability-assurance-report/.

Taskforce on Climate-related Financial Disclosures (TCFD)

At OVO, we are committed to driving progress towards zero carbon living. To ensure resilience of this ambition and our business strategy, we have begun to review the potential risks and opportunities to our business caused by climate change. We commit to performing a climate-risk assessment in line with the recommendations of the TCFD in 2022 and disclosing the results as part of our annual company reporting.

Imagination Industries Ltd

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

Corporate Governance Statement

For the year ended 31 December 2021, OVO Group Ltd met the qualifying conditions to provide a corporate governance statement under The Companies (Miscellaneous Reporting) Regulations 2019. As an investment holding company, Imagination Industries Ltd have delegated the corporate governance arrangements and day to day management to an OVO Group Board on which the Imagination Industries Directors make recommendations. This statement therefore sets out the corporate governance arrangements for OVO Group Ltd. In this reporting period, OVO Group Ltd has applied the *Wates Corporate Governance Principles for Large Private Companies*. OVO Group Ltd complies with the principles as follows:

Purpose and Leadership

OVO's vision is to power human progress with clean, affordable energy for everyone. Plan Zero sets out our purpose - to drive progress to zero carbon living - and our strategy for achieving this. We recognise our role in leading the transition from fossil fuels to renewable energy, and in building an energy system fit for a more sustainable and renewable future. The OVO Group Ltd Board is committed to fulfilling our purpose, and overseeing OVO's strategy to achieve it in a way that is ethical, responsible and creates long term value for all of our stakeholders.

OVO's three values underpin our culture and help our business grow, prosper and successfully deliver on the ambitions set out in Plan Zero.

- Find a Better Way - We always look for a better way, whether that's by delivering a better service, employing brilliant people or improving our products and processes.
- Do What's Right - Being open, honest and fair is one of the values which applies to everything we do. We take pride in talking to our customers and delivering exceptional work.
- Build Something Great - Simple solutions aren't quick or easy to find. They take time and tenacity. Our people work to find an answer that helps us 'build something great'.

In 2021, the OVO Code of Conduct was refreshed and published on the OVO.com website. Training on the refreshed code is being rolled out for all our people during 2022.

Imagination Industries Ltd

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

Director responsibilities

As an investment holding company, Imagination Industries Ltd have delegated the corporate governance arrangements and day to day management to an OVO Group Board on which the Imagination Industries Ltd Directors make recommendations.

The Boards of OVO subsidiaries are made up of members of the OVO leadership team and senior management.

OVO has a governance and leadership structure in place which provides a clear framework for oversight and decision making for commercial and functional leaders, that ensures we can deliver on the ambitions set out in Plan Zero, drive commercial performance and oversee the operations of each of our businesses.

Directors are aware of their responsibilities under The Companies Act 2006 as well as their wider legal obligations and the requirements of sector specific regulation in the markets which OVO does business in.

Building on the governance changes implemented last year, during 2021, the OVO Group Ltd Board reviewed its composition and structure. In late 2021, the Board introduced a new committee structure with a Remuneration Committee and a separate Audit Committee and Risk Committee.

During 2021, the Combined Risk and Audit Committee met 4 times and the new Audit Committee met once. The new Risk Committee met for the first time in early 2022.

The work of the Combined Risk and Audit Committee, and subsequently the new committees, is focused on the soundness of financial statements and the effectiveness of risk management and internal controls. The committees oversee the relationship with our external auditors and receive regular reports on the risk management and internal controls across all OVO Group Ltd subsidiaries from our Risk & Compliance and Internal Audit teams.

In 2021, the Combined Risk and Audit Committee reviewed OVO's principal risks, received detailed risk assessments on OVO's management of Financial and Commodity risk, Change Delivery risk including the customer migration, Customer Operations risk and People and Culture risk. The committee also agreed OVO's Internal Audit programme for 2021, its approach to non-audit services and uncorrected misstatements, and the Group Tax strategy statement.

Reporting to the OVO Group Ltd Board, the OVO leadership team is in place to: set group-wide strategy and track performance against it; oversee the 'how' of the combined business; make decisions / resolve issues that have group-wide impact; and make investment / resource allocation decisions.

Imagination Industries Ltd

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

Board Composition

The OVO Group Ltd Board is chaired by Stephen Murphy, who during the year ended 31 December 2021 also held positions as the Chairman of GYG plc and London & Capital Group Limited. The role of Chairman is separate from Chief Executive. During the year, a total of 9 directorships were held, consisting of 6 non-executive Directors (including the Chair), and 3 executive Directors.

In 2021, the OVO Group Ltd Board met 4 times and the Directors attended as follows:

Director	% 2021 meetings attended during appointment
Stephen Murphy (Chair)	100%
Stephen Fitzpatrick (CEO/Founder)	50%
Adrian Letts (OVO Retail CEO)	75%
Atsushi Suzuki (Director)	100%
Daniel Sasaki (Director)	100%
Stacey Cartright (Director) (18 January 2021-19 July 2021)	100%
William Castell (OVO Retail CFO) (18 January 2021-28 October 2021)	100%
Vincent Casey (Director and Secretary)	100%

Opportunity and risk

The OVO Group Ltd Board is responsible for OVO's strategic direction and making sure risk is effectively managed. OVO has considered its key operational risks and identified seven Principal Risks:

- Financial and Commodity
- People and Culture
- Customer Proposition
- Customer Operations
- Regulation, Compliance and Reporting
- Change Delivery
- Security and Resilience

These Principal Risks are those which could stop OVO from offering the best customer service, delivering Plan Zero and staying financially healthy. OVO's leadership team is responsible for setting the tolerable level of risk which OVO are willing to take for each Principal Risk.

The OVO Risk Policy defines OVO's approach to risk management. An enterprise wide view is achieved through the combination of bottom up and top down assessments, with alignment of risks to Principal Risk categories - providing meaningful information to enable informed decision making. OVO's Risk Team helps its leadership team understand which risks are too high and need further action.

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

Imagination Industries Ltd

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

Financial risks

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

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

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

The Group borrows to finance its operations and growth. Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates. The Group aims to minimise interest rate risk in order to optimise cost of capital.

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

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

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.

Remuneration

As an investment holding company, Imagination Industries Ltd have delegated the corporate governance arrangements and day to day management to an OVO Group Board on which the Imagination Industries Ltd Directors make recommendations.

The OVO Group Remuneration Committee is focused on ensuring that we can attract and retain the right mix of talented, innovative, and passionate individuals in our senior management as well as across OVO.

The Remuneration Committee approves OVO's Long Term Incentive Plan, which is designed to reward and retain our senior management, based on OVO's growth trajectory. Each year, the Committee considers whether to invite employees to join the Plan; and the target award for each category of employee (based on seniority/level of impact to the organisation's success).

The OVO Annual bonus, available to a wider group of our people, is underpinned by a financial gateway, meaning bonuses will not be paid if the organisation does not perform financially. The other metrics of customer satisfaction ensure OVO does not award bonuses if OVO has not acted in the best interest of our customers. The metrics are reviewed each year to ensure they remain aligned with OVO's strategy and purpose.

Annually, all executive remuneration is benchmarked against external market data. This exercise shows spikes in specific disciplines and allows OVO to view remuneration by gender/ethnicity/level. Any changes to C-Suite base pay is reviewed and approved by the Remuneration Committee.

Stakeholders

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.

Our Section 172 statement provides more detail on how we engage stakeholders and consider their interests in Board decision making.

Imagination Industries Ltd

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

Section 172 Statement

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

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

Our stakeholders

Our members

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

Our people

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

Our planet

OVO's impacts on the environment and our planet are central to OVO's business strategy to deliver Plan Zero. We recognise that our business operations have environmental impacts, including carbon emissions, air pollution, natural resource use, water consumption, and generation of waste. In 2021, we established a formal Environment Policy, applicable across the OVO Group, to codify our commitment to minimise the negative impacts of our business activities on the environment across our entire value chain. In addition, we commit to increasing the positive impact of our business on the planet, for example by developing products and services that help our customers to decarbonise home energy use. We have taken action to embed sustainable business practices across our OVO Retail business through the implementation of Plan Zero. For example, in 2021, we rolled out mandatory training on climate change to all our people to encourage them to consider Plan Zero in strategic and operational decision-making across all areas of our business. For our Kaluza business, we launched a new strategy, Mission Transition, to embed sustainable business practices across Kaluza operations and commercial strategy too. 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 regulators. 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.

Imagination Industries Ltd

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

Section 172 Statement (continued)

Our communities

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

Our suppliers

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

Embedding Section 172 in Board decision-making

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

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

Imagination Industries Ltd

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

Section 172 Statement (continued)

Case Study: Responding to the energy crisis

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

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

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

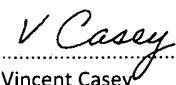
To help our customers receive the answers they need immediately, we created a comprehensive guide and FAQ section on our websites. We also launched our Payment Support Product, the industry's first Open Banking digital tool, enabling members looking for support to quickly access a detailed, accurate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

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

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

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

The financial statements on pages 25 to 112 were approved by the Board on 20 September 2022 and signed on its behalf by:


.....
Vincent Casey
Director

Imagination Industries Ltd

Directors' Report for the Year Ended 31 December 2021

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

Principal activities

The principal activity of the Group is an investment holding company for OVO Group Ltd which is a retail energy provider that invests in new technologies that support the decarbonisation of energy. In addition, the Group holds other early stage investments across a variety of industries. For more information, refer to the Strategic Report.

Directors of the Group

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

Stephen Fitzpatrick

Vincent Casey

Dividends

The Directors do not propose a dividend for the year ended 31 December 2021 (31 December 2020: no dividends proposed).

Financial instruments

Financial risk management objectives and policies have been established making use of financial instruments for the purpose of managing the exposure of the Group to commodity price risk, credit risk, interest rate risk and liquidity risk. This is discussed in note 31 of the financial statements.

Charitable donations

During the year the Group made charitable donations of £777,000 (2020: £812,000), as follows:

	£
OVO Charitable Foundation	759,000
Centrepont	18,000
	<hr/>

Employee involvement

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

Other stakeholder engagement

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

Employment of disabled persons

One of the Group's core values is treating people fairly, giving equal opportunities to all employees and applicants. The Group 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 Group will make every effort to give the employee suitable responsibilities with reasonable adjustments in their current role, in line with the Equality Act 2010. Where this isn't possible, the Group will try to find the employee another role within OVO and provide additional training (as necessary).

Subsequent events after the end of the reporting period

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

Future developments

The Directors believe that the Group remains well positioned in the market place with a differentiated offer. For further information, visit our website: www.ovoenergy.com. See Strategic Report for the Group's future developments.

Imagination Industries Ltd

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

Research and development

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

Branches outside the United Kingdom

Kaluza Ltd, an indirect subsidiary of Imagination Industries Ltd, has a branch, Kaluza Limited Sucursal em Portugal, located in Lisbon, Portugal. Its principal activity is to provide engineering services to other group companies.

Going concern

The financial statements have been prepared on the going concern basis as the Directors have assessed that there is a reasonable expectation that the Group and Company will be able to continue in operation and meet their commitments as they fall due over the going concern period.

Group

The Group continues to perform well, and manage its risks appropriately. Our hedging arrangements have remained effective in managing our exposure to the commodity price volatility arising from the ongoing conflict in Ukraine. The implementation of our technology-enabled customer relationship platform is enabling us to operate with greater efficiency and to build enhanced relationships with our customers.

Looking ahead, the Directors have reviewed the financial forecast of the Group and Company, and have performed a going concern review considering both a base and several severe but plausible downside scenarios. The base forecast takes into account of the Directors' expectations of the following key uncertainties:

- Short term volatility in wholesale commodity prices, including the impact of the ongoing conflict in Ukraine and the associated impact on the energy market;
- The impact of the UK cost of living crisis, including rising energy bills, inflation and interest rates, and the subsequent impact on affordability and expected credit losses; and
- The UK regulatory environment, including the structure of the Winter 2022/2023 Price Cap mechanism; the application of the BEIS Energy Bills Rebate; and other regulatory matters.

The severe but plausible downside scenarios included a further increase in bad debt, an increase in customer churn, and cold/warm weather scenarios. In the case of downside scenarios the Directors took into account the potential mitigating factors within their direct control to protect the Group's earnings and liquidity.

The Group has a series of financial covenants with its key financial and trading creditors. The financial covenants in place over the forecast period relate to liquidity, key earnings ratios and the net worth of the Group.

The Group also has a number of arrangements with its creditors which allow for extended payment terms through the seasonal cycle, in order to manage its working capital commitments. These arrangements have associated financial covenants, against which the Group has been compliant during the period. These facilities were not drawn at the end of the financial year.

Under the forecast (both base case and downside scenarios) the Group and Company have sufficient liquidity over the full going concern period. However, as a result of the key uncertainties noted above the Group is forecasting that it will breach certain of its financial covenants within the next 12 months (further details on the financial covenants of the Group are included within the notes to the accounts). 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.

Imagination Industries Ltd

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

Going concern (continued)

Company

The Company's main source of revenue is brand royalties received from OVO Group Limited. The key uncertainties noted with regards to the Group above create additional uncertainties with regards to the future receipt of revenue on which the Company relies. Additionally, the Company holds a revolving credit facility which is payable within the going concern assessment period. While the Directors anticipate that this facility will be renewed, there is currently no formal confirmation of this renewal which creates further uncertainty with regards to the Company's going concern.

Having made appropriate enquiries, including discussion with the counterparty who remains supportive of the trading relationship with the Group, and in the knowledge of the uncertainties noted above, the Directors consider that it is appropriate to adopt the going concern basis in preparing the Group and Company financial statements.

However, the Directors have also concluded that the above circumstances represent a material uncertainty that may cast significant doubt on the Group's and Company's ability to continue as a going concern.

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

Directors liabilities

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

Disclosure of information to the auditors

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

Streamlined Energy and Carbon Reporting

Details of the Group's compliance against these regulations are included in the Strategic Report under the heading 'Streamlined Energy and Carbon Reporting Framework Regulations'.

Statement of corporate governance arrangements

Details of corporate governance arrangements are disclosed in the Strategic Report under the heading 'Corporate Governance Statement'.

Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with international accounting standards in conformity with the Companies Act 2006. 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 Group and Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

Imagination Industries Ltd

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

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

The financial statements on pages 25 to 112 were approved by the Board on 20 September 2022 and signed on its behalf by:


.....
Vincent Casey
Director

Independent auditors' report to the members of Imagination Industries Ltd

Report on the audit of the financial statements

Opinion

In our opinion, Imagination Industries Ltd's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2021 and of the group's profit and the group's and company's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; 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 Consolidated Financial Statements (the "Annual Report"), which comprise: the Consolidated and Company Statements of Financial Position as at 31 December 2021; the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statements of Changes in Equity and the Consolidated and Company Statements of Cash flows 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 group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to other entities of public interest, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Other than those disclosed in note 11, we have provided no non-audit services to the company or its controlled undertakings 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 group's and the company's ability to continue as a going concern. 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 severe but plausible downside 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.

Independent auditors' report to the members of Imagination Industries Ltd (continued)

Additionally the company relies on a royalty stream for its sustenance from a subsidiary company which is impacted by the above mentioned uncertainties and also has a loan facility repayable within the going concern period for which there is currently no confirmation that it will be renewed.. 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 group's and the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the group and 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 group's and 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 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 group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

In preparing the financial statements, the directors are responsible for assessing the group's and 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 group or 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 group 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 the 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 the posting of inappropriate journal entries to manipulate financial performance, and management bias in accounting estimates and judgements. Audit procedures performed by the engagement team included:

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

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

KE FM

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

Imagination Industries Ltd

Consolidated Income Statement for the Year Ended 31 December 2021

	Note	2021 £ m	2020 £ m
Revenue	4	4,513	4,460
Cost of sales		<u>(3,745)</u>	<u>(3,816)</u>
Gross profit		768	644
Administrative expenses		(638)	(654)
Impairment of financial assets		(122)	(122)
Other operating income	5	3	18
Other gains/(losses)	6	<u>425</u>	<u>(1)</u>
Operating profit/(loss)	7	<u>436</u>	<u>(115)</u>
Finance income		2	3
Finance costs		<u>(60)</u>	<u>(62)</u>
Net finance cost	8	(58)	(59)
Share of loss of equity accounted investees	16	<u>(1)</u>	<u>-</u>
Profit/(loss) before tax		377	(174)
Income tax (expense)/credit	12	<u>(40)</u>	<u>32</u>
Profit/(loss) for the financial year		<u><u>337</u></u>	<u><u>(142)</u></u>
Profit/(loss) attributable to:			
Owners of the parent		212	(89)
Non-controlling interests		<u>125</u>	<u>(53)</u>
Profit/(loss) for the financial year		<u><u>337</u></u>	<u><u>(142)</u></u>

The above results were derived from continuing operations.

Imagination Industries Ltd

Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2021

	Note	2021 £ m	2020 £ m
Profit/(loss) for the financial year		<u>337</u>	<u>(142)</u>
Other comprehensive income/(expense)			
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of defined benefit obligation	28	11	(10)
Deferred tax on defined benefit obligation	12	<u>(3)</u>	<u>2</u>
Total other comprehensive income/(expense)		<u>8</u>	<u>(8)</u>
Total comprehensive income/(expense) for the year		<u><u>345</u></u>	<u><u>(150)</u></u>
Total comprehensive income/(expense) attributable to:			
Owners of the parent		217	(94)
Non-controlling interests		<u>128</u>	<u>(56)</u>
		<u><u>345</u></u>	<u><u>(150)</u></u>

Imagination Industries Ltd

(Registration number: 06890468)

Consolidated Statement of Financial Position as at 31 December 2021

	Note	2021 £ m	2020* £ m
Assets			
Non-current assets			
Property, plant and equipment	13	9	9
Right of use assets	14	45	58
Intangible assets	15	535	562
Deferred tax assets	12	142	99
Investments accounted for using the equity method	16	9	1
Defined benefit pension asset	28	20	13
		<u>760</u>	<u>742</u>
Current assets			
Inventories	20	29	18
Trade and other receivables	21	932	1,130
Income tax asset		-	12
Cash and cash equivalents	23	151	54
Derivative financial instruments	22	461	-
		<u>1,573</u>	<u>1,214</u>
Assets classified as held for sale		<u>-</u>	<u>8</u>
Total assets		<u>2,333</u>	<u>1,964</u>
Current liabilities			
Trade and other payables	24	(894)	(823)
Deferred income		(534)	(678)
Lease Liabilities	26	(14)	(15)
Income tax liability		(4)	-
Provisions	27	(39)	(28)
		<u>(1,485)</u>	<u>(1,544)</u>
Non-current liabilities			
Loans and borrowings	25	(540)	(506)
Provisions	27	(19)	(48)
Lease liabilities	26	(39)	(53)
Deferred tax liabilities	12	(80)	-
Derivative financial instruments	22	(39)	-
		<u>(717)</u>	<u>(607)</u>
Total liabilities		<u>(2,202)</u>	<u>(2,151)</u>
Net assets/(liabilities)		<u>131</u>	<u>(187)</u>

The notes on pages 36 to 112 form an integral part of these financial statements.

Imagination Industries Ltd

(Registration number: 06890468)

Consolidated Statement of Financial Position as at 31 December 2021 (continued)

	Note	2021 £ m	2020* £ m
Equity			
Share capital	29	-	-
Share premium		4	4
Share based payment reserve		2	3
Retained earnings/(Accumulated losses)		71	(120)
Equity attributable to owners of the parent		77	(113)
Non-controlling interests		54	(74)
Total equity		131	(187)

*Current and non-current provisions have been restated from £76m to £28m and £nil to £48m respectively in the prior year to reflect the correct current and non-current classification. This was a reclassification adjustment only with no impact on operating profit/(loss).

The financial statements on pages 25 to 112 were approved by the Board on 20 September 2022 and signed on its behalf by:


 Vincent Casey
 Director

Imagination Industries Ltd

(Registration number: 06890468)

Company Statement of Financial Position as at 31 December 2021

	Note	2021 £ m	2020 £ m
Assets			
Non-current assets			
Right-of-use assets	14	1	2
Intangible assets	15	2	-
Investments in subsidiaries	16	44	17
Investments accounted for using the equity method	16	1	1
		<u>48</u>	<u>20</u>
Current assets			
Trade and other receivables	21	17	22
Income tax asset		-	2
Cash and cash equivalents	23	5	4
		<u>22</u>	<u>28</u>
Total assets		<u>70</u>	<u>48</u>
Current liabilities			
Trade and other payables	24	-	(2)
Lease Liabilities	26	(1)	-
Income tax liability		(6)	(4)
		<u>(7)</u>	<u>(6)</u>
Non-current liabilities			
Loans and borrowings	25	(25)	(10)
Lease liabilities	26	(1)	-
		<u>(26)</u>	<u>(10)</u>
Total liabilities		<u>(33)</u>	<u>(16)</u>
Net assets		<u>37</u>	<u>32</u>
Equity			
Share capital	29	-	-
Share premium		4	4
Retained earnings		33	28
Equity attributable to owners of the parent		<u>37</u>	<u>32</u>
Total equity		<u>37</u>	<u>32</u>

The notes on pages 36 to 112 form an integral part of these financial statements.

Imagination Industries Ltd

(Registration number: 06890468)

Company Statement of Financial Position as at 31 December 2021 (continued)

No income statement is presented for the Company as permitted by Section 408 of the Companies Act 2006. Its profit for the year was £5m (2020: profit of £3m).

Approved by the Board on 20 September 2022 and signed on its behalf by:


.....
Vincent Casey
Director

Imagination Industries Ltd

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

	Attributable to owners of the parent				Non-controlling interests £ m	Total equity £ m
	Share premium £ m	Share based payment reserve £ m	Accumulated losses £ m	Total £ m		
At 1 January 2020	4	2	(27)	(21)	(17)	(38)
Loss for the year	-	-	(89)	(89)	(53)	(142)
Other comprehensive expense	-	-	(5)	(5)	(3)	(8)
Total comprehensive expense	-	-	(94)	(94)	(56)	(150)
Movement in non-controlling interest	-	-	1	1	(1)	-
Share based payment transactions	-	1	-	1	-	1
At 31 December 2020	4	3	(120)	(113)	(74)	(187)

	Attributable to owners of the parent				Non-controlling interests £ m	Total equity £ m
	Share premium £ m	Other reserves £ m	(Accumulated losses)/ Retained earnings £ m	Total £ m		
At 1 January 2021	4	3	(120)	(113)	(74)	(187)
Profit for the year	-	-	212	212	125	337
Other comprehensive income	-	-	5	5	3	8
Total comprehensive income	-	-	217	217	128	345
Movement in foreign currency translation reserve	-	1	-	1	1	2
Share based payment transactions	-	(2)	-	(2)	-	(2)
Other*	-	-	(26)	(26)	(1)	(27)
At 31 December 2021	4	2	71	77	54	131

*During 2021, Imagination Industries Ltd repurchased 299,437 A Ordinary Shares for a cash consideration of £27m. The transaction is included in "Other".

Imagination Industries Ltd

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

	Share premium £ m	Retained earnings £ m	Total £ m
At 1 January 2020	4	25	29
Profit for the year	-	3	3
Total comprehensive income	-	3	3
At 31 December 2020	4	28	32
	Share premium £ m	Retained earnings £ m	Total £ m
At 1 January 2021	4	28	32
Profit for the year	-	5	5
Total comprehensive income	-	5	5
At 31 December 2021	4	33	37

Imagination Industries Ltd

Consolidated Statement of Cash Flows for the Year Ended 31 December 2021

	Note	2021 £ m	2020 £ m
Cash flows from operating activities			
Profit/(loss) for the year		337	(142)
Adjustments to cash flows from non-cash items			
Depreciation and impairment of property, plant and equipment	13	8	9
Depreciation and impairment of right-of-use assets	14	12	24
Amortisation and impairment of intangible assets	15	85	82
Defined benefit pension transactions		4	3
Finance income	8	(2)	(3)
Finance costs	8	60	62
Income tax expense/(credit)	12	40	(32)
Remeasurement of derivative financial instruments	22	(422)	-
Other movements	6	(8)	-
		<u>114</u>	<u>3</u>
Working capital adjustments			
Increase in inventories	20	(11)	(8)
Decrease in trade and other receivables	18	197	90
Increase/(decrease) in trade and other payables	24	71	(156)
Decrease in provisions	27	(18)	(19)
Decrease in deferred income		<u>(144)</u>	<u>(42)</u>
Cash generated from/(used in) operations		209	(132)
Income taxes received	12	<u>12</u>	<u>-</u>
Net cash flow generated from/(used in) operating activities		<u>221</u>	<u>(132)</u>
Cash flows from investing activities			
Interest received	8	2	3
Acquisitions of property plant and equipment		(10)	(3)
Acquisition of intangible assets		(58)	(54)
Proceeds from sale of intangible assets		-	1
Acquisition of shares in subsidiaries*		(27)	-
Acquisition of investments in associates	16	(5)	-
Acquisition of subsidiary, net of cash acquired	17	-	(227)
Proceeds from the sale of discontinued operation	18	9	-
Proceeds from the disposal of subsidiary, net of cash disposed	18	<u>3</u>	<u>-</u>
Net cash flows (used in)/generated from investing activities		<u>(86)</u>	<u>(280)</u>

The notes on pages 36 to 112 form an integral part of these financial statements.

Imagination Industries Ltd

Consolidated Statement of Cash Flows for the Year Ended 31 December 2021 (continued)

	Note	2021 £ m	2020 £ m
Cash flows from financing activities			
Interest paid		(35)	(18)
Proceeds from bank borrowing draw downs	25	15	410
Proceeds from other borrowing draw downs	25	-	100
Payments of lease liabilities	26	(18)	(21)
Capitalised finance costs	25	-	(37)
Net cash flows generated from/(used in) financing activities	32	<u>(38)</u>	<u>434</u>
Net increase in cash and cash equivalents		97	22
Cash and cash equivalents at 1 January		<u>54</u>	<u>32</u>
Cash and cash equivalents at 31 December		<u><u>151</u></u>	<u><u>54</u></u>

*299,437 A Ordinary Shares were repurchased for consideration of £27m as part of the settlement of Director's loans, refer to note 34 for further details.

Imagination Industries Ltd

Company Statement of Cash Flows for the Year Ended 31 December 2021

	Note	2021 £ m	2020 £ m
Cash flows from operating activities			
Profit for the year		5	3
Adjustments to cash flows from non-cash items			
Finance income		(3)	(3)
Finance costs		2	1
Income tax (credit)/charge	12	3	2
Bad debt charge on related party receivables		<u>12</u>	<u>18</u>
		19	21
Working capital adjustments			
Decrease/(increase) in trade and other receivables	21	5	(8)
Increase in trade and other payables	24	<u>2</u>	<u>-</u>
Net cash flow generated from/(used in) operating activities		<u>26</u>	<u>13</u>
Cash flows from investing activities			
Acquisition of shares in subsidiaries*	16	(27)	(1)
Advances of loans to related parties		<u>(12)</u>	<u>(24)</u>
Net cash flows (used in)/generated from investing activities		<u>(39)</u>	<u>(25)</u>
Cash flows from financing activities			
Interest paid	8	-	(1)
Proceeds from bank borrowing draw downs		15	10
Repayment of bank borrowing		<u>(1)</u>	<u>-</u>
Net cash flows generated from/(used in) financing activities		<u>14</u>	<u>9</u>
Net increase/(decrease) in cash and cash equivalents		1	(3)
Cash and cash equivalents at 1 January		<u>4</u>	<u>7</u>
Cash and cash equivalents at 31 December		<u><u>5</u></u>	<u><u>4</u></u>

* 299,437 A Ordinary Shares were repurchased for consideration of £27m as part of the settlement of Director's loans, refer to note 34 for further details.

Imagination Industries Ltd

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

1 General information

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

The address of its registered office is:

9 Pembridge Road
Notting Hill
London
England
W11 3JY
United Kingdom

These financial statements were authorised for issue by the Board on 20 September 2022. Please see the Strategic Report for a description of principal activities.

2 Accounting policies

All accounting policies noted below relate to the Group and Company, except for those that explicitly state that they relate to the Company only.

Summary of significant accounting policies and key accounting estimates

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

Basis of preparation

The Group and Company financial statements have been prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

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 UK-adopted international accounting standards, the Group and 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 the following:

- assets held for sale - measured at fair value less costs to sell,
- financial assets and liabilities at fair value through profit or loss - measured at fair value through profit or loss and
- defined benefit pension schemes - plan assets measured at fair value.

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

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

Going concern

Imagination Industries Ltd

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

2 Accounting policies (continued)

The financial statements have been prepared on the going concern basis as the Directors have assessed that there is a reasonable expectation that the Group and Company will be able to continue in operation and meet their commitments as they fall due over the going concern period.

Group

The Group continues to perform well, and manage its risks appropriately. Our hedging arrangements have remained effective in managing our exposure to the commodity price volatility arising from the ongoing conflict in Ukraine. The implementation of our technology-enabled customer relationship platform is enabling us to operate with greater efficiency and to build enhanced relationships with our customers.

Looking ahead, the Directors have reviewed the financial forecast of the Group and Company, and have performed a going concern review considering both a base and several severe but plausible downside scenarios.

The base forecast takes into account of the Directors' expectations of the following key uncertainties:

- Short term volatility in wholesale commodity prices, including the impact of the ongoing conflict in Ukraine and the associated impact on the energy market;
- The impact of the UK cost of living crisis, including rising energy bills, inflation and interest rates, and the subsequent impact on affordability and expected credit losses; and
- The UK regulatory environment, including the structure of the Winter 2022/2023 Price Cap mechanism; the application of the BEIS Energy Bills Rebate; and other regulatory matters.

The severe but plausible downside scenarios included a further increase in bad debt, an increase in customer churn, and cold/warm weather scenarios. In the case of downside scenarios the Directors took into account the potential mitigating factors within their direct control to protect the Group's earnings and liquidity.

The Group has a series of financial covenants with its key financial and trading creditors. The financial covenants in place over the forecast period relate to liquidity, key earnings ratios and the net worth of the Group.

The Group also has a number of arrangements with its creditors which allow for extended payment terms through the seasonal cycle, in order to manage its working capital commitments. These arrangements have associated financial covenants, against which the Group has been compliant during the period. These facilities were not drawn at the end of the financial year.

Under the forecast (both base case and downside scenarios) the Group and Company have sufficient liquidity over the full going concern period. However, as a result of the key uncertainties noted above the Group is forecasting that it will breach certain of its financial covenants within the next 12 months (further details on the financial covenants of the Group are included within the notes to the accounts). 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.

Imagination Industries Ltd

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

2 Accounting policies (continued)

Going concern (continued)

Company

The Company's main source of revenue is brand royalties received from OVO Group Limited. The key uncertainties noted with regards to the Group above create additional uncertainties with regards to the future receipt of revenue on which the Company relies. Additionally, the Company holds a revolving credit facility which is payable within the going concern assessment period. While the Directors anticipate that this facility will be renewed, there is currently no formal confirmation of this renewal which creates further uncertainty with regards to the Company's going concern.

Having made appropriate enquiries, including discussion with the counterparty who remains supportive of the trading relationship with the Group, and in the knowledge of the uncertainties noted above, the Directors consider that it is appropriate to adopt the going concern basis in preparing the Group and Company financial statements.

However, the Directors have also concluded that the above circumstances represent a material uncertainty that may cast significant doubt on the Group's and Company's ability to continue as a going concern.

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

Imagination Industries Ltd

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

2 Accounting policies (continued)

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 31 December 2021.

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

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

The purchase method of accounting is used to account for business combinations that result in the acquisition of subsidiaries by the Group. Corporate restructuring, which does not meet the definition of a business combination, are accounted for through the application of predecessor accounting, where applicable. The cost of a business combination is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Any excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised is recorded as goodwill.

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

Intra-group losses are also eliminated but may indicate an impairment that requires recognition in the consolidated financial statements.

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

Changes in accounting policy

New and amended standards adopted by the Group

The Group 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 prior periods and are not expected to significantly affect the current or future periods.

Imagination Industries Ltd

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

2 Accounting policies (continued)

Impact of the adoption of Interest Rate Benchmark Reform - Phase 2 - amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

Following the financial crisis, the reform and replacement of benchmark interest rates such as GBP LIBOR and other inter-bank offered rates ('IBORs') has become a priority for global regulators. There remains some uncertainty around the timing and precise nature of these changes. The Group only has term loan facilities which reference GBP LIBOR. Both term loan facilities agreements were amended on 30 December 2021, replacing the interest rate calculation mechanism as a result of IBOR reform. Following the amendments, interest rates are based on SONIA (Sterling Overnight Index Average) and a credit spread adjustment. The Group took the practical expedient available under IBOR Phase 2 amendments to account for these changes by updating the effective interest rate without the recognition of an immediate gain or loss.

New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2021 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

Revenue recognition

Recognition

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

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

Installation and rental of smart meters

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

Voiceline and broadband revenue

Voiceline and broadband revenue is earned from the provision of services relating to the sale of telephone and broadband connectivity and associated services to consumers within the telecommunications market. The revenue is recognised in the accounting period when the services are rendered at an amount that reflects the consideration to which the Group expects to be entitled in exchange for fulfilling its performance obligations to customers.

Sale of home and emergency cover

Revenue from the sale of home and energy cover relates to revenue from insurance intermediary commission and claims handling fulfilment. The Group introduces customers to an underwriter and carries out services for which it earns commission as an agent. The Group also provides claims fulfilment, claims handling and premium collection from the customers on behalf of the agent. Commissions are recognised on a straight line basis over the contract term life whilst all other revenue is recognised at the point the underlying service is completed.

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

Imagination Industries Ltd

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

2 Accounting policies (continued)

Transaction price

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

(i) Variable consideration

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

(ii) Consideration payable to a customer

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

Accrued income and receivables

Accrued income is the right to consideration in exchange for goods or services provided to the customer. If the Group 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 receivable represents the Group'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).

Contract liabilities

A contract liability is the obligation to provide goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group provides goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Net basis of measurement of contract balances

Accrued income and contract liability positions are determined for each contract on a net basis. This is because the rights and obligations within each contract are considered inter-dependent. Where two contracts are with the same or related entities, an assessment is made of whether accrued income and contract liabilities are inter-dependent and if so, contract balances 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 costs of obtaining or fulfilling a contract are recognised as an asset if certain criteria are met. Capitalised costs are amortised on a straight line basis over the remaining contract term, unless the pattern of good or service delivery indicates a more appropriate profile. To be eligible for capitalisation, costs must be directly attributable to specific contracts, relate to future activity, and generate future economic benefits. Capitalised costs are regularly assessed for recoverability.

The Group incurs broker commissions for customers who have signed-up through broker sites. The Group has elected to apply the optional practical expedient for costs to obtain a contract which allows the Group to immediately expense customer acquisition costs because the amortisation period of the asset that the Group otherwise would have used is one year or less.

Government grants

Grants from the government are recognised in the income statement over the period in which the related costs are recognised and once the Group complies with all the attached conditions.

Finance income and costs

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

Imagination Industries Ltd

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

2 Accounting policies (continued)

Financial statements of foreign operations

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

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

The assets and liabilities of foreign operations are translated into sterling at exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated into sterling at rates approximating to the exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation of foreign operations are recognised in the foreign currency translation reserve.

Tax

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

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

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

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

Property, plant and equipment

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

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

Depreciation

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

Asset class	Depreciation method and rate
Leasehold property	Period of the lease
Fixtures and fittings	3 years straight line
Office equipment	3 years straight line
Meter assets and miscellaneous equipment	4 to 10 years straight line

Imagination Industries Ltd

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

2 Accounting policies (continued)

Goodwill

Goodwill arising on the acquisition of an entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of identifiable assets, liabilities and contingent liabilities of the entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill is held in the currency of the acquired entity and revalued to the closing rate at each reporting period date.

Goodwill is not subject to amortisation but is tested for impairment.

Negative goodwill arising on an acquisition is recognised directly in the income statement. On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss recognised in the income statement on disposal.

Intangible assets

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

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

Separately acquired trademarks and licences are shown at historical cost. Trademarks and licences acquired in a business combination are recognised at fair value at the acquisition date. Trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation.

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

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

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognised as intangible assets when the following criteria are met:

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

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

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

Computer software and licences acquired in a business combination are recognised at fair value at the acquisition date.

Imagination Industries Ltd

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

2 Accounting policies (continued)

Amortisation

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

Asset class	Amortisation method and rate
Other intangible assets	3-5 years straight line
Contractual customer relationships	Over the expected life of the contract

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 (other than goodwill) are reviewed for possible reversal at each reporting date.

Imagination Industries Ltd

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

2 Accounting policies (continued)

Investments

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost.

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in the income statement, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

Where the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity. Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity accounted investments is tested for impairment in accordance with the policy described for non-financial assets.

The Company only policy is that investments in subsidiaries are carried at cost, less any impairment.

Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Company.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in the income statement. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This might mean that amounts previously recognised in other comprehensive income are reclassified to the income statement.

Cash and cash equivalents

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

Imagination Industries Ltd

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

2 Accounting policies (continued)

Trade receivables

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

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

Non-current assets (or disposal groups) held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits and financial assets that are carried at fair value.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised. Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business, is part of a single co-ordinated plan to dispose of such a line of business, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the income statement if the discontinued operation represents a major line of business of the Group.

Inventories

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

Trade payables

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

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

Imagination Industries Ltd

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

2 Accounting policies (continued)

Borrowings

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

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

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

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

Provisions

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

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

Leases

Definition

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

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

Imagination Industries Ltd

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

2 Accounting policies (continued)

Initial recognition and measurement

The Group 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 Group's initial direct costs (e.g., commissions) and an estimate of restoration, removal and dismantling costs.

Subsequent measurement

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

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

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

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

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 Group then accounts for these in line with the accounting policy for new leases.

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

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

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

Imagination Industries Ltd

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

2 Accounting policies (continued)

Short term and low value leases

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

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

Share based payments

The Group operates a number of equity-settled share based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of OVO Group Ltd, Vertical Aerospace Ltd or Imagine Just 3 Things Ltd. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

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

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore, the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

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

When the share awards are granted, the relevant subsidiary company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

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

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

Imagination Industries Ltd

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

2 Accounting policies (continued)

Employee benefits

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

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

Share 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 asset recognised in the statement of financial position in respect of defined benefit pension plans is the fair value of the plan assets minus the present value of the defined benefit obligation at the reporting date. 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.

Imagination Industries Ltd

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

2 Accounting policies (continued)

Financial instruments

Initial recognition

Financial assets and financial liabilities comprise cash and cash equivalents, trade and other receivables, trade and other payables and borrowings.

The Group recognises financial assets and financial liabilities in the statement of financial position when, and only when, the Group 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 Group commits to purchase or sell the financial assets or financial liabilities. All regular way purchases and sales of other financial assets and financial liabilities are recognised on the settlement date, i.e. the date on which the asset or liability is received from or delivered to the counterparty. Regular way purchases or sales are purchases or sales of financial assets that require delivery within the time frame generally established by regulation or convention in the market place.

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

Classification and measurement

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

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

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

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

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

The classification and the basis for measurement are subject to the Group'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 Group had no assets measured at FVTOCI.

Imagination Industries Ltd

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

2 Accounting policies (continued)

Financial assets at amortised cost

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

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

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

If a financial asset meets the amortised cost criteria, the Group 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.

Imagination Industries Ltd

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

2 Accounting policies (continued)

Commodity derivatives

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

Derivative commodity contracts which are not designated as own use contracts are accounted for as trading derivatives and are recognised in the statement of financial position at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the income statement.

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

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

During the year the Group has re-assessed the volume threshold at which contracts are deemed to be highly probable of resulting in physical delivery which has led to a larger proportion of the contract book being designated as trading. At 31 December 2021, the Group has £422m derivative energy contracts that are not determined as own use contracts and are measured at fair value through profit or loss. In the prior year all contracts were assessed as own use and hence no asset or liability was recognised.

Imagination Industries Ltd

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

3 Critical accounting judgements and key sources of estimation uncertainty

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

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

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

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

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

This estimate is subject to an internal validation process which compares calculated unbilled volumes to a theoretical real-time billing benchmark measure of unbilled volumes with reference to historical consumption patterns adjusted for seasonality/weather and aggregated metering data used in industry reconciliation processes. At 31 December 2021 revenue arising from estimated consumption amounted to £1,217m (2020: £1,678m). 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 £12m (2020: £17m).

Deferred tax assets (accounting judgement and uncertainty)

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

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

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

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

Imagination Industries Ltd

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 receivables (estimation uncertainty)

Impairments against trade receivables are recognised where the loss is expected. The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected credit loss allowance for all trade receivables and accrued income. For energy customers the impairment is calculated by splitting the portfolio into segments and the Directors have based their assessment of the level of impairment on collection rates experienced within each segment to date. The estimates and assumptions used to determine the level of provision will continue to be reviewed periodically and could lead to changes in the impairment provision methodology which would impact the income statement 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 Group reviews the provision rates for each segment on a regular basis to ensure they include the most up to date assumptions and use forward looking information. In order to test the sensitivity of the impairment of the Group's trade receivables balance, the Group has considered the impact of an additional ageing of trade receivables which required an extra 0.5% of revenue being provided for. This would lead to a £8m increase in the expected credit loss provision in 2021 (2020: £23m).

Derivative financial instruments (accounting judgement)

Within its regular course of business, the Group routinely enters into sale and purchase derivative contracts for electricity and gas. Where the contract was entered into and continues to be held for the purpose of receipt or delivery in accordance with the Group's expected sale, purchase or usage requirements, the contracts are designated as "own-use" contracts and are measured at cost. These contracts are not within the scope of IFRS 9. The percentage of contracts that are deemed to meet own use criteria is considered to be an area of accounting judgement that significantly impacts the level of unrealised gains and losses on derivatives that are recognised in the financial statements.

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

During the year the Group has re-assessed the volume threshold at which contracts are deemed to be highly probable of resulting in physical delivery which has led to a larger proportion of the contract book being designated as trading. At 31 December 2021, the Group has £422m derivative energy contracts that are not determined as own use contracts and are measured at fair value through profit or loss. In the prior year all contracts were assessed as own use and hence no asset or liability was recognised.

Onerous contracts (accounting judgement)

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

Imagination Industries Ltd

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

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

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.

Impairment of receivables (estimation uncertainty) -Company Only

Impairments against related party receivables are recognised where the loss is expected. The Company follows IFRS 9 in measuring expected credit losses, utilising a lifetime expected credit loss approach for receivables. The estimate of the expected credit loss recognised reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes.

The ability of the Company's counterparty to continue as a going concern is the most significant assumption within the expected credit loss provisioning model. The uncertainty is driven by continued volatility in the wholesale commodity market, the impact of the UK cost of living crisis and the UK Energy Retail regulatory environment. In addition the counterparty is restricted by other contractual arrangements as to how quickly it can settle the balance due. Accordingly, recovery of the balance is not anticipated for a number of years which increases the uncertainty involved.

The estimates and assumptions used to determine the level of provision will be reviewed periodically and could lead to changes in the impairment provision methodology which would impact the income statement in future years.

Imagination Industries Ltd

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

4 Revenue

The analysis of the Group's revenue for the year from continuing operations is set out below.

	2021 £ m	2020 £ m
Sale of gas and electricity	4,207	4,178
Rendering of services	162	133
Sale of home and emergency cover	61	43
Voiceline and broadband revenue	49	51
Other revenue	34	55
	<u>4,513</u>	<u>4,460</u>

Revenue generated outside of the UK in 2021 was £20m (2020: £4m), and is included within 'Sale of gas and electricity'.

Other revenue relates primarily to Home Energy Solutions services of £12m (2020: £26m), Revenue Protection and Other Meter Operator services of £6m (2020: £6m), Insurance Claims and Boiler Installation services of £9m (2020: £7m).

Assets and liabilities related to contracts with customers

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

	Group 31 December 2021 £ m	31 December 2020 £ m	1 January 2020 £ m
Assets related to contracts with customers			
Trade receivables	604	556	113
Accrued income	374	599	74
Provision for impairment of trade receivables and accrued income	<u>(310)</u>	<u>(257)</u>	<u>(78)</u>
Total current assets related to contracts with customers	<u>668</u>	<u>898</u>	<u>109</u>
Contract liabilities			
Deferred income	<u>(534)</u>	<u>(678)</u>	<u>(90)</u>
Total current contract liabilities	<u>(534)</u>	<u>(678)</u>	<u>(90)</u>
	<u>134</u>	<u>220</u>	<u>19</u>

Accrued income and deferred income have decreased in the year due to a materially higher level of netting as at 31 December 2021 compared with 31 December 2020 as the model used to determine the netting of customer balances was changed during the year. The increase in both accrued income and deferred revenue in the prior year was primarily driven by the impact of the acquisition of the SSE Energy Services Group Limited in the prior year.

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

Imagination Industries Ltd

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

5 Other operating income

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

	2021 £ m	2020 £ m
Government grants	1	17
Research and development expenditure credit	2	1
	<u>3</u>	<u>18</u>

Government grants relate to grants in respect of furloughed employees under the Coronavirus Job Retention Scheme. During the year, 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 were recognised as other operating income to the extent that management considers the grants will be received.

6 Other gains/(losses)

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

	2021 £ m	2020 £ m
Remeasurement of derivative financial instruments	422	-
Gain on disposal of property, plant and equipment	-	1
Gain/(loss) on disposal of subsidiary	3	(2)
Gain on sale of discontinued operation	1	-
Net foreign exchange losses	<u>(1)</u>	<u>-</u>
	<u>425</u>	<u>(1)</u>

Remeasurement of derivative financial instruments

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

Imagination Industries Ltd

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

7 Operating loss

Arrived at after charging

	2021	2020
	£ m	£ m
Impairment of financial assets	122	122
Depreciation expense - Property, plant and equipment	8	9
Depreciation - Right-of-use assets	12	15
Impairment loss - Right-of-use assets	1	9
Amortisation expense	85	76
Impairment loss - intangible assets	-	4
Research and development cost	1	3
Impairment loss - Assets held for sale	-	2

Exceptional items

The Group recognised exceptional items during the year totalling £372m gain (2020: £110m loss). These items included Integration costs £26m (2020: £15m), Group reorganisation costs £7m (2020: £73m), Industry and regulatory costs £14m (2020: £nil), Merger and acquisition costs £3m (2020: £22m) and re-measurement of derivative energy contracts gain of £422m (2020: £nil).

8 Net finance costs

	2021	2020
	£ m	£ m
Finance income		
Interest income on bank deposits	1	1
Interest on loans to related parties	1	2
Total finance income	2	3
Finance costs		
External finance interest and charges	(55)	(57)
Interest expense on leases	(3)	(5)
Unwinding of discount on provisions	(2)	-
Total finance costs	(60)	(62)
Net finance costs	(58)	(59)

Imagination Industries Ltd

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

9 Staff costs

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

	2021	Restated 2020
	£ m	£ m
Wages and salaries	276	260
Social security costs	28	26
Pension costs, defined contribution scheme	18	18
Pension costs, defined benefit scheme	9	10
	<u>331</u>	<u>314</u>

Payroll costs of £33m have been capitalised in the current year (Restated 2020: £21m). These are not included in the table above.

Prior year payroll costs have been restated in the current year as certain costs were incorrectly included and excluded from the disclosure.

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

	2021	Restated 2020
	No.	No.
People & operations	5,086	5,765
Technology & business change	891	782
Commercial & finance	411	360
Group	<u>47</u>	<u>154</u>
	<u>6,435</u>	<u>7,061</u>

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

Company

The Company had no employees in the year (2020: no employees). No salary recharges were recharged from subsidiaries (2020: £nil).

Imagination Industries Ltd

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

10 Directors' remuneration

There were a total of two (2020: two) Directors during the year. The remuneration reflects the remuneration received from any company within the Imagination Industries Ltd Group.

Total Directors' remuneration for the year was £457,000 (2020: £385,000) with pension contributions to defined contribution pension scheme of £39,000 (2020: £13,000).

The highest paid Director in the year received remuneration of £455,000 (2020: £384,000) and pension contributions to defined contribution pension scheme of £39,000 (2020: £13,000).

Retirement benefits were accruing to 1 of the Directors (2020: 1).

The highest paid Director received benefits through long term incentive schemes in the year (2020: Shares were received). The total aggregate share-based payments recognised in the year in respect of the Directors' qualifying services is £82,000 (2020: £82,000).

Imagination Industries Ltd

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

11 Auditors' remuneration

	2021 £'000	2020 £'000
Audit of these financial statements	20	20
Audit of the financial statements of subsidiary companies	650	1,210
Total audit fees	670	1,230
Other fees to auditors		
Audit-related assurance services	-	63
Taxation compliance services	9	138
Services related to corporate finance transactions	-	949
Other non-audit services	181	431
Total non-audit services	190	1,581
Total auditors' remuneration	860	2,811

12 Income tax(expense)/credit

Tax charged/(credited) in the income statement

	2021 £ m	2020 £ m
Current taxation		
UK corporation tax	6	2
Deferred taxation		
Arising from origination and reversal of temporary differences	71	(25)
Arising from changes in tax rates and laws	(37)	(8)
Adjustment in respect of prior periods	-	(1)
Total deferred taxation	34	(34)
Tax expense/(credit) in the income statement	40	(32)

Imagination Industries Ltd

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

12 Income tax(expense)/credit (continued)

The tax on profit/(loss) before tax for the year is lower than the standard rate of corporation tax in the UK (2020 - the same as the standard rate of corporation tax in the UK) of 19% (2020 - 19%).

The differences are reconciled below:

	2021 £ m	2020 £ m
Profit/(loss) before tax	<u>377</u>	<u>(174)</u>
Corporation tax at standard rate	72	(33)
Adjustments in respect of prior periods	-	(1)
Decrease from effect of revenues exempt from taxation	(1)	-
Increase from effect of expenses not deductible in determining taxable profit (tax loss)	4	7
Increase from deferred tax not recognised	3	3
Decrease from effect of different statutory tax rates	(1)	-
Deferred tax credit relating to changes in tax rates or laws	<u>(37)</u>	<u>(8)</u>
Total tax charge/(credit)	<u>40</u>	<u>(32)</u>

Imagination Industries Ltd

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

12 Income tax(expense)/credit (continued)

Deferred tax

Group

Deferred tax movement during the year:

	At 1 January 2021 £ m	Recognised in income £ m	Recognised in other comprehensive income £ m	At 31 December 2021 £ m
Accelerated tax depreciation	30	7	-	37
Revaluation of intangible assets	(60)	(1)	-	(61)
Tax losses carry-forwards	119	37	-	156
Pension benefit obligations	(3)	1	(3)	(5)
Derivatives	-	(80)	-	(80)
Other items	13	2	-	15
Net tax assets/(liabilities)	99	(34)	(3)	62

Deferred tax movement during the prior year:

	At 1 January 2020 £ m	Recognised in income £ m	Recognised in other comprehensive income £ m	Recognised on business combinations £ m	At 31 December 2020 £ m
Accelerated tax depreciation	1	7	-	22	30
Revaluation of intangible assets	(12)	3	-	(51)	(60)
Tax losses carry-forwards	22	11	-	86	119
Pension benefit obligations	-	-	2	(5)	(3)
Derivatives	-	-	-	-	-
Other items	-	13	-	-	13
Net tax assets/(liabilities)	11	34	2	52	99

Other items consist of deferred tax on restricted interest deductions carried forward.

Deferred tax assets have been recognised in respect of carried forward tax losses on the basis that there will be future profits available against which to offset them. There are no time limits on the recovery of such losses.

Refer to Note 3, critical accounting judgements, for further discussion on the basis for recognition of deferred tax assets.

Deferred tax of £22m (2020: £16m) has not been recognised in relation to an element of tax losses for which it not considered probable that the losses will be utilised based on assessment of available evidence.

It is not expected that the gross deferred tax asset will be utilised in the next 12 months however it is anticipated that it will be fully utilised in 5 years.

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 £37m.

Imagination Industries Ltd

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

13 Property, plant and equipment

Group

	Leasehold property £ m	Fixtures and fittings £ m	Office equipment £ m	Meter assets and miscellaneous equipment £ m	Total £ m
Cost or valuation					
At 1 January 2020	9	4	7	-	20
Acquired through business combinations	-	-	-	19	19
Additions	-	-	3	-	3
Transfers to assets held for sale	-	-	-	(8)	(8)
Disposals	-	(1)	(2)	-	(3)
At 31 December 2020	9	3	8	11	31
Additions	5	1	4	-	10
Disposals	-	(1)	-	(1)	(2)
At 31 December 2021	14	3	12	10	39
Accumulated depreciation					
At 1 January 2020	7	2	5	-	14
Charge for year	1	-	1	7	9
Transfers to assets held for sale	-	-	-	(1)	(1)
At 31 December 2020	8	2	6	6	22
Charge for the year	3	-	2	3	8
At 31 December 2021	11	2	8	9	30
Carrying amount					
At 31 December 2021	3	1	4	1	9
At 31 December 2020	1	1	2	5	9
At 1 January 2020	2	2	2	-	6

The depreciation charge of £8m (2020: £9m) was recognised in administrative expenses.

Imagination Industries Ltd

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

14 Right-of-use assets

Group

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

	Property £ m	Other £ m	Total £ m
Cost or valuation			
At 1 January 2020	23	2	25
Additions	41	21	62
Disposals	(1)	-	(1)
Modification	1	(1)	-
At 31 December 2020	64	22	86
Additions	2	-	2
Disposals	(1)	-	(1)
Modification	(2)	-	(2)
At 31 December 2021	63	22	85
Accumulated depreciation			
At 1 January 2020	3	1	4
Charge for the year	9	6	15
Impairment	9	-	9
At 31 December 2020	21	7	28
Charge for the year	8	4	12
Eliminated on disposal	(1)	-	(1)
Impairment	1	-	1
At 31 December 2021	29	11	40
Carrying amount			
At 31 December 2021	34	11	45
At 31 December 2020	43	15	58
As at 1 January 2020	20	1	21

Imagination Industries Ltd

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

15 Intangible assets

Group

	Goodwill £ m	Contractual customer relationships £ m	Software and IT development costs £ m	Trade name £ m	Other intangible assets £ m	Total £ m
Cost or valuation						
At 1 January 2020	41	79	35	6	7	168
Additions	-	-	54	-	-	54
Acquired through business combinations	109	259	54	45	-	467
Disposals	(1)	(1)	(2)	-	-	(4)
At 31 December 2020	149	337	141	51	7	685
Additions	-	-	58	-	-	58
At 31 December 2021	149	337	199	51	7	743
Accumulated amortisation						
At 1 January 2020	-	19	23	2	2	46
Amortisation charge	-	45	19	11	1	76
Amortisation eliminated on disposals	(1)	-	(2)	-	-	(3)
Impairment	4	-	-	-	-	4
At 31 December 2020	3	64	40	13	3	123
Amortisation charge	-	47	26	11	1	85
At 31 December 2021	3	111	66	24	4	208
Carrying amount						
At 31 December 2021	146	226	133	27	3	535
At 31 December 2020	146	273	101	38	4	562
At 1 January 2020	41	60	12	4	5	122

The amortisation charge of £85m (2020: £76m) was recognised in administrative expenses.

Included within the carrying amount of software and IT development costs are intangible assets under construction of £82m (2020: £55m), which are not subject to amortisation.

Imagination Industries Ltd

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

15 Intangible assets (continued)

At each reporting year end date, an annual impairment test is undertaken. This test compares the carrying value of the non-financial assets of the cash-generating unit (CGU) to their recoverable amount. Where the recoverable amount is less than the carrying value, an impairment occurs.

Impairment assessment

At the reporting year end date, the non-financial assets of the Group were tested for impairment.

This test compares the carrying value of the non-financial assets of the cash-generating unit (CGU) to their recoverable amount. Where the recoverable amount is less than the carrying value, an impairment occurs.

The carrying value of the CGUs has been determined using a value in use calculation in line with IAS 36. The methodology applied to the value in use calculation reflects past experience and external sources of information including the following key assumptions:

- the combined UK energy retail, Corgi and Kaluza businesses have been considered to be separate CGUs;
- cash flows for the businesses for the following year are derived from budgets for 2022. The Directors believe these to be reasonably achievable;
- subsequent cash flows for four additional years increase in line with growth expectations of the business;
- no long-term growth rate has been used in the extrapolation of cash flow projections beyond the five-year period except for Corgi and Kaluza where a 1.7% and 2.0% growth rate have been used respectively; and
- a pre-tax discount rate of 17.66% for UK energy retail, 15.14% for Corgi and 14.28% for Kaluza.

This testing did not identify any instances where the carrying value was in excess of the recoverable amount and therefore no impairment charge has been recorded. No reasonable possible change in any of the above assumptions would result in the elimination of the recoverable amount headroom over the assets carrying values. Further, management considers that Plan Zero will create opportunities and financial value for the Group and has not had a negative impact on our impairment assessments.

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

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

16 Investments in subsidiaries and associates

Group subsidiaries

Details of the Company's subsidiaries as at 31 December 2021 are as follows:

Imagination Industries Ltd

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

16 Investments in subsidiaries and associates (continued)

Name of subsidiary	Principal activity	Registered office	Proportion of ownership interest/voting rights held	
			2021	2020
OVO Group Ltd*	Intermediate holding company	1 Rivergate, Temple Quay, Bristol, England, BS1 6ED UK	64% / 68%	62% / 66%
OVO Energy Ltd	Sale of electricity and gas to customers in the UK	1 Rivergate, Temple Quay, Bristol, England, BS1 6ED UK	64% / 68%	62% / 66%
OVO Electricity Ltd	Sale of services associated with the supply of electricity to other OVO group companies	1 Rivergate, Temple Quay, Bristol, England, BS1 6ED UK	64% / 68%	62% / 66%
OVO Gas Ltd	Sale of services associated with the supply of gas to other OVO group companies	1 Rivergate, Temple Quay, Bristol, England, BS1 6ED UK	64% / 68%	62% / 66%
OVO Field Force Ltd	Installation and maintenance of smart meters	1 Rivergate, Temple Quay, Bristol, England, BS1 6ED UK	64% / 68%	62% / 66%
Intelligent Energy Technology Ltd	Holding company	1 Rivergate, Temple Quay, Bristol, England, BS1 6ED UK	64% / 68%	62% / 66%
OVO Holdings Ltd	Intermediate holding company	1 Rivergate Temple Quay, Bristol, England, BS1 6ED UK	64% / 68%	62% / 66%
OVO Finance Ltd	Intermediate holding company	1 Rivergate Temple Quay, Bristol, England, BS1 6ED UK	64% / 68%	62% / 66%
Corgi Homeplan Ltd	Sale of boiler and home care cover	1 Masterton Park, South Castle Drive, Dunfermline, Fife, Scotland, KY11 8NX UK	64% / 68%	62% / 66%
Corgi Homeheat Limited	Dissolved	1 Masterton Park, South Castle Drive, Dunfermline, Fife, Scotland, KY11 8NX UK	64% / 68%	62% / 66%
Spark Energy Limited	Sale of electricity and gas to customers in the UK	Grampian House, 200 Dunkeld Road, Perth, Scotland, PH1 3GH UK	64% / 68%	62% / 66%

Imagination Industries Ltd

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

16 Investments in subsidiaries and associates (continued)

Name of subsidiary	Principal activity	Registered office	Proportion of ownership interest/voting rights held	
			2021	2020
Spark Gas Shipping Ltd	Supply of gas and related services in the UK	1 Rivergate, Temple Quay, Bristol, England, BS1 6ED UK	64% / 68%	62% / 66%
OVO Energy (France) SAS	Sale of electricity and gas to customers in France	231 rue Saint-Honore 75001 Paris France	47% / 50%	47% / 50%
OVO Energy (Netherlands) B.V.	Dormant	Netherlands	64% / 68%	62% / 66%
OVO Energy (Italy) S.r.l	Dormant	Via dell'Annunciata n. 23/4, Avv. Francesco Dagnino c/o LEXIA Avvocati, 20121, Milan, Italy	64% / 68%	62% / 66%
OVO Energy Spain S.L.U.	Sale of electricity and gas to customers in Spain	C. Muntaner 328 Entresuelo 1a, 08021 Barcelona, España	64% / 68%	62% / 66%
OVO Energy Japan GK	Dormant	Level 11, Aoyama Palacio Tower 3-6-7 Kita-Aoyama Minato-ku, Tokyo	64% / 68%	62% / 66%
OVO Energy Germany GmbH	Dormant	CO23 Berlin UG, Stresemannsr. 23, 10963 Berlin, Germany	64% / 68%	62% / 66%
Kantan Ltd	Development of software application	140-142 Kensington Church Street, London, England, W8 4BN UK	64% / 68%	62% / 66%
Kaluza Ltd	Development of intelligent energy platform	140-142 Kensington Church Street, London, England, W8 4BN UK	64% / 68%	62% / 66%
Kaluza (US) LLC	Management services	Capitol Services, Inc, 1675 South State St., Suite B, Dover, DE 19901, Kent County, USA	64% / 68%	0% / 0%
OVO Insurance Services Ltd.	Insurance services	PO Box 155, Mill Court, La Charroterie, St Peter Port, Guernsey, GY1 4ET	64% / 68%	62% / 66%
Imagination Industries Incubator Ltd*	Provider of intragroup support services and start up incubator	9 Pembridge Road, Notting Hill, London, England, W11 3JY UK	100% / 100%	100% / 100%

Imagination Industries Ltd

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

16 Investments in subsidiaries and associates (continued)

Name of subsidiary	Principal activity	Registered office	Proportion of ownership interest/voting rights held	
			2021	2020
Imagination Industries Aero Ltd (formerly Vertical Aerospace Ltd)*	Research and development of aerospace technology	9 Pembridge Road, Notting Hill, London, England, W11 3JY UK	100% / 100%	100% / 100%
Vertical Advanced Engineering Ltd	Engineering consultancy	The Old Schoolhouse, Kelmscott, Lechlade, England, GL7 3HG UK	100% / 100%	100% / 100%
OVO (S) Energy Services Limited	Intermediate holding company	1 Rivergate, Temple Quay, Bristol, England, BS1 6ED UK	64% / 68%	62% / 66%
OVO (S) Electricity Limited	Supply of electricity to domestic customers in the UK	1 Rivergate, Temple Quay, Bristol, England, BS1 6ED UK	64% / 68%	62% / 66%
OVO (S) Gas Limited	Licensed marketing and sale of natural gas to domestic customers in the UK	1 Rivergate, Temple Quay, Bristol, England, BS1 6ED UK	64% / 68%	62% / 66%
OVO (S) Energy Solutions Limited	Installation of energy efficiency measures in domestic properties	Grampian House, 200 Dunkeld Road, Perth, Scotland, PH1 3GH UK	64% / 68%	62% / 66%
OVO (S) Home Services Limited	Sale of boiler, central heating and electrical wiring services, breakdown cover and installation services	Grampian House, 200 Dunkeld Road, Perth, Scotland, PH1 3GH UK	64% / 68%	62% / 66%
OVO (S) Metering Limited	Meter reading operations and meter operator work throughout the UK	Grampian House, 200 Dunkeld Road, Perth, Scotland, PH1 3GH UK	64% / 68%	62% / 66%
OVO (S) Retail Telecoms Limited	Sale of telephone and broadband connectivity and associated services to consumers in the UK	1 Rivergate, Temple Quay, Bristol, England, BS1 6ED UK	64% / 68%	62% / 66%
Kensington RG Ltd*	Advisory services for renewable energy projects in developing markets	9 Pembridge Road, Notting Hill, London, England, W11 3JY UK	100% / 100%	100% / 100%

* indicates direct investment of Imagination Industries Ltd

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

Imagination Industries Ltd

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

16 Investments in subsidiaries and associates (continued)

Group associates

Details of the group associates as at 31 December 2021 are as follows:

Name of associate	Principal activity	Registered office	Proportion of ownership interest and voting rights held by the group	
			2021	2020
Indra Technologies Limited	Renewable Design, development and assembly of electronic and electrical smart energy products and electric vehicle technology	Sentinel House, Sparrowhawk Close, Malvern, England, WR14 1GL UK	30% / 31%	15% / 16%
Della Vite Trading Ltd *	Wholesale of wine, beer, spirits and other alcoholic beverages	13a Hillgate Street 13a Hillgate Street, London, England, W8 7SP UK	17.5% 17.5%	/ 17.5% / 17.5%
Chaddenwyth Limited	Services Energy information technology service activities	86-90 Paul Street, London, England, EC2A 4NE UK	20% / 20%	18% / 19%
The Renewable Exchange Limited	Trade of renewable energy	One The Square, Temple Quay, Bristol, England, BS1 6DG UK	29% / 30%	27% / 29%
Akili Partners Limited *	Management consultancy activities	9 Pembridge Road, Notting Hill, London, England, W11 3JY UK	33.3% 33.3%	/ 33.3% / 33.3%
OVO Energy Pty Ltd	Sale of electricity and gas to customers in Australia	19/181 William Street, Melbourne, VIC 3000, Australia	30% / 30%	62% / 66%

* indicates direct investment of Imagination Industries Ltd

Summary of the Company investments

	31 December 2021 £ m	31 December 2020 £ m
Investments in subsidiaries	44	17
Investments in associates	1	1
	<u>45</u>	<u>18</u>

Imagination Industries Ltd

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

16 Investments in subsidiaries and associates (continued)

Subsidiaries	Company £ m
Cost or valuation	
At 1 January 2020	16
Additions	<u>1</u>
At 31 December 2020	17
Additions	<u>27</u>
At 31 December 2021	<u>44</u>
Carrying amount	
At 31 December 2021	<u>44</u>
At 31 December 2020	<u>17</u>
At 1 January 2020	<u>16</u>

*In August 2021, Imagination Industries Ltd repurchased 95,714 A Ordinary Shares for a cash consideration of £27m. The transaction is included in "Other".

In June 2020, the Company disposed of its shares in Imagine Just 3 Things Ltd for £1. During 2020, Imagine Just 3 Things Ltd contributed a net loss of £1m and a gain on disposal of £3m was recognised.

In June 2020, the Company's subsidiary, Imagination Industries Aero Ltd, disposed of the trade and assets of its eVTOL business to Vertical Aerospace Group Ltd for £1. During 2020, Imagination Industries Aero Ltd contributed a net loss of £8m and a loss on disposal of £2m was recognised.

Associates	Group £ m	Company £ m
Cost or valuation		
At 1 January 2020	<u>1</u>	<u>1</u>
At 31 December 2020	1	1
Additions	9	-
Share of net losses of associates	<u>(1)</u>	<u>-</u>
At 31 December 2021	<u>9</u>	<u>1</u>
Carrying amount		
At 31 December 2021	<u>9</u>	<u>1</u>
At 31 December 2020	<u>1</u>	<u>1</u>
At 1 January 2020	<u>1</u>	<u>1</u>

During the year, the Group increased its shareholding in Chaddenwyth Services Limited and Indra Renewable Technologies Limited.

In addition, OVO Energy Pty Ltd has ceased to be a wholly owned subsidiary and become an associate of the Group in the year as the Group's shareholding was diluted following AGL subscription of new shares issued by the entity.

Imagination Industries Ltd

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

17 Acquisition of subsidiary

Prior year acquisition of SSE Energy Services Group Limited

On 15 January 2020, OVO Energy Ltd, an indirect subsidiary of OVO Group Ltd (a subsidiary of Imagination Industries Limited), acquired 100% of the issued share capital in SSE Energy Services Group Limited. The principal activity of SSE Energy Services Group Limited and its subsidiaries is the supply of domestic energy and energy-related services in the UK. SSE Energy Services Group Limited was acquired to increase the Group's market share and reduce costs through economies of scale.

The acquisition was financed through a combination of a new £400m term loan between OVO Finance Ltd and Barclays Bank plc, and £100m in loan notes issued by OVO Holdings Ltd. The term loan has subsequently been syndicated into two separate instruments, a £300m term loan and a secondary loan of £100m. Further detail on borrowings is included in Note 25.

There is significant judgement of the fair value of the acquired group's net assets, and the best available data has therefore been used.

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

	31 December 2020 £ m
Assets and liabilities acquired	
Identifiable intangible assets	358
Property, plant and equipment	19
Right-of-use assets	55
Defined benefit pension asset	26
Inventory	1
Cash and cash equivalents	180
Trade and other receivables	1,085
Income tax asset	9
Deferred tax asset	52
Trade and other payables	(722)
Deferred income	(630)
Lease liabilities	(55)
Provisions	(80)
Total identifiable assets	<u>298</u>
Goodwill	<u>109</u>
Total consideration	<u><u>407</u></u>
Satisfied by:	
Cash	<u><u>407</u></u>

Imagination Industries Ltd

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

17 Acquisition of subsidiary (continued)

	31 December 2020 £ m
Cash flow analysis:	
Cash consideration	407
Less: cash and cash equivalent balances acquired	<u>(180)</u>
Net cash outflow arising on acquisition	<u>227</u>

Intangible assets of £358m have been recognised on acquisition. This relates to customer relationships, customer contracts, and brands and licences acquired.

The fair value of the trade receivables and contract assets amounts to £953m. The gross amount of trade receivables and contract assets amounts is £1,064m. It is expected that £111m of the total trade receivables and contract assets is not recoverable, and this amount has therefore not been included in the fair value recognised.

The fair value and the gross amount of other receivables are £132m. It is expected the full contractual cash flows can be collected.

The Group measured the acquired lease liabilities using the present value of the remaining lease payments at the date of acquisition. The right-of-use assets were measured at an amount equal to the lease liabilities and adjusted to reflect the favourable terms of the lease liabilities relative to market terms.

The goodwill of £109m arising from the acquisition represents the value of expected synergies arising from the acquisition, as follows:

- Significant benefits around integration to OVO's wider business, its low cost-to-serve business model and technology platform;
- The potential to integrate wider solutions such as Electric Vehicle and renewables offerings into the customer base; and
- The fact that the business is reliant upon a proportion of customers renewing on a consistent basis and also attracting as yet unknown customers.

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

From the date of acquisition, the SSE Energy Services Group Limited (now renamed OVO (S) Energy Services Limited) contributed £3,258m revenue and £87m profit before tax from continuing operations of the Group. If the acquisition had taken place at the beginning of the year, revenue from continuing operations would have been £4,627m and loss before tax from continuing operations would have been £174m.

Transaction costs of £22m were expensed and are included within administrative expenses.

The attributable costs of issuance of debts of £22m were recognised as part of the carrying amount of debts and are amortised over the term of the loans.

Imagination Industries Ltd

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

18 Disposal

Loss of control of OVO Energy Australia

In March 2021, the Group announced a partnership with AGL, Australia's largest energy retailer and generator to bring digital energy services to Australia. As part of the agreement, AGL invested in OVO Energy Australia (OEA) to adapt the Kaluza platform for Australia and serve a growing customer base with innovative products and services.

On 12 April 2021, AGL acquired 51% shareholding in OVO Energy Australia, following which the Group no longer controls the subsidiary. The Group has significant influence over OVO Energy Australia and is an associate to the Group. The Group accounts for the investment in OEA under equity accounting. The subsidiary does not represent a major line of business or geographical area of operation for the Group.

The Group recognised a gain of £3m associated with the loss of control attributable to the former controlling interest. The gain is recognised in other gains in the income statement.

The carrying value of assets and liabilities disposed of as at date control was lost (12 April 2021) are as set out in the table below:

	12 April 2021 £ m
Assets and liabilities disposed of:	
Cash and cash equivalents	6
Total consideration	9
Net assets disposed of	(6)
Total gain	3
Made up of:	
Gain on disposal of subsidiary	2
Gain on retained investment	1
Total gain	3
Satisfied by:	
Cash	9
Cash flow analysis:	
Cash consideration received	9
Less: cash and cash equivalent balances disposed of	(6)
Net cash inflow arising on disposal	3

Imagination Industries Ltd

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

18 Disposal (continued)

Disposal of Large Power Metering operation

On 25 February 2021, the Group publicly announced the decision of its Board of Directors to sell its Large Power Metering operation, which was a line of business within OVO (S) Metering Limited, a wholly owned subsidiary. The sale was completed on 6 April 2021. The Large Power Metering operation does not represent a major line of business.

The carrying amounts of assets and liabilities as at the date of sale (6 April 2021) were:

	6 April 2021 £ m
Assets disposed of:	
Property, plant and equipment	4
Inventories	1
Trade receivables and accrued income	2
Total assets	<u>7</u>
Total consideration	8
Total assets sold	<u>(7)</u>
Gain on sale before income tax	<u>1</u>
Gain on sale after income tax	<u>1</u>
Satisfied by:	
Cash	<u>8</u>
Cash flow analysis:	
Cash consideration received	<u>8</u>
Net cash inflow arising on sale	<u>8</u>

Imagination Industries Ltd

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

19 Assets classified as held for sale

On 25 February 2021, the Group publicly announced the decision of its Board of Directors to sell its Large Power Metering business, which was a line of business within OVO (S) Metering Limited, a wholly owned subsidiary.

The sale completed on 6 April 2021. At 31 December 2020, the Large Power Metering business was classified as a disposal group held for sale.

The major classes of assets and liabilities of the Large Power Metering business classified as held for sale as at 31 December 2020 were as follows:

	2021 £ m	2020 £ m
Property, plant and equipment	-	5
Trade and receivables and accrued income	-	3
Inventories	-	1
Trade payables	-	(1)
Assets held for sale	<u>-</u>	<u>8</u>

Write-down of property, plant and equipment

Immediately before the classification of the Large Power Metering business as an asset held for sale, the recoverable amount was estimated for certain property, plant and equipment and no impairment loss was identified. Following the classification, a write-down of £2m was recognised on 31 December 2020 to reduce the carrying amount in the disposal group to the fair value less costs to sell. This was recognised in the income statement.

20 Inventories

	Group		Company	
	31 December 2021 £ m	31 December 2020 £ m	31 December 2021 £ m	31 December 2020 £ m
Finished goods and goods for resale	<u>29</u>	<u>18</u>	<u>-</u>	<u>-</u>

Finished goods and goods for resale comprise smart meter assets. The costs of smart meter assets recognised as an expense in the year amount to £45m (2020: £20m). This is included within cost of sales.

The costs of ROCs recognised as an expense in the year amount to £366m (2020: £322m). This is included within cost of sales.

Imagination Industries Ltd

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

21 Trade and other receivables

	Group		Company	
	31 December 2021 £ m	31 December 2020 £ m	31 December 2021 £ m	31 December 2020 £ m
Trade receivables and accrued income	971	1,155	-	-
Provision for impairment of trade receivables and accrued income	(310)	(257)	-	-
Net trade receivables	661	898	-	-
Receivables from related parties	7	16	23	22
Provision for related party receivables	-	-	(8)	-
Prepayments	85	38	-	-
Other receivables	179	177	2	-
	<u>932</u>	<u>1,129</u>	<u>17</u>	<u>22</u>

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

The Group's exposure to credit and market risks, including impairments and allowances for credit losses, relating to trade and other receivables is disclosed in Note 33.

Imagination Industries Ltd

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

22 Derivative financial instruments

	Group		Company	
	31 December 2021 £ m	31 December 2020 £ m	31 December 2021 £ m	31 December 2020 £ m
Derivative financial instruments classified in current assets	461	-	-	-
Derivative financial instruments classified in non-current liabilities	(39)	-	-	-
Net trade receivables	<u>422</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

Derivative financial instruments are carried at fair value through profit or loss. The amount of derivative re-measurement that has been recognised through the profit or loss is as follows:

	Group	
	31 December 2021 £ m	31 December 2020 £ m
Amounts recognised in operating profit/(loss)		
Re-measurement of derivative energy contracts	(422)	-
Total recognised in the consolidated income statement	<u>(422)</u>	<u>-</u>

23 Cash and cash equivalents

	Group		Company	
	31 December 2021 £ m	31 December 2020 £ m	31 December 2021 £ m	31 December 2020 £ m
Cash at bank	<u>151</u>	<u>54</u>	<u>5</u>	<u>4</u>

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

	Group		Company	
	31 December	31 December	31 December	31 December
	2021	2020	2021	2020
	£ m	£ m	£ m	£ m
Trade payables	279	221	-	-
Accrued expenses	574	528	-	-
Social security and other taxes	7	10	-	1
Other payables	34	64	-	1
	<u>894</u>	<u>823</u>	<u>-</u>	<u>2</u>

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

Group		Company	
31 December 2021	31 December 2020	31 December 2021	31 December 2020
£ m	£ m	£ m	£ m

	Group		Company	
	31 December	31 December	31 December	31 December
	2021	2020	2021	2020
	£ m	£ m	£ m	£ m
Non-current loans and borrowings				
Bank borrowings	412	393	25	10
Other borrowings	128	113	-	-
	<u>540</u>	<u>506</u>	<u>25</u>	<u>10</u>

Imagination Industries Ltd

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

25 Loans and borrowings (continued)

Group

Bank borrowings

Term loan facilities

Bank borrowings consist of a £300m term loan facility and a £100m second lien term loan facility. Both facilities are repayable in full on 14 January 2025. The second lien loan facility is subordinated to the first facility.

The term loan facilities were restructured in the year ended 31 December 2020 and the original term loan facility of £400m was syndicated into two separate instruments. Prior to the loan syndication, interest was payable at 7.75% plus LIBOR on the £400m facility. Following syndication, interest is payable at 8.25% plus LIBOR on the first lien facility and at 0% plus LIBOR from 1 October 2020 to 14 January 2021; 8.625% plus LIBOR from 15 January 2021 to 14 January 2022; and 9.75% plus LIBOR from 15 January 2022 on the second lien facility. Interest margin on the term loan facility was increased by 1.5% to 9.75% from 15 July 2021. The incremental interest is capitalised, compounded and added to the unpaid principal amount of the loan. Interest on the second lien facility is capitalised, compounded and added to the unpaid principal amount of the loan. Costs incurred in raising finance were £39m and are being amortised over the life of the facilities.

During the year, management's expectation of the term loan facilities repayment profile was revised. As a result, the portion of current borrowings in the prior year has been reclassified as non-current in the current year. Both term loan facilities agreements were amended on 30 December 2021, replacing the interest rate calculation mechanism as a result of the interest rate benchmark reform (IBOR). Following the amendments, interest rates are based on SONIA (Sterling Overnight Index Average) and a credit spread adjustment. The Group took the practical expedient available under IBOR Phase 2 amendments to account for these changes by updating the effective interest rate without the recognition of an immediate gain or loss.

Revolving credit facility

The Company secured a revolving credit facility of up to £20m in the year ended 31 December 2020. This facility was extended to £30m in the year ended 31 December 2021 and is repayable in March 2023. As of 31 December 2021, £25m is drawn down. Interest is payable at 8.75% plus LIBOR on the drawn amount and 1.75% on the undrawn amount.

Other borrowings

Other borrowings consist of loan notes issued. Loan notes are unsecured and are repayable in full on 31 December 2029. Interest is payable at 13.25%.

The Group's exposure to market and liquidity risk; including maturity analysis, in respect of loans and borrowings is disclosed in Note 33.

Company

Bank borrowings

Revolving credit facility

The Company secured a revolving credit facility of up to £20m in the year ended 31 December 2020. This facility was extended to £30m in the year ended 31 December 2021 and is repayable in March 2023. As of 31 December 2021, £25m is drawn down. The facility is secured over OVO Group Ltd shares. Interest is payable at 8.75% plus LIBOR on the drawn amount and 1.75% on the undrawn amount.

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

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

Imagination Industries Ltd

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

26 Leases

Group

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

	31 December 2021 £ m	31 December 2020 £ m
Lease liability - Current	14	15
Lease liability - Non-current	39	53
Total lease liability	<u>53</u>	<u>68</u>

Lease liabilities maturity analysis

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

	31 December 2021 £ m	31 December 2020 £ m
Less than one year	16	18
Between one and five years	29	40
Greater than five years	20	25
Total lease liabilities (undiscounted)	<u>65</u>	<u>83</u>

The Group leases various offices and vehicles. The balance sheet amounts relating to leases are shown within Note 14 - *Right-of-use assets*.

The current period interest expense on lease liabilities (included in finance cost) was £3m (2020: £5m).

The total cash outflow for leases for the year ended 31 December 2021 was £18m (2020: £22m).

Company

	31 December 2021 £ m	31 December 2020 £ m
Lease liability - Current	1	-
Lease liability - Non-current	1	-
Total lease liability	<u>2</u>	<u>-</u>

Imagination Industries Ltd

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

26 Leases (continued)

Lease liabilities maturity analysis

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

	31 December 2021 £ m	31 December 2020 £ m
Less than one year	1	-
Between one and five years	1	-
Total lease liabilities (undiscounted)	2	-

The Company leases office property. The balance sheet amounts relating to leases are shown within Note 14 - *Right-of-use assets*.

The current period interest expense on lease liabilities (included in finance cost) was £nil (2020: £nil).

The total cash outflow for leases for the year ended 31 December 2021 was £1m (2020: £nil).

Imagination Industries Ltd

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

27 Provisions

Group

	Onerous contracts provision £ m	Restructuring provision £ m	Dilapidation provisions £ m	Other provisions £ m	Facility agreement exit fee provision £ m	Total £ m
At 1 January 2021	64	8	1	1	2	76
Additional provisions	2	1	5	8	-	16
Provisions used	(21)	(8)	-	(1)	-	(30)
Unused provision reversed	(1)	-	(1)	(6)	-	(8)
Increase due to passage of time or unwinding of discount	2	-	-	-	-	2
Increase (decrease) from transfers and other changes	-	-	-	2	-	2
At 31 December 2021	<u>46</u>	<u>1</u>	<u>5</u>	<u>4</u>	<u>2</u>	<u>58</u>
Non-current liabilities	<u>10</u>	<u>-</u>	<u>4</u>	<u>3</u>	<u>2</u>	<u>19</u>
Current liabilities	<u>36</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>-</u>	<u>39</u>

Restructuring provision

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

Onerous contracts provisions

As part of the acquisition by OVO, the Group 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 Group 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.

Facility agreement exit fee provision

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

Dilapidation provision

The Group 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 comprise of £3m relating to obligations under agreements with meter assets providers.

Imagination Industries Ltd

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

28 Pension and other schemes

Defined contribution pension scheme

The Group operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the Group to the scheme and amounted to £18m (Restated 2020: £18m).

Defined benefit pension schemes

Introduction

The Group 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 SSE Energy Services Group Limited by the 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 Group. 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.

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 Group 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.

Imagination Industries Ltd

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

28 Pension and other schemes (continued)

Risks

Risks associated with the scheme

The scheme exposes the Group 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 Group 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 statement of financial position 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.

Principal actuarial assumptions

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

Imagination Industries Ltd

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

28 Pension and other schemes (continued)

	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% pa)	3.00	2.70
Pension increases in payment (RPI max 3% pa)	2.40	2.20

Post retirement mortality assumptions

	31 December 2021 Years	31 December 2020 Years
Life expectancy for male currently aged 60	26.30	26.30
Life expectancy for female currently aged 60	27.80	27.80
Life expectancy at 60 for male currently aged 40	28.20	28.20
Life expectancy at 60 for female currently aged 40	29.80	29.80

	31 December 2021	31 December 2020
	SAPS S3 Tables	SAPS S3 Tables
Mortality base table adopted	"All" for males and "Middle" for females scaled by 105% for Southern Section and by 109% for Hydro Section	"All" for males and "Middle" for females scaled by 105% for SSE Section and by 109% for SSE Hydro Section
Mortality figure improvements aligned	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.
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% liabilities
Cash commutation	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

Imagination Industries Ltd

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

28 Pension and other schemes (continued)

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

The amounts recognised in the statement of financial position are as follows:

	31 December 2021 £ m	31 December 2020 £ m
Fair value of scheme assets	120	108
Present value of scheme liabilities	(100)	(95)
Defined benefit pension scheme surplus	20	13
Asset recognised in the statement of financial position	20	13

Imagination Industries Ltd

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

28 Pension and other schemes (continued)

Scheme assets

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

	2021 £ m	2020 £ m
Fair value at start of year	108	-
Interest income on scheme assets	1	1
Remeasurement gains on scheme assets	6	16
Net increase in assets from bulk transfers	3	87
Employer contributions	5	7
Net benefits paid out	(3)	(3)
Fair value at end of year	<u>120</u>	<u>108</u>

Analysis of assets

The major categories of scheme assets are as follows:

	31 December 2021 £ m	31 December 2020 £ m
Equities	37	35
Index-linked gilts	36	35
Corporate bonds	41	37
Cash/net current assets	6	1
	<u>120</u>	<u>108</u>

Actual return on scheme's assets

	2021 £ m	2020 £ m
Interest income on scheme assets	1	1
Remeasurement gains on scheme assets	6	16
Actual return on scheme assets	<u>7</u>	<u>17</u>

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

Imagination Industries Ltd

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

28 Pension and other schemes (continued)

Scheme liabilities

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

	2021 £ m	2020 £ m
Present value at start of year	95	-
Current service cost	6	6
Past service cost (including curtailments)	3	4
Actuarial (gains)/losses arising from changes in financial assumptions	(5)	26
Net increase in liabilities from bulk transfers	3	61
Interest expense	1	1
Net benefits paid out	(3)	(3)
Present value at end of year	<u>100</u>	<u>95</u>

Amounts recognised in the consolidated income statement

	2021 £ m	2020 £ m
Amounts recognised in operating profit/(loss)		
Current service cost	6	6
Past service cost (including curtailments)	<u>3</u>	<u>4</u>
Recognised in arriving at operating profit/(loss)	<u>9</u>	<u>10</u>
Total recognised in the consolidated income statement	<u>9</u>	<u>10</u>

Amounts taken to the consolidated statement of comprehensive income

	2021 £ m	2020 £ m
Return on scheme assets in excess of that recognised in net interest	6	16
Actuarial gains and losses arising from changes in financial assumptions	<u>5</u>	<u>(26)</u>
Amounts recognised in the consolidated statement of comprehensive income	<u>11</u>	<u>(10)</u>

Imagination Industries Ltd

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

28 Pension and other schemes (continued)

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 statement of financial position date using the same method used to adjust the results of the latest formal valuation to the statement of financial position date.

	2021		2020	
	Change	Value	Change	Value
	£m	£m	£m	£m
DBO at the end of year	-	100	-	95
0.25% p.a. decrease in the discount rate	6	107	5	100
0.25% p.a. increase in the inflation assumptions	6	107	5	100
One-year increase in life expectancy	4	105	4	99

Imagination Industries Ltd

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

29 Share capital

Allotted, called up and fully paid shares

	31 December 2021		31 December 2020	
	No.	£	No.	£
Ordinary share capital of £0.0001 each	950,000	95.00	950,000	95.00

Rights, preferences and restrictions

Ordinary share have the following rights, preferences and restrictions:

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

30 Share-based payments

Ovo Group Share Scheme

Scheme details and movements

In July 2014, OVO Group established a new employee share plan. Under the terms of the scheme, OVO Group Ltd awarded its own employees and employees of other group companies class B, C, D and E ordinary shares in OVO Group Ltd.

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

Employees are given the option to purchase C shares from their bonus. They have a one year vesting period. D shares are also awarded as part of the LTIP scheme. They have a vesting period based on performance conditions.

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

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

Analysis of charge to the consolidated income statement

£000	2021	2020
'B' Shares	138	350
'C' Shares	-	-
'D' Shares	-	-
'E' Shares	-	-
	138	350

Imagination Industries Ltd

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

30 Share-based payments (continued)

Reconciliation of movements in awards

<i>Thousands of shares</i>	'B' Shares	'C' Shares	'D' Shares	'E' Shares
As at 1 January 2021	136	27	408	530
Issued in the year	55	-	-	-
Forfeited in the year	(27)	-	(14)	(16)
Issued at 31 December 2021	164	27	394	514
Weighted average vesting period (months)	15	-	-	-

<i>Thousands of shares</i>	'B' Shares	'C' Shares	'D' Shares	'E' Shares
As at 1 January 2020	75	27	408	530
Issued in the year	68	-	-	-
Forfeited in the year	(7)	-	-	-
Issued at 31 December 2020	136	27	408	530
Weighted average vesting period (months)	20	-	-	-

Pricing

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

'B' Shares

Upon issuance, the 'B' Shares awarded in June 2017 were valued at £12.10 per share, September 2017 shares were valued at £15.30 per share and December 2017 shares were valued at £15.30 per share. 'B1' Shares issued in June 2019 were valued at £14.30 per share and 'B2' Shares at £2.60 per share. 'B2' and 'B3' Shares issued in 2020 were all valued at £2.07 per share. 'B3' Shares issued in 2021 were all valued at £0.10 per share.

'C' Shares

Upon issuance, the 'C' Shares awarded in June 2017 were valued at £17.00 per share and September 2017 shares were valued at £17.00 per share. The 'C' Shares awarded in 2018 were all valued at £17.00 per share.

'D' Shares

Upon issuance, the 'D' Shares awarded in June 2017 were valued at £0.31 per share and September 2017 shares were valued at £0.31 per share.

'E' Shares

Upon issuance, the 'E' Shares awarded in 2017 had no fair value. The 'E' Shares awarded in 2018 were valued at £0.20 per share.

Imagination Industries Ltd

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

31 Financial instruments

Group

	Carrying value 31 December 2021 £ m	Fair value 31 December 2021 £m	Carrying value 31 December 2020 £m	Fair value 31 December 2020 £m
Financial assets at amortised cost				
Cash and cash equivalents	151	151	54	54
Trade and other receivables	836	836	1,081	1,081
Total financial assets at amortised cost	987	987	1,135	1,135
Financial assets through profit or loss				
Trade and other receivables	2	2	2	2
Derivative financial instruments	461	461	-	-
Total financial assets through profit or loss	463	463	2	2
Total financial assets	1,450	1,450	1,137	1,137
Financial liabilities at amortised cost				
Trade and other payables	(885)	(885)	(810)	(810)
Loans and borrowings	(540)	(570)	(506)	(523)
Lease liabilities	(53)	(53)	(68)	(68)
Total financial liabilities at amortised cost	(1,478)	(1,508)	(1,384)	(1,401)
Financial liabilities through profit or loss				
Trade and other payables	(2)	(2)	(2)	(2)
Derivative financial instruments	(39)	(39)	-	-
Total financial liabilities through profit or loss	(41)	(41)	(2)	(2)
Total financial liabilities	(1,519)	(1,549)	(1,386)	(1,403)

Imagination Industries Ltd

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

31 Financial instruments (continued)

The Group holds £2m convertible loan notes issued by the Group's associates. These are accounted for at fair value through profit or loss and are included in trade and other receivables.

Included in trade and other payables is £2m relating to put option arrangements. In the year ended 31 December 2020, the Group entered into a shareholder agreement with ENI gas e luce S.p.A. ("EGL") whereby a written put and purchased call option are granted to repurchase shares in OVO Energy France SAS, a subsidiary of OVO Group Ltd. The options are exercisable if there is no binding agreement to enter into a joint venture between the Group and EGL by 1 February 2022. The amount that may become payable under the options on exercise is initially recognised at the present value of the redemption amount with a corresponding charge directly to equity. The redemption amount is EUR 2.5 million plus 6%. Subsequent to the end of the reporting period, these options were not exercised and have therefore expired. The Group has also entered into an agreement to dispose of its current interest in the subsidiary.

The management assessed that the fair values of cash and cash equivalents, trade and other receivables, and trade and other payables approximate their carrying amounts largely due to the short-term maturities of these instruments.

The following methods and assumptions were used to estimate the fair values:

- 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.
- The fair value of loans and borrowings and lease liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.
- The fair value of derivative financial instruments are determined with reference to closing market prices. All 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).

Company

	Carrying value 31 December 2021 £ m	Fair value 31 December 2021 £m	Carrying value 31 December 2020 £m	Fair value 31 December 2020 £m
Financial assets at amortised cost				
Cash and cash equivalents	5	5	4	4
Trade and other receivables	23	23	22	22
Total financial assets at amortised cost	28	28	26	26
Total financial assets	28	28	26	26
Financial liabilities at amortised cost				
Trade and other payables	-	-	(1)	(1)
Loans and borrowings	(26)	(26)	(10)	(10)
Lease liabilities	(2)	(2)	-	-
Total financial liabilities at amortised cost	(28)	(28)	(11)	(11)
Total financial liabilities	(28)	(28)	(11)	(11)

Imagination Industries Ltd

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

31 Financial instruments (continued)

The management assessed that the fair values of cash and cash equivalents, trade and other receivables, and trade and other payables approximate their carrying amounts largely due to the short-term maturities of these instruments.

The following methods and assumptions were used to estimate the fair values:

- 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.*

Imagination Industries Ltd

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

32 Reconciliation of liabilities arising from financing activities

Group

	At 1 January 2021 £ m	Financing cash flows £ m	Other changes £ m	At 31 December 2021 £ m
Non-current loans and borrowings	415	(19)	143	539
Current loans and borrowings	91	-	(90)	1
Non-current lease liabilities	44	-	(13)	31
Current lease liabilities	14	(17)	16	13
	<u>564</u>	<u>(36)</u>	<u>56</u>	<u>584</u>
	At 1 January 2020 £ m	Financing cash flows £ m	Other changes £ m	At 31 December 2020 £ m
Non-current loans and borrowings	-	455	(40)	415
Current loans and borrowings	-	-	91	91
Non-current lease liabilities	18	-	26	44
Current lease liabilities	2	(21)	33	14
	<u>20</u>	<u>434</u>	<u>110</u>	<u>564</u>

Company

	At 1 January 2021 £ m	Financing cash flows £ m	Other changes £ m	At 31 December 2021 £ m
Non-current loans and borrowings	10	15	-	25
Current loans and borrowings	-	-	1	1
Non-current lease liabilities	-	-	1	1
Current lease liabilities	-	-	1	1
	<u>10</u>	<u>15</u>	<u>3</u>	<u>28</u>
		At 1 January 2020 £ m	Financing cash flows £ m	At 31 December 2020 £ m
Non-current loans and borrowings		-	10	10

Imagination Industries Ltd

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

33 Financial risk management and impairment of financial assets

Group

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

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

Credit risk and impairment

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

The carrying amount of financial assets represents the maximum credit exposure. Therefore, the maximum exposure to credit risk at the balance sheet date was £861m (2020: £1,083m) being the total of the carrying amount of financial assets, excluding derivative financial instruments and cash, which include trade receivables and accrued income. Included in the carrying amount of financial assets are security deposits held by suppliers and distributors as collateral which amount to £48m (2020: £52m).

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

The Group measures expected credit losses by performing an impairment analysis at each reporting date. Expected credit losses are recognised unless the Group is satisfied that no recovery of the amount owing is possible, at which point the amounts considered irrecoverable are written off against the trade receivable directly. The Group provides for impairment losses based on estimated irrecoverable amounts determined by reference to specific circumstances and the experience of management of debtor default in the industry. Trade receivables are written off only after a period of time has elapsed since the final bill. Enforcement activity continues in respect of these balances unless there is specific known circumstances that remove any value in further action.

The credit quality of financial assets that are neither due or impaired can be assessed by reference to historical information about counterparty default rates. Impaired receivables mainly relate to customers from whom it is unlikely that full payments will be received. The simplified approach of measuring lifetime expected credit losses has been adopted to measure expected credit losses on trade receivables and accrued income. The provision rates are based on days past due for groupings of outstanding receivables based on brands, whether the receivables is billed or unbilled; and whether the customer has left.

Macroeconomic conditions

Management assesses the recent volatility in the wholesale energy market and inflation will have a negative impact on household disposable income. In light of this, management evaluates that the credit risk on the trade receivables and accrued income have increased since recognition and has taken into account the impact of the economic factors when measuring expected credit losses.

Imagination Industries Ltd

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

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

Allowances for impairment by credit losses

	Trade receivables and accrued income £ m
2021	
At start of year	263
Additional impairment for credit losses recognised in the year	117
Amounts written off	(70)
At end of year	<u>310</u>
	Trade receivables and accrued income £ m
2020	
At start of year	78
Additional impairment for credit losses recognised in the year	122
Amounts written off	(48)
Increase arising via acquisition of subsidiary	111
At end of year	<u>263</u>

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

Set out below is the information about the credit risk exposure on the Group's trade receivables and accrued income using a provision matrix:

		Days past due				
	Accrued income & non-energy customer receivables	Current	31-60 days	61-90 days	>90 days	Total
	£ m	£ m	£ m	£ m	£ m	£ m
Expected credit loss rate	21%	27%	22%	33%	49%	32%
Estimated total gross carrying amount at default	396	106	82	70	324	978
Expected credit loss	82	29	18	23	158	310

Imagination Industries Ltd

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

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

2020

		Days past due				
	Accrued income & non-energy customer receivables	Current	31-60 days	61-90 days	>90 days	Total
	£ m	£ m	£ m	£ m	£ m	£ m
Expected credit loss rate	8.5%	45%	16%	33%	47%	22%
Estimated total gross carrying amount at default	653	113	77	61	252	1,156
Expected credit loss	56	51	12	20	118	257

A significant proportion of customers pay monthly by direct debit or pay promptly on demand and at year end have accounts that are in a nil debt or credit position. The expected credit loss rate shown above is a function only of those customers in a debit position. The expected credit loss charge for the year as a percentage of total revenue is 2.7%, in line with prior year (2020: 2.6%), as we continue to see higher debt levels from the economic impacts of the pandemic as well as the recent macroeconomic conditions.

Imagination Industries Ltd

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

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

Market risk

Interest rate risk

The Group borrows to finance its operations and growth. Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates. The Group aims to minimise interest rate risk in order to optimise cost of capital.

Sensitivity analysis

The Group has performed an analysis of the sensitivity of the Group's financial position and performance to changes in interest rates. The Group deems a one percentage point move in UK interest rates to be reasonably possible. The Group's profit/(loss) before tax is affected through the impact on floating rate borrowings as follows:

		2021	2020
	Increase/decrease in basis points	Effect on profit before tax	Effect on loss before tax
		£m	£m
Term loan facilities	+100	8	3
	(100)	(10)	(3)

Effect of IBOR reform

Following the financial crisis, the reform and replacement of benchmark interest rates such as GBP LIBOR and other inter-bank offered rates ('IBORs') has become a priority for global regulators. There remains some uncertainty around the timing and precise nature of these changes. The Group only has term loan facilities which reference GBP LIBOR. Both term loan facilities agreements were amended on 30 December 2021, replacing the interest rate calculation mechanism as a result of IBOR reform. Following the amendments, interest rates are based on SONIA (Sterling Overnight Index Average) and a credit spread adjustment. The Group took the practical expedient available under IBOR Phase 2 amendments to account for these changes by updating the effective interest rate without the recognition of an immediate gain or loss.

Imagination Industries Ltd

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

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

Commodity price risk

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

The Group manages commodity risk by entering into forward contracts for a variety of periods. Energy procurement contracts are entered into and continue to be held for the purpose of the receipt of a non-financial item which is in accordance with the Group's expected purchase and sale requirements and are therefore out of scope of IFRS 9. Only certain energy contracts that are not designated as own use contracts constitute financial instruments under IFRS 9.

Energy contracts that are not financial instruments under IFRS 9 are accounted for as executory contracts and changes in fair value do not immediately impact profit or equity, and as such, are not exposed to commodity price risk as defined by IFRS 7. So, whilst the risk associated with energy procurement contracts outside the scope of IFRS 9 is monitored for internal risk management purposes, only those energy contracts within the scope of IFRS 9 are within the scope of the IFRS 7 disclosure requirements. Although the Group only enters into contracts based on expected volumes, the volumetric risk discussed above means that the Group often has to enter into offsetting sell trades to match actual demand. This constitutes net settling under IFRS 9 which requires such contracts to be treated as derivative financial instruments under IFRS 9 rather than falling within the "own use" exemption. The Group therefore designates its contracts as either "own use" or "trading" depending on the risk of them being net settled with only those contracts that are deemed to be highly probable of resulting in physical delivery being treated as own-use.

During the year the Group has re-assessed the volume threshold at which contracts are deemed to be highly probable of resulting in physical delivery which has led to a larger proportion of the contract book being designated as trading. As at 31 December 2021, the Group has £422m derivative energy contracts that are not determined as own use contracts and are measured at fair value through profit or loss. In the prior year all contracts were assessed as own use and hence no asset or liability was recognised.

		2021	2020
	Reasonably possible change in variable	Effect on profit before tax	Effect on loss before tax
		£m	£m
UK gas (p/therm)	+/-25%	89/(91)	-
UK power (£/MWh)	+/-25%	112/(104)	-

Imagination Industries Ltd

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

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

Liquidity risk

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

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

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

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

Maturity analysis

	Within 1 year	Between 1 and 5 years	After more than 5 years	Total
	£ m	£ m	£ m	£ m
2021				
Trade and other payables	887	-	-	887
Loans and borrowings	-	569	-	569
Lease liabilities	16	29	20	65
Other borrowings	-	39	-	39
	<u>903</u>	<u>637</u>	<u>20</u>	<u>1,560</u>
	Within 1 year	Between 1 and 5 years	After more than 5 years	Total
	£ m	£ m	£ m	£ m
2020				
Trade and other payables	812	-	-	812
Bank borrowings	-	10	513	523
Lease liabilities	18	40	25	83
	<u>830</u>	<u>50</u>	<u>538</u>	<u>1,418</u>

Capital risk management

Capital risk is managed to ensure the Group continues as a going concern and grows in a sustainable manner.

The Group maintains a consolidated financial model to monitor the development of the Group's capital structure, which has the ability to model various scenarios and sensitivities. Key outputs from this model are regularly presented to the board.

Net debt is calculated as total loans and borrowings plus lease liabilities less cash and cash equivalents. Total capital is calculated as net debt plus total equity. Gearing ratio is calculated as net debt as a percentage of total capital.

Imagination Industries Ltd

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

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

	31 December 2021 £ m	31 December 2020 £ m
Loans and borrowings	540	506
Lease liabilities	53	68
Less: cash and cash equivalents	<u>(151)</u>	<u>(54)</u>
Net debt	443	520
Total equity/(deficit)	<u>77</u>	<u>(113)</u>
Total capital	519	407
Gearing ratio	85%	128%

The Group's borrowings are subject to meeting its financial covenants attached to the Group's credit facilities. The Group complied with all external borrowing covenants during the years ended 31 December 2021 and 31 December 2020. Compliance with these covenants is monitored by management on a monthly basis.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2021 and 2020.

Imagination Industries Ltd

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

34 Related party transactions

Key management personnel

Key management includes Directors and members of the OVO Group management team. The compensation paid or payable to key management for employee services to the Group's subsidiaries is shown below.

Key management compensation - Group

	31 December 2021 £'000	31 December 2020 £'000
Salaries and other short term employee benefits	1,732	1,249
Post-employment benefits	71	37
Share-based payments	86	109
	<u>1,889</u>	<u>1,395</u>

Key management compensation - Company

No payments were made to key management personnel of the Company during 2021 (2020: nil).

Imagination Industries Ltd

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

34 Related party transactions (continued)

Summary of transactions with key management

Stephen Fitzpatrick owns 100% of the share capital of Imagination Industries Ltd.

Other transactions with directors

The Company loaned Directors of the Group the following amounts:

	2021 £ m	2020 £ m
At 1 January	7	-
Advanced	27	7
Settlement via share repurchase*	(27)	-
At 31 December	<u>7</u>	<u>7</u>

* The loan advanced during 2021 was settled via the repurchase of 299,437 A Ordinary Shares for consideration of £27m.

Imagination Industries Ltd

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

34 Related party transactions (continued)

Summary of transactions with entities controlled by the same ultimate controlling party

During the year, the Company provided loan funds to Vertical Aerospace Group Ltd of £nil (2020: £5,600,000). The loan incurred an interest charge at 30% of £nil (2020: £709,000). As at 31 December 2021, the total balance outstanding was £nil (2020: £6,309,000). At year end, a provision of £nil (2020: £4,490,000) was held against the receivable.

During the year, the Group's subsidiary Imagination Industries Incubator Ltd charged Vertical Aerospace Group Ltd management fees of £nil (2020: £72,000). As at 31 December 2021, the total balance outstanding was £nil (2020: £72,000).

During the year, the Vertical Aerospace Group Ltd received funds from the Group's subsidiary Imagination Industries Aero Ltd of £nil (2020: £440,000). No interest was charged. During the year, £94,000 (2020: £346,000) was repaid. As at 31 December 2021, the total balance owed to Imagination Industries Aero Ltd was £nil (2020: £94,000).

During the year ended 31 December 2020, the eVTOL business was transferred from the Group's subsidiary Imagination Industries Aero Ltd to Vertical Aerospace Group Ltd for £1.

During the year, the Vertical Aerospace Group Ltd charged the Group's subsidiary Vertical Advanced Engineering Ltd for engineering design services of £nil (2020: £19,000). As at 31 December 2021, the total balance outstanding was £nil (2020: £19,000).

During the year, the Company provided loan funds to Imagine Just 3 Things Ltd of £nil (2020: £1,614,000). The loan incurred an interest charge at 7% of £nil (2020: £290,000). As at 31 December 2021, the total balance outstanding was £nil (2020: £5,105,000). At year end, a provision of £nil (2020: £4,938,000) was held against the receivable.

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

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

Imagination Industries Ltd

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

34 Related party transactions (continued)

Summary of transactions with subsidiaries

During the year, the Company charged OVO Group Ltd brand royalty fees totalling £21m (2020: £21m). As at 31 December 2021, OVO Group Ltd owed Imagination Industries Ltd £15m (2020: £11.5m).

During the year, the Company was repaid by Imagination Industries Aero Ltd of £445,000 (2020: received loan funds of £7,193,000). The loan incurred an interest charge at 7% of £Nil (2020: £1,538,000). As at 31 December 2021, the total balance outstanding was £25,512,000 (2020: £25,813,000). At the year end, the outstanding balance was fully impaired.

During the year, the Company provided loan funds to Imagination Industries Incubator Ltd of £2,285,000 (2020: £4,390,000). The loan incurred an interest charge at 7% of £577,000 (2020: £415,000). As at 31 December 2021, the total balance outstanding was £10,377,000 (2020: £7,097,000). At the year end, the outstanding balance was fully impaired.

During the year, the Company provided loan funds to Kensington RG Ltd of £3,750,000 (2020: £440,000). The loan incurred an interest charge at 7% of £139,000 (2020: £5,000). As at 31 December 2021, the total balance outstanding was £4,335,000 (2020: £445,000). At the year end, the outstanding balance was fully impaired.

Imagination Industries Ltd

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

34 Related party transactions (continued)

Summary of transactions with associates

During the year, Indra Renewable Technologies Limited repaid loan funds from Intelligent Energy Technology Ltd of £3m (2020: £nil). Interest is charged at 7%. As at 31 December 2020, the total balance owed by Indra Renewable Technologies Limited was £nil (2020: £3m).

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

During the year, The Renewable Exchange Limited repaid loan funds from Intelligent Energy Technology Ltd of £nil (2020: £nil). Interest is charged at 7% and are repayable or convertible into shareholding in the associates at maturity. As at 31 December 2020, the total balance owed by The Renewable Exchange Limited was £1m (2020: £1m).

During the year, Chaddenwyth Services Limited repaid loan funds from Intelligent Energy Technology Ltd of £nil. Interest is charged at 10% are repayable or convertible into shareholding in the associates at maturity. As at 31 December 2020, the total balance owed by Chaddenwyth Services Limited was £1m (2020: £1m).

During the year, the Company repaid loan funds to Akili Partners Limited of £18,000 (2020: received loan funds of £959,000). The loan incurred an interest charge at 7% of £5,000 (2020: £19,000). As at 31 December 2021, the total balance outstanding was £947,000 (2020: £959,000). At the year end, a provision of £941,000 (2020: £938,000) was held against the receivable.

35 Parent and ultimate parent undertaking

The ultimate controlling party is Stephen Fitzpatrick.

The most senior parent entity producing publicly available financial statements is Imagination Industries Ltd. These financial statements are available upon request from the registered office shown in 9 Pembridge Road, Notting Hill, London, England, W11 3JY.

36 Contingent liabilities

Group

The Group has no material contingent liabilities as at 31 December 2021.

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.

Imagination Industries Ltd

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

37 Subsequent events after 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, OVO 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.

Sale of Revenue Protection business

Subsequent to year end, the Group sold its Revenue Protection business, which is a line of business within OVO (S) Metering Limited, an indirect subsidiary of Imagination Industries Ltd. The sale completed in April 2022.

Sale of Telecoms business

Subsequent to the balance sheet date, OVO(S) Energy Services Limited, the immediate parent company of OVO(S) Retail Telecoms Limited, has entered into a share purchase agreement with Tosca IOM Finco Limited to sell the entire issued share capital of OVO(S) Retail Telecoms Limited, with the transaction subject to completion.

Imagination Industries Ltd

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

38 Audit exemption of subsidiary

OVO Group Ltd has guaranteed the liabilities of the following subsidiaries in order for them to qualify for the exemption from audit under Section 479A of the Companies Act 2006 in respect of the year ended 31 December 2021:

- Intelligent Energy Technology Ltd (company number 08330989)
- OVO Field Force Ltd (company number 08785057)
- OVO Holdings Ltd (company number 10722665)
- Corgi Homeplan Ltd (company number SC358475)
- Corgi Homeheat Limited (company number SC431485)
- Spark Energy Limited (company number SC301188)
- Spark Gas Shipping Ltd (company number 05857480)
- Kantan Ltd (company number 11681210)
- OVO Insurance Services Ltd (company number 11113317)
- OVO (S) Energy Services Limited (company number 11046212)
- OVO (S) Energy Solutions Limited (company number SC386054)
- OVO (S) Home Services Limited (company number SC292102)
- OVO (S) Metering Limited (company number SC318950)

Imagination Industries Ltd has guaranteed the liabilities of the following subsidiaries in order for them to qualify for the exemption from audit under Section 479A of the Companies Act 2006 in respect of the year ended 31 December 2021:

- Imagination Industries Incubator Ltd (company number: 11062169)
- Kensington RG Ltd (company number: 12762985)