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OVO Energy Ltd

Annual Report and Financial Statements

for the Year Ended 31 December 2022

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OVO Energy Ltd

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OVO Energy Ltd

Company Information

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OVO Energy Ltd

Strategic Report for the Year Ended 31 December 2022

The Directors present their Strategic Report for the year ended 31 December 2022.

Who we are and what we do

We launched in 2009 to make energy cheaper, greener and simpler. Since then, we've welcomed millions of customers, planted over a million trees and set our sights on helping to decarbonise millions of homes. We believe in great service that's friendly and reliable and in homes that are better for the planet and your wallet.

We're OVO, pioneers of the green energy transition.

We use technology and innovation to help all our customers move closer towards having low-cost, low carbon homes, because the energy system wasn't built for the way we live today. And it certainly wasn't built with the pressing need to reach net zero in mind. OVO was founded to change that - by making every decision as if the customer is in the room, by solving complex challenges to accelerate the energy transition and by always asking ourselves, 'What's better for our customers?' and 'What's better for the planet?'.

It's our mission to bring all our customers with us on the journey to a greener, fairer future.

Guided by Plan Zero, we are transforming our business to help create a world without carbon. We want to help our customers lower their carbon footprint and play their part in the global goal of reaching net zero. Whether they're a homeowner making the switch to an electric vehicle and a heat pump, or a renter looking to use less gas for heating, we're building a different kind of energy company - one that actually wants to sell less energy, help our customers save money and cut down on carbon emissions.

We are four million customers strong.

OVO is one of the largest energy suppliers in the UK, which means we can really make a difference. Our business is not just about how many customers we sell gas and electricity to, it's about the ways in which we can support them on their journey to net zero - and for that, we know we need to bring everyone along with us. That's why, in 2019, we launched Plan Zero, our sustainability strategy, and why we are always striving to improve the experience for our customers, especially those in vulnerable circumstances, and to work with industry, government and the regulator to change the UK's energy system for the better.

We harness people power...

When people come to OVO, we don't want them to just be joining a company, we want them to feel inspired to join a zero carbon movement, who are up for the job of solving humanity's greatest challenge and feel a deep sense of belonging within it. We are committed to creating a strong, inclusive workforce, we want everyone to feel happy, respected and supported, and we make those commitments clear to everyone.

...and technology to revolutionise energy.

People are great, especially our teams and our customers. But even the best people need help with the heavy lifting. That's where our Kaluza platform comes in. Behind the scenes, Kaluza enables global energy retailers to transform their customer experience and accelerate decarbonisation through innovative, low carbon propositions.

The platform uses machine learning and AI to create a more flexible energy system, optimising devices to use energy off-peak, when costs and carbon levels are lower. Working with a range of industry-leading hardware manufacturers, energy suppliers and grid operators, Kaluza's flexibility offering is driving the global transition to a distributed and secure zero carbon grid.

It continues to transform our retail operations by automating OVO's meter-to-cash operations, reducing cost-to-serve and driving new commercial opportunities for our businesses. Kaluza powers our award-winning online experience, gives our customer care advisors the tools to deliver great service and its pioneering demand response technology allows us to build engaging and rewarding offerings around electric vehicle smart charging.

OVO Energy Ltd

Strategic Report for the Year Ended 31 December 2022 (continued)

Our values

We're tackling some of the world's most pressing problems by creating better energy systems for our planet and for everyone on it. We are on a big journey and our values are central to everything we do.

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'.

OVO Energy Ltd

Strategic Report for the Year Ended 31 December 2022 (continued)

Strategy and focus

Our strategy to make a big difference

Give our customers even more value

We'll continue to increase the number of services we offer to our customers to help them lower their energy costs and their carbon footprint. From home energy efficiency services to energy saving tariffs and smart tech, we want to bring all our customers with us on the Path to Zero.

We're investing even more in decarbonising homes. This means: expanding our team of OVO Energy Experts who provide bespoke advice to customers on how to improve their home's energy efficiency; accelerating home electrification by replacing boilers with heat pumps, installing solar panels on rooftops and EV chargers in driveways; and retrofitting homes to keep them warm and stop wasting energy.

We'll continue to create unique propositions for electric vehicle drivers and solar customers, as well as hold innovative trials for customers taking a first big step on their journey to net zero.

Invest in technology

We'll continuously improve our in-app experience, giving customers new ways to track their energy and the personal insights they need to reduce costs and cut carbon. We'll build on our innovative propositions to support a more flexible energy system by rolling out Power Move for all customers, incentivising them to reduce energy usage when the grid is carbon intensive and congested. And we'll continue to invest in the scalability and resilience of our platform, enabling more customers to self-serve through our app.

Introduce more people to OVO

We will show more people how we can help them improve their homes, save money on their energy bills and reduce their carbon footprint. We want more people to get on their own path to zero. Expect to see lots more of us!

Enable a smooth energy transition

2022 saw unprecedented volatility in global energy markets resulting in record wholesale energy prices. But, through our prudent hedging strategy, we were able to weather the storm, absorb costs and continue to support our customers. While we expect to see wholesale energy prices coming down, we'll continue to work with the government and the regulator to restore the stability of our sector and, ultimately, reduce our reliance on fossil fuels.

Support vulnerable customers

Our £50 million Customer Support Package announced ahead of last winter helped thousands of customers, and we are not stopping there. We are training specialist advisors to support customers in debt, using data to identify those that need support; and campaigning tirelessly to change the system for the better.

Retain and attract the brightest and best

At OVO, our power comes from our people. We know our success can only be supported by a truly inclusive culture where everyone is valued for who they are and is empowered to thrive. This is why we'll continue to build inclusion and belonging in everything we do, so we can empower everyone to be their best selves - wherever they are from, whatever they believe and however they live their lives.

OVO Energy Ltd

Strategic Report for the Year Ended 31 December 2022 (continued)

2022 review

OVO's response to the energy crisis

The energy crisis in 2022 delivered a shock of unprecedented complexity. Energy markets were in turmoil and prices reached record highs. Here in the UK, the heaviest burden fell on households, with many families left struggling to pay their bills. With winter approaching OVO's immediate focus was on how to keep the lights on and its customers warm.

OVO's £50m Customer Support Package

What actually caused the energy crisis?

In a nutshell, a rise in demand and a fall in supply. As the world came out of the COVID-19 pandemic in 2021, increasing demand for oil and gas started pushing up the global price of energy. In February 2022, Russia's invasion of Ukraine made a difficult situation even worse. A huge reduction in supply of gas from Russia to Western Europe meant the price of energy throughout Europe rose by almost 10 times what it had been 12 months before.

How were UK households affected?

Energy prices for UK consumers rose to unprecedented highs. While much welcome support from the Government did come in the form of the Energy Bill Support Scheme and the Energy Price Guarantee, millions of households were still left struggling to pay their energy bills.

What did OVO do about it?

OVO reacted quickly and launched a £50m Customer Support Package - the largest and most progressive of any energy supplier. The package included:

- Payment holidays for debt repayment for all prepayment meter customers so that every penny put on the meter throughout the winter would go towards heating, not clearing debt
- A 200% increase in emergency top-up credit for customers on a prepayment meter, and a continued commitment to never disconnect customers' meters from the grid
- Free technology and services such as smart thermostats, electric throws and boiler checks
- A new charity partnership with The Trussell Trust to support food banks to meet increased need this winter - in addition to our continued partnership with StepChange
- To urge the Government to soften the impact of price rises, OVO set out a Ten Point Plan to address the energy crisis, which can be found on our website and in the Section 172(1) statement. Many of the plan's proposals, such as ending the prepayment meter poverty premium, have since been adopted by the Government
- 3,337 customers received a free boiler service
- 6,132 free thermostats provided to homes
- 30,000 electric blankets donated to customers

OVO Energy Ltd

Strategic Report for the Year Ended 31 December 2022 (continued)

2022 review (continued)

Our goal to decarbonise homes gathered momentum

The impact of fossil fuels on the planet and on energy bills means the need to decarbonise has never been more urgent. Our OVO Energy Solutions business started work with Cornwall Council to complete whole-house retrofits for 400 poorly insulated homes. And in Argyll, Scotland, the business reached a milestone of 1,000 heat pumps installed.

We launched OVO Energy Experts, a new trial for customers to upgrade homes and unlock up to £260 of savings for those who adopt new efficiency technology along with making simple changes in behaviour. OVO's Energy Experts are trained in the latest of green technologies and are now providing home upgrade assessments and advising people on the energy-efficient measures required to future-proof their homes.

We commenced installation of Zero Emission Boilers (ZEBs) in OVO customers' homes, as part of UK Power Networks' 'Neat Heat' project. Working in our south east and east of England areas, in conjunction with the energy networks and UK clean tech company tepeo, this project provides real-world data on how a ZEB interacts with the electricity network, allowing us to develop new offerings that will reduce costs for customers and allowing UK Power Networks to use its existing infrastructure in a smarter way.

We supported the development of new renewable energy onto the grid

To reduce our dependence on gas, we need more renewable energy. We're not energy generators or developers (we are proudly customer-focused only), but we wanted to find a way to bring additional renewable power onto the grid. So, we became the first energy company to specifically support subsidy-free renewables, by offering small-scale, independent wind and solar farms above market prices for their electricity. By paying a premium to generators of renewable electricity that have not received any subsidy from government or industry-backed schemes, we are directly helping to drive new investment in renewable assets in the UK.

In 2022 we signed 92 power purchase agreements (PPAs) with onshore wind and solar power generators. That's enough clean energy to power over 50,000 homes.

OVO Energy Ltd

Strategic Report for the Year Ended 31 December 2022 (continued)

2022 review (continued)

We created value for our customers while supporting a smarter, greener, more flexible electricity grid

A flexible energy system is a smart energy system - for us, our customers and the planet. It can help us to best use the renewable energy that's already powering the grid and help cut the need for using gas and other fossil fuels when renewable energy is not available.

It can also help reduce consumers' costs, by shifting consumption away from peak times when the grid is most congested. Three quarters of electricity costs for the average household are made up of charges between 4pm and 7pm.

This is why we launched Power Move - an innovative trial helping customers to cut usage during peak times and save themselves money. The trial rewards customers up to £100 for moving their use of energy to times when the grid is greener and less congested. Trial data will be invaluable in gaining a more granular understanding of consumer habits and will enable us to develop propositions that further support a more flexible energy system.

At the end of 2022, with National Grid ESO (the organisation responsible for actually moving electricity around the National Grid) warning that the availability of electricity could be tight over the winter, we announced we were joining its Demand Flexibility Service. This new trial rewards our customers for shifting their energy usage away from peak times and helps support the critical energy balancing that takes place at National Grid. Customers can earn a minimum of £1 for every kWh shifted below their personal target - the more electricity shifted, the greater the reward.

In 2022, Kaluza launched multiple electric vehicle (EV) smart charging programmes internationally to demonstrate the power of its technology in providing easy and rewarding customer experiences that reduce the cost of owning an EV while increasing the use of renewables on the grid. Such initiatives were launched in Japan, with Mitsubishi Corporation and Chubu Electric Power Miraiz, in North America, with East Bay Community Energy, and in Australia, with AGL - where EV drivers earned an average of AU\$17 a month in smart charging credits and showed high levels of trust in Kaluza's optimisation.

More investment in technology

We continued to invest in a resilient scalable platform as we migrated SSE Energy Services customers onto one platform. Kaluza's platform creates operational cost savings, enabling OVO to invest more into building market-leading green and money-saving propositions and products for our customers.

With more of our customers going online and using the OVO app than ever before, we invested in our digital experience, increasing the number of customers able to self-serve. And for those customers concerned about the impact of the energy crisis, we developed an energy tracker to help our customers understand how they use their energy and how this impacts their energy bills and their carbon footprint. An energy tracking tool also shows the greenest hours to use appliances, helping to ease congestion on the electricity grid. By smoothing out peaks in demand and spreading energy use evenly through the day and night, the need for fossil fuels, such as gas, to provide more energy at peak times will decrease.

The replatforming of SSE Energy Services customers onto the OVO platforms operated by Kaluza reduce the cost of billing while providing a path to lower IT spend and complexity across our technology stack. In 2022, Kaluza reduced OVO's like-for-like technology spend by approximately 60% through migration onto its platform, lowering the IT costs per customer.

OVO Energy Ltd

Strategic Report for the Year Ended 31 December 2022 (continued)

2022 review (continued)

We appointed a new CEO

Raman Bhatia became the new CEO of OVO's retail business in February 2022. Having driven the transformation of OVO's customer operations as COO of the business for two years, Raman brought with him his passion for customer experience, decarbonisation and creating a great place to work.

A focus on energy and the decarbonisation of the home

We completed the sale of SSE Phone & Broadband to TalkTalk. This sale is part of our strategy to continually simplify our operations and to focus on the decarbonisation of the home. This transaction provided a great outcome for us, our telecoms customers and the team.

We won!

2022 was a record-breaking awards year at OVO. We kicked off with the National Diversity Awards recognising our progressive 'Belonging' initiatives with the Diverse Company of the Year award. Our customer experience teams won first place in Uswitch's Best Online Experience category. And we continued to receive awards for innovation in energy and sustainability, winning Innovation Project of the Year (for OVO Energy Tracker), and Green Energy Supplier of the Year at the Energy Awards. Ending the year on a high, the National Sustainability Awards heralded our Plan Zero a true pathway to decarbonisation by awarding us Company of the Year and Green Energy Supplier of the Year, as well as honouring OVO Energy Tracker for Best Use of Data and Analytics.

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Strategic Report for the Year Ended 31 December 2022 (continued)

Financial performance review

Financial performance

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

Key financial and Performance Indicators

	2022	2021
Customers ('000s)	3,922	1,202
Total gas and electricity volume (TWh)	25	13
Adjusted EBITDA (£ m) ¹	(29)	(33)
Statutory (loss)/profit for the year (£ m) ²	(1,273)	279
<i>(after non-cash commodity hedge revaluation loss of £1.4bn (2021: gain of £429m))</i>		
Cash (£ m) ³	379	40

Reconciliation of adjusted performance measures to statutory results

	2022 £ m	2021 £ m
Statutory (loss)/profit for the year ²	(1,273)	279
Add: Tax on (loss)/profit	(371)	37
Add: Exceptional items ¹	1,517	(409)
Less: Interest receivable and similar income	(13)	(4)
Add: Interest payable and similar expenses	75	55
Add: Depreciation of tangible assets and right-of-use assets	11	4
Add: Amortisation of intangible assets	25	5
Adjusted EBITDA¹	(29)	(33)

¹Adjusted EBITDA is defined as operating (loss)/profit, after adjusting for depreciation, amortisation, impairment and exceptional items (i.e., expenses or credits that are deemed unusual by nature and/or scale and significance including fair value (losses)/gains on derivatives). Refer to Note 8 for details of exceptional items.

²As we are well hedged, when prices fell during 2022 from the peaks in December 2021, so did the value of the energy we had bought in advance for customers. In financial accounting, this results in a large loss in 2022 but this has no cash impact and will reverse in future periods when customers use this energy. The loss reflects the value at 31 December 2022 of the energy we prudently bought in advance.

³Cash of £379m (2021: £40m) includes restricted cash of £269m (2021: £nil).

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Strategic Report for the Year Ended 31 December 2022 (continued)

Financial performance review (continued)

Underlying business performance

During the year, the group of companies headed by OVO Group Ltd (the Group) undertook a reorganisation as part of which the Company purchased the trade and assets of OVO (S) Electricity Limited, OVO (S) Metering Limited and OVO Field Force Ltd on 1 April 2022. The reorganisation, along with rising wholesale commodity prices in FY22, were the key drivers of the Company's financial performance for the year. The Company's adjusted EBITDA for the year ended 31 December 2022 was (£29m) (2021: (£33m)).

The Company's revenue has increased significantly from £1.0bn in the prior year to £5.0bn due to customer migration as part of the reorganisation and the impact of higher wholesale prices on retail tariffs. Gross profit has increased for the same reason but margin has eroded compared to the prior year as the cost of buying energy for our customers in the year was at times higher than the prices set under the regulated Price Cap. Higher customer bills and wider economic uncertainty also resulted in an increase in the bad debt charge in the year beyond the impact of increase in customers.

Higher operating loss was predominantly as a result of the reorganisation with employees transferred to the Company. However, the Company also saw an increase in operating expenses as the Company increased the number of our customer centre advisors and enhanced their training both to improve customer service quality and to better help those of our customers with difficult and more complex circumstances. These initiatives brought extra costs which, together with our £50m Customer Support Package, significantly contributed to our lower earnings.

Statutory result

Overall, the statutory loss for the year was £1.3bn, which includes a re-measurement loss of £1.4bn on derivative energy contracts, other exceptional items of £71m and depreciation and amortisation of £36m.

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

These contracts will be used to fulfil customer contracts. Therefore, the derivative financial liabilities recognised as at 31 December 2022 will be reversed when these contracts unwind in future periods. In other words, because we are well hedged, when prices fell during 2022 from the peaks in December 2021, so did the value of the energy we had bought in advance for customers. In financial accounting, this results in a large loss in 2022 but this has no cash impact and will reverse in future periods when customers use this energy. The loss reflects the value at 31 December 2022 of the energy we prudently bought in advance.

Exceptional items of £71m (2021: £20m) primarily relate to integration and reorganisation costs incurred as the Group continues to simplify the business following the acquisition of SSE Energy Services. Integration and reorganisation costs increased by £53m in 2022 as the Company ramped up integration activities and undertook a voluntary redundancy exercise.

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Strategic Report for the Year Ended 31 December 2022 (continued)

What's been happening in 2023

Path to Zero

In April 2023, we launched Path to Zero, a defining moment in our history that focused on delivering the true net zero pathway for our customers. Recognising that '100% renewable' electricity tariffs do very little to support decarbonisation we wanted to find a better way. Path to Zero is all about the tailored steps our customers can take to decarbonise their homes.

We committed to investing in helping customers reduce energy, shift energy use to greener times, and support them to make the step towards full electrification of their transport and heating. We committed to launch a fund for developing green skills that will train a generation to install heat pumps, which is critical in the decarbonisation of heating. As a result OVO has also taken the decision to move away from tariffs underpinned by the outdated REGO (Renewable Guarantees of Origin) system. We will instead invest in our Path to Zero initiatives as well as wind and solar projects that we know will generate the renewables we need. Over 2023 we will continue to call for change to the energy system to make green energy tariffs much more meaningful.

Intelligent Charging

OVO and Kaluza announced INFLEXION, a world-first vehicle-toeverything (V2X) trial, which will enable millions of customers to power their entire homes with their EV battery in the future. The scheme, an exciting collaboration between Kaluza, OVO Energy, Volkswagen Group UK, and EV smart charging tech business, Indra, allows EV drivers to power their home with their car, and also to sell any surplus energy back to the grid.

We launched Charge Anytime, an innovative home EV charging plan that will help boost the movement towards greener methods of travel. Customers can save up to £350 a year by using technology that enables them to access a charging rate of 10p per kWh (equating to 3p a mile), which is three times cheaper than the national average (34p per kWh).

Best Place to Work

OVO was awarded Best Place to Work for Women and Top 10 for Very Big Organisation in the exclusive Sunday Times Best Places to Work 2023 awards. The nationwide workplace survey honours and celebrates Britain's top employers and acknowledges the best workplaces for women, LGBTQIA+ community, those with a disability, ethnic minorities, younger and older workers, and wellbeing. We were recognised for our highly progressive people offer and putting our green ethos and flexibility right at the centre.

Our people offer includes unlimited compassionate and pregnancy loss leave, fully flexible working, 'moments that matter' and 'recharge' leave - creating space for our people to connect with phases in their life that deeply matter.

OVO Energy Ltd

Strategic Report for the Year Ended 31 December 2022 (continued)

Principal risks and uncertainties

Principal risks

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

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

The main risks which the Company could face are as follows:

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

The Board reviews and agrees policies for addressing each of these risks. The Company hedges all material commodity purchases through the use of forward rate contracts under a prudent hedging policy. There is always a risk of payment default from trade debtors and comprehensive credit vetting and effective payment terms are exercised for all significant customer accounts. Good payment discipline is achieved in the domestic market by use of direct debit budget schemes. There is also the risk of system or process failure in the Company's operations. Any material failure in the Company's licensed operations in gas supply is particularly significant. Operating risk is addressed through the Company's focus on seeking operational excellence and on maintaining the highest standards of safety and quality. The Company is exposed to economic regulation and government policy. There are management structures in place to mitigate, influence and respond to such developments, and to engage with the Industry Regulator, government ministers and officials, and other key bodies.

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

OVO Energy Ltd

Strategic Report for the Year Ended 31 December 2022 (continued)

Principal risks and uncertainties (continued)

Financial risks

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

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

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

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

OVO Energy Ltd

Strategic Report for the Year Ended 31 December 2022 (continued)

Section 172(1) statement

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

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

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

Our stakeholders

Our customers

OVO was founded with the ambition of making energy greener, simpler and cheaper. We intend to mobilise our customers into a zero carbon community, in line with the objectives set out in Plan Zero, and our goals to reduce our customers' carbon footprint by 50% by 2030. Our Board receives direct updates from OVO's customer-facing businesses and regularly discusses customer service performance, Net Promoter Scores and feedback. OVO's leadership team and Corporate Affairs team regularly engage with external consumer organisations and incorporate their feedback into business decision-making.

Our people

Without talented and committed people, OVO could not deliver on its ambitions and on Plan Zero. In 2022, we were proud to publish our Belonging report - an update on our journey to building a leading place to work, where everyone can thrive. For the first time, the report also included our gender and ethnicity pay gap analysis. We were also pleased to announce our new partnership with the Aleto Foundation, creating early career opportunities for young people from diverse backgrounds. Throughout the year, our quarterly employee survey gives our people at all levels the chance to share views with line managers, colleagues and leadership, and action plans are established to ensure feedback is heard and acted upon. Our Board also regularly engages with our people through forums and town halls, providing the opportunity to discuss and provide feedback on the priorities and needs of our people.

Our communities

The OVO Charitable Foundation exists to help create a greener, brighter future - for every child. As a grant-making organisation, OVO Foundation funds several charity partners who share our goals: to bring children and young people closer to nature, and to equip them with the skills, knowledge and opportunities to take action on the climate crisis. OVO Foundation invests in projects that address a real and genuine need, can demonstrate measurable and meaningful impact, and have the potential to scale.

We aim to keep all relevant external stakeholders informed of our community and charitable investments. By 2022, OVO Foundation had committed £2m to funding 154 youth-led environmental projects, helping over 250 schools to become more energy efficient and reaching over 10,000 young people across the UK. OVO Foundation published the results of a social return on investment study in 2022, which found that every £1 invested in such projects has the power to create over £10 of value for society.

OVO Energy Ltd

Strategic Report for the Year Ended 31 December 2022 (continued)

Section 172(1) statement (continued)

The 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. OVO Group has a formalised Environment Policy which sets out our commitment to minimise the negative impacts of our business activities on the environment across our value chain. Our entire business strategy is informed by Plan Zero and our mission to provide mass market, affordable and simple solutions that support our customers to take action against climate change to help them decarbonise their homes.

In 2022, we were proud to publish our refreshed Plan Zero strategy which sets out our intention to reach net zero by 2035, rather than 2030. We're still aiming to cut 60% of our total carbon footprint by 2030, the same as before. The difference is, now, we'll reach net zero with less reliance on carbon offsetting. We'll only offset the emissions we cannot avoid or reduce - about 10% of our carbon footprint. To make sure no one is left behind, we've also raised the importance of social impact and affordability in our strategy. And to make it easier for our external stakeholders to see how we're getting along, we introduced a new live reporting structure.

Throughout 2022, we reported environmental performance periodically to OVO's leadership team and annually to the Board.

Governments and regulators

Our Board members engage regularly across the UK Government, devolved administrations, respective parliaments and the regulator. Our activity is across a range of mediums, including conferences, roundtables and media to engage effectively across key political, regulatory and policy priorities. Our dedicated Public Affairs, Policy and Regulation teams actively manage our external stakeholder plan and regularly update Board members on external developments and coordinate an engagement programme. During 2022, the key issues discussed with stakeholders included: the energy crisis; support for financially vulnerable customers; market design; and policy levers to accelerate the transition to zero carbon living.

Our suppliers

We build relationships with our external suppliers based on trust. This facilitates us providing the best quality products and services at the most competitive prices, while mitigating data, social and environmental risks in an upward supply chain. In 2022, we continued to operate our Supplier Code of Conduct for all new key suppliers as part of our standard procurement process. We also continued to operate our sustainable procurement controls and, where relevant, ensured sustainability criteria were considered as part of any supplier selection.

Embedding Section 172 in Board decision-making processes

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

OVO Energy Ltd

Strategic Report for the Year Ended 31 December 2022 (continued)

Section 172(1) statement (continued)

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

OVO Energy Ltd

Strategic Report for the Year Ended 31 December 2022 (continued)

Section 172(1) statement (continued)

Our plan to address the energy crisis

A Ten Point Plan

Throughout 2022, the record increases in energy prices caused by volatility on global wholesale markets were unsettling for millions of households.

From the start of the energy crisis, we worked closely with the regulator, government, consumer groups and industry to limit the impact on household energy bills as much as possible.

In line with our original mission statement to deliver simpler, greener and cheaper energy, we listened carefully to the views and concerns of our key stakeholders. Feedback from our customers, OVO's customer-facing teams, external charities and consumer organisations clearly demonstrated that consumers faced a real lack of support given the scale of the crisis.

Through engagement with our stakeholders, we realised that a compassionate and creative approach was required to address the energy costs crisis in the short, medium and long term, and we developed 10 policy recommendations to improve the UK energy market for the benefit of our customers. These include:

In the short term:

- 1) Bring forward the energy rebate to be paid in full before Christmas
- 2) Set up a Fuel Poverty Taskforce to identify those most in need
- 3) Immediately increase funding for debt advisory charities

In the medium term:

- 4) Abolish the prepayment meter poverty penalty
- 5) Reduce bill shocks - in a progressive way
- 6) Make bills simpler and fairer by abolishing the standing charge
- 7) Insulate everything: mobilise a national energy efficiency effort

In the long term:

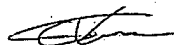
- 8) Ensure the Future System Operator has a mandate for securing long term energy demand
- 9) Bring back the Department of Energy and Climate Change
- 10) Introduce a carbon tax

We published our 'Ten Point Plan' to address the energy crisis and gained significant media coverage to amplify its recommendations. Following publication, we undertook extensive engagement with government, the regulator, our communities and third party organisations in an effort to build momentum in support of the proposals. We are proud to report that a number of the policies have been adopted by the UK Government and we look forward to continuing to advocate for these proposals throughout 2023.

OVO Energy Ltd

Strategic Report for the Year Ended 31 December 2022 (continued)

Approved by the Board on 26 June 2023 and signed on its behalf by:



.....
Vincent Casey
Director

OVO Energy Ltd

Directors' Report for the Year Ended 31 December 2022

The Directors present their report and the audited financial statements for the year ended 31 December 2022.

Directors of the Company

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

Vincent Casey

Adrian Letts (resigned 1 March 2022)

Raman Bhatia

William Castell (resigned 10 January 2022)

Principal activities

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

Dividends

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

Financial instruments

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

Charitable donations

During the year, the Company made charitable donations of £2,349,000 (2021: £730,000). The donations to the StepChange Debt Charity and The Trussell Trust are part of OVO's initiative to support UK consumers in response to the cost of living crisis.

	£
The OVO Charitable Foundation	649,000
StepChange Debt Charity	1,200,000
The Trussell Trust	<u>500,000</u>

Employee engagement

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

OVO Energy Ltd

Directors' Report for the Year Ended 31 December 2022 (continued)

Other stakeholder engagement

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

Employment of disabled persons

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

Future developments

The Directors believe that the Company remains well positioned in the market place with a differentiated offer. For further information, visit our website: <http://www.ovenergy.com>. Also refer to the Strategic Report for the Company's future developments. Also refer to the Strategic Report for the Company's future developments.

Research and development

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

Going concern

The Company made a loss of £1.3bn for the year ended 31 December 2022 and has net liabilities of £1.6bn and net current liabilities of £2.0bn as at the balance sheet date. The financial statements have been prepared on a going concern basis.

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

OVO Group Ltd has sufficient liquidity over the full going concern period under both its base case and stress-tested forecast. Accordingly the Directors consider that it is appropriate to adopt the going concern basis in preparing the financial statements on the basis of the continued financial support of the parent company.

Subsequent events after the year ended 31 December 2022

There are no subsequent events that have a material impact on these financial statements.

OVO Energy Ltd

Directors' Report for the Year Ended 31 December 2022 (continued)

Directors' liabilities

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

Disclosure of information to the auditors

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

Streamlined energy and carbon reporting

Disclosures in relation to the Streamlined Energy and Carbon Reporting Framework Regulations are included in the group financial statements of OVO Group Ltd of which the Company is a member.

Statement of corporate governance arrangements

For the year ended 31 December 2022, the Company met the qualifying conditions to provide a statement on corporate governance arrangements under The Companies (Miscellaneous Reporting) Regulations 2018. The Boards of OVO parents and subsidiaries are largely made up of the same members of the OVO leadership team and senior management. OVO Group Ltd, the Company's parent, has reported its corporate governance arrangements in the Strategic Report in its annual report which also apply to the Company.

Statement of Directors' responsibilities

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

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

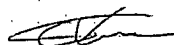
- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether FRS 101 has been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial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

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

OVO Energy Ltd

Directors' Report for the Year Ended 31 December 2022 (continued)

Approved by the Board on 26 June 2023 and signed on its behalf by:



.....
Vincent Casey
Director

Independent auditors' report to the members of OVO Energy Ltd

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 2022 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance Sheet as at 31 December 2022; the Profit and Loss account, the Statement of Comprehensive Income and the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

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

Reporting on other information

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

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

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

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

Strategic report and the Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and the Directors' Report for the year ended 31 December 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to Ofgem licence conditions and 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 posting of inappropriate journal entries to manipulate the financial statements, and management bias in accounting estimates and judgements, in particular in respect of revenue recognition and impairment of receivables. Audit procedures performed by the engagement team included:

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

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

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

Use of this report

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

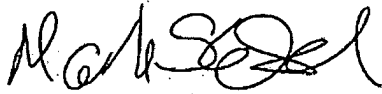
Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



Mark Skedgel (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
27 June 2023

OVO Energy Ltd

Profit and Loss Account for the Year Ended 31 December 2022

	Note	Underlying 2022 £ m	Exceptional 2022 ¹ £ m	Total 2022 £ m	Underlying 2021 £ m	Exceptional 2021 ¹ £ m	Total 2021 £ m
Turnover	4	5,044	-	5,044	960	-	960
Cost of sales		<u>(4,657)</u>	<u>-</u>	<u>(4,657)</u>	<u>(858)</u>	<u>(3)</u>	<u>(861)</u>
Gross profit		387	-	387	102	(3)	99
Administrative expenses		(343)	(70)	(413)	(155)	(17)	(172)
Net impairment (losses)/gains on financial assets - debtors	5	(113)	-	(113)	11	-	11
Re-measurement of derivative energy contracts	29	-	(1,446)	(1,446)	-	429	429
Other operating income	6	<u>4</u>	<u>(1)</u>	<u>3</u>	<u>-</u>	<u>-</u>	<u>-</u>
Operating (loss)/profit	7	(65)	(1,517)	(1,582)	(42)	409	367
Interest receivable and similar income	9	13	-	13	4	-	4
Interest payable and similar expenses	10	<u>(75)</u>	<u>-</u>	<u>(75)</u>	<u>(55)</u>	<u>-</u>	<u>(55)</u>
(Loss)/profit before tax		(127)	(1,517)	(1,644)	(93)	409	316
Tax on loss/(profit)	14	<u>33</u>	<u>338</u>	<u>371</u>	<u>40</u>	<u>(77)</u>	<u>(37)</u>
(Loss)/profit for the financial year		<u>(94)</u>	<u>(1,179)</u>	<u>(1,273)</u>	<u>(53)</u>	<u>332</u>	<u>279</u>

The above results were derived from continuing operations.

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

The notes on pages 31 to 86 form an integral part of these financial statements.

OVO Energy Ltd

Statement of Comprehensive Income for the Year Ended 31 December 2022

	Note	2022 £ m	2021 £ m
(Loss)/profit for the financial year		<u>(1,273)</u>	<u>279</u>
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of defined benefit pension surplus	30	10	-
Deferred tax on defined benefit pension surplus	14	<u>(3)</u>	<u>-</u>
		<u>7</u>	<u>-</u>
Total comprehensive (expense)/income for the year		<u><u>(1,266)</u></u>	<u><u>279</u></u>

The notes on pages 31 to 86 form an integral part of these financial statements.

OVO Energy Ltd

(Registration number: 06890795)
Balance Sheet as at 31 December 2022

	Note	31 December 2022 £ m	31 December 2021 £ m
Fixed assets			
Intangible assets	15	69	20
Tangible assets	16	8	4
Right-of-use assets	17	38	12
Investments	18	428	428
		<u>543</u>	<u>464</u>
Current assets			
Stocks	20	34	-
Debtors:			
Amounts falling due within one year	21	1,414	830
Amounts falling due after more than one year	21	554	67
Cash at bank and in hand	22	379	40
Total current assets		<u>2,381</u>	<u>937</u>
Creditors: Amounts falling due within one year	23	<u>(4,425)</u>	<u>(1,427)</u>
Net current liabilities		<u>(2,044)</u>	<u>(490)</u>
Total assets less current liabilities		<u>(1,501)</u>	<u>(26)</u>
Creditors: Amounts falling due after more than one year	24	(52)	(52)
Provisions for liabilities	26	<u>(43)</u>	<u>(86)</u>
Net liabilities		<u>(1,596)</u>	<u>(164)</u>
Capital and reserves			
Called up share capital	27	-	-
Other reserves	28	(164)	2
Profit and loss account		<u>(1,432)</u>	<u>(166)</u>
Total shareholders' deficit		<u>(1,596)</u>	<u>(164)</u>

The financial statements on pages 27 to 86 were approved by the Board of Directors on 26 June 2023 and signed on its behalf by:



Vincent Casey
Director

The notes on pages 31 to 86 form an integral part of these financial statements.

OVO Energy Ltd

Statement of Changes in Equity for the Year Ended 31 December 2022

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

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

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

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2022

1 General information

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

The address of its registered office is:

1 Rivergate
Temple Quay
Bristol
England
United Kingdom
BS1 6ED

These financial statements were authorised for issue by the Board on 26 June 2023.

2 Accounting policies

Summary of significant accounting policies and key accounting estimates

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

Basis of preparation

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

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

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

Basis of preparation (continued)

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

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

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

2 Accounting policies (continued)

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

- The requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 Impairment of assets;
- Certain disclosures required by IFRS 13 Fair value measurement and the disclosures required by IFRS 7 Financial instruments disclosures; and
- The requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers.

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

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

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

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

2 Accounting policies (continued)

Going concern

The Company made a loss of £1.3bn for the year ended 31 December 2022 and has net liabilities of £1.6bn and net current liabilities of £2.0bn as at the balance sheet date. The financial statements have been prepared on a going concern basis.

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

OVO Group Ltd has sufficient liquidity over the full going concern period under both its base case and stress-tested forecast. Accordingly the Directors consider that it is appropriate to adopt the going concern basis in preparing the financial statements on the basis of the continued financial support of the parent company.

Exemption from preparing group financial statements

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

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

Changes in accounting policy

New and amended standards adopted by the Company

The Company has applied the following standards and amendments for the first time for its annual reporting period commencing 1 January 2022:

- Property, Plant and Equipment: Proceeds before Intended Use - Amendments to IAS 16;
- Onerous contracts - Cost of Fulfilling a Contract - Amendments to IAS 37;
- Annual Improvements to IFRS Standards 2018-2020; and
- Reference to the Conceptual Framework - Amendments to IFRS 3.

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.

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

2 Accounting policies (continued)

Government support schemes

In light of the cost of living crisis in the year, the UK Government has established both the Energy Price Guarantee Scheme (EPG) and Energy Bills Support Scheme (EBSS) which form part of the Government's cost of living assistance package for consumers from October 2022 to March 2023.

Energy Price Guarantee Scheme

The Energy Price Guarantee Scheme (EPG) protects consumers from increases in energy costs as the scheme limits the amount suppliers can charge per unit of energy used. The scheme reduces the average annual domestic household bill for the period from 1 October 2022 to 31 March 2023 to approximately £2,500 per annum, and was extended at the same level from 1 April 2023 to 30 June 2023. The scheme is expected to remain in place until April 2024. Energy suppliers are compensated by the Government for the savings delivered to households, which represent the difference between the expected price cap and the guarantee rates. Management has determined it appropriate to apply the requirements of IAS 20 Government Grants to EPG grant income. The Company recognises EPG grant income to the extent there is reasonable assurance that the Company will comply with the conditions attaching to the scheme and that the income will be received. The Company presents EPG grant income within revenue as it judges the income arises from the ordinary activities of the Company. Since the start of the scheme, the Company has recognised EPG grant income of £747m which represents the amount of savings delivered to households.

Energy Bills Support Scheme

The Energy Bills Support Scheme (EBSS) provides domestic electricity customers in Great Britain with £400 of support, delivered by electricity suppliers over six months from October 2022. Households receive a discount of £66 applied to their energy bills in October and November, rising to £67 each month from December through to March 2023. The Company delivers this support as either a cash benefit or a credit to customers' energy account, depending on their payment type. The Company receives funding from the Government monthly in advance. The funding from the Government is restricted to the use of delivering the support to customers. The Company held restricted cash of £269m relating to cash received from BEIS not yet distributed to customers under the scheme. Since the start of the scheme, the Company has received £1,021m from the Government under the scheme and has distributed £729m to customers. The total obligations not yet satisfied under the scheme amounted to £292m as at the balance sheet date, which consist of £269m cash received from BEIS and £23m unredeemed vouchers issued to prepayment customers. The Company recognises a cash asset and a corresponding liability related to the obligation to deliver the support to customers to the extent that the cash has been received but not yet distributed at a reporting period end.

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

2 Accounting policies (continued)

Revenue

Revenue recognition

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

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

Transaction price

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

(i) Variable consideration

If the consideration in a contract includes a variable amount, revenue is only recognised in an amount at which it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur.

(ii) Consideration payable to a customer

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

Revenue recognition

Sale of gas and electricity

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

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

Installation and rental of meters

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

Accrued income and debtors

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

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

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

2 Accounting policies (continued)

Deferred income

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

Net basis of measurement of contract balances

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

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.

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

2 Accounting policies (continued)

Exceptional items

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

The Company is part of the group headed by OVO Group Ltd which often undertakes lengthy transformation programmes which may span over more than a year. Transformation programmes are generally of a one-off nature as the incurrence of costs associated to them ceases when they are complete. The costs of these programmes are considered exceptional and may be reported in more than one year.

Interest income and expense

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

Tax

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

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

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

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

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

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

2 Accounting policies (continued)

Tangible assets

Property, plant and equipment is stated in the balance sheet at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

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

Depreciation

Depreciation is charged so as to write off the cost of assets over their estimated useful lives as follows:

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

Intangible assets

a) Contractual customer relationships

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

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

b) Internally generated software development costs

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

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

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

2 Accounting policies (continued)

Intangible assets (continued)

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

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

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

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

Amortisation

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

Asset class	Amortisation method and rate
Internally generated software development costs	3 to 5 years straight line
Contractual customer relationships	5 years straight line

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

2 Accounting policies (continued)

Impairment of non-financial assets

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

Investments

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

Cash at bank and in hand

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

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

Trade debtors

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

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

Deferred income

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

Stocks

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

Trade creditors

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade creditors are classified as amounts falling due within one year if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as amounts falling due after more than one year.

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

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2022 (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 profit or loss over the period of the relevant borrowing.

Interest expense is recognised on the basis of the effective interest method and is included in interest payable and similar charges.

Borrowings are classified as amounts falling due within one year unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

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

Provisions

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

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

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

2 Accounting policies (continued)

Share-based payments

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

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

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

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

Leases

Definition

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

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

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

2 Accounting policies (continued)

Leases (continued)

Initial recognition and measurement

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

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

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

Subsequent measurement

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

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

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

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

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

2 Accounting policies (continued)

Leases (continued)

Lease modifications

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

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

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

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

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

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

Short-term and low value leases

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

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

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

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

2 Accounting policies (continued)

Share capital

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

Financial instruments

Initial recognition

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

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

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

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

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

2 Accounting policies (continued)

Financial instruments (continued)

Classification and measurement

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

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

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

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

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

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

As at 31 December 2022, the Company had no financial assets measured at FVOCI.

Financial assets at amortised cost

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

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

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

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

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

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

Financial liabilities at amortised cost

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

Financial liabilities at fair value through the profit or loss

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

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

2 Accounting policies (continued)

Impairment of financial assets

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

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

Commodity derivatives

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

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

Defined contribution pensions

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

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

Defined benefit pension obligation

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

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

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

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

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

2 Accounting policies (continued)

Employee benefits

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

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

Transfers of business

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

3 Critical accounting judgements and key sources of estimation uncertainty

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

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

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

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

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 2022 revenue arising from estimated consumption amounted to £1,382m (2021: £241m). The judgements applied, and the assumptions underpinning these judgements in arriving at this estimated amount, are considered to be appropriate. However, a change in these assumptions would have an impact on the amount of revenue recognised. Management believes that based on latest industry data the amount of revenue recognised could increase by up to £45m based on a reasonable change in the overall assumptions made in reaching this estimate.

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

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

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

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

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

The judgments applied, and the assumptions underpinning these judgements, are considered to be appropriate. However, a change in these assumptions would have an impact on the revenue recognised. The primary source of estimation uncertainty relating to unread revenue arising from eligible customers under the scheme amounted to £507m (2021: £nil). Management believes that based on latest industry data the amount of revenue recognised could increase by up to £20m based on a reasonable change in the overall assumptions made in reaching this estimate.

Impairment of trade debtors (estimation uncertainty)

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

The assumption that future performance of customer debt settlement will be a reflective of past performance is the most significant assumption within the expected credit loss provisioning model. To address this risk, the Company reviews the provision rates for each segment on a regular basis to ensure they include the most up to date assumptions and use forward looking information. In order to test the sensitivity of the impairment of the Company's trade debtors balance, the Company has considered the impact of the underlying provision rates worsening by 10%. This would lead to a £18m increase in the expected credit loss provision in 2022.

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

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

Deferred tax assets (accounting judgement and estimation uncertainty)

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

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

Having assessed the level of profits made by the Company since the year end and forecasts of revenue and costs for the coming years, the Directors believe it is probable that the Company will generate sustainable profits and therefore a deferred tax asset has been recognised. Deferred tax assets of £186m in respect of UK tax losses are expected to be utilised over the next nine to thirteen years (2021: six to eight years).

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

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

4 Turnover

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

	2022 £ m	2021 £ m
Sale of gas and electricity	4,198	932
Government grants - Energy Price Guarantee Scheme	746	-
Installation and rental of meters	86	25
Other revenue	14	3
	<u>5,044</u>	<u>960</u>

The Group has recognised grant income of £746m (2021: £nil) in the year which represents the amounts of support delivered to households and compensated by the Government under the Energy Price Guarantee Scheme (EPG). Refer to Government support schemes in the Summary of significant accounting policies for further details on the scheme.

Other revenue relates to sale of renewable certificates of £10m (2021: £nil) and services under transitional services agreements of £3m (2021: energy efficiency solutions services of £3m). All turnover was generated in the UK.

Assets and liabilities related to contracts with customers

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

	31 December 2022 £ m	31 December 2021 £ m	1 January 2021 £ m
Contract assets			
Trade debtors	515	111	83
Accrued income	278	86	49
Provision for impairment of trade debtors and accrued income	<u>(252)</u>	<u>(117)</u>	<u>(96)</u>
Total contract assets	<u>541</u>	<u>80</u>	<u>36</u>
Contract liabilities			
Deferred income	<u>(783)</u>	<u>(145)</u>	<u>(98)</u>
Total contract liabilities	<u>(783)</u>	<u>(145)</u>	<u>(98)</u>

Assets and liabilities related to contracts with customers have increased in the year due to the acquisition of fellow subsidiaries' trade and assets as disclosed in Note 19 and the impact of increased commodity prices on retail tariffs and the Government support schemes.

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.

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

5 Net impairment (losses)/gains on financial assets - debtors

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

	2022 £ m	2021 £ m
Impairment losses of financial assets	(115)	(29)
Reversal of previously recognised impairment losses	<u>2</u>	<u>40</u>
Net impairment (losses)/gains on financial assets - debtors	<u>(113)</u>	<u>11</u>

Impairment (losses)/gains on trade debtors and accrued income have increased due to the acquisition of trade and assets from fellow subsidiaries, and the impact of cost of living crisis on consumer affordability.

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

6 Other operating income

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

	2022 £ m	2021 £ m
Research and development tax credit	4	-
Loss on disposal of intangible assets	(2)	-
Gain on write-off of amounts due to group undertakings	<u>1</u>	<u>-</u>
	<u>3</u>	<u>-</u>

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

7 Operating (loss)/profit

Arrived at after charging/(crediting)

	2022 £ m	2021 £ m
Net impairment losses/(gains) on financial assets - debtors	113	(11)
Depreciation expense - tangible assets	3	2
Depreciation expense - right-of-use assets	8	2
Amortisation expense - intangible assets	25	5
Loss on disposal of intangible assets	2	-
Government grants - Energy Price Guarantee Scheme	(746)	-
	<u> </u>	<u> </u>

8 Exceptional items

	2022 £ m	2021 £ m
Integration	32	13
Group reorganisation	38	4
Loss on disposal of intangible assets	2	-
Gain on write-off of amounts due to group undertakings	(1)	-
Industry and regulatory	-	3
Re-measurement of derivative energy contracts	1,446	(429)
	<u> </u>	<u> </u>
Exceptional included within operating (loss)/profit	1,517	(409)
Exceptional included within (loss)/profit before tax	1,517	(409)
Net taxation on exceptional items	(338)	77
	<u> </u>	<u> </u>

Integration

The Group continued to engage in activities to integrate SSE operations and systems into OVO throughout the year, following the acquisition of OVO (S) Energy Services Limited Group (SSE) in 2020. The majority of the costs within integration was associated with staff personnel and professional services supporting customer migration from the SSE legacy customer operating platform to the Kaluza platform, and integrating and simplifying the SSE legacy technology estate within the Group.

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

8 Exceptional items (continued)

Group reorganisation

The OVO Group continued its restructuring programme throughout the year which was initiated following the acquisition of SSE in 2020. In the current year, the Group further announced a voluntary redundancy programme to reduce the number of roles across the Group by 1,700. The majority of the costs within group reorganisation relates to redundancy costs being recognised in relation to both incurred and expected future severance costs. Group reorganisation is part of a wider cost efficiency initiative which also consists of other transformational activities aimed at simplifying the OVO Group's operations.

Group reorganisation and integration are part of a group wide programme which was initiated as a result of the SSE acquisition and is therefore considered non-recurring after the programme is complete. These costs will cross more than one accounting period as programme spans over more than a year. The programme is expected to complete by the end of 2023.

Industry & regulatory

High and volatile prices in the wholesale energy market saw various energy suppliers collapse in 2021. As a result, the Company incurred incremental costs in relation to industry and regulatory costs in the prior year.

Re-measurement of derivative energy contracts

Energy contracts that are not designated as 'own-use' contracts constitute financial instruments under IFRS 9 and are carried at fair value through profit or loss. Re-measurement of derivative energy contracts has resulted in a net loss of £1.4bn. The significant loss reflects the continued volatility in commodity prices in the wholesale energy market in the year and is a result of falling commodity prices towards the balance sheet date.

Income statement classification

Recognised in cost of sales are £nil exceptional industry and regulatory costs (2021: £3m). The loss of £2m on the disposal of intangible assets and the gain of £1m on write-off of amounts due to group undertakings are recognised within other operating income (2021: £nil). The £1.4bn loss arising from the re-measurement of derivative energy contracts is recognised in re-measurement of derivative energy contracts (2021: £429m gain). The remaining £70m of the remaining exceptional costs are recognised in administrative expenses (2021: £17m).

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

8 Exceptional items (continued)

Adjusted EBITDA

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

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

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

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

	2022 £ m	2021 £ m
Statutory (loss)/profit for the year	(1,273)	279
Add: Tax on (loss)/profit	(371)	37
(Loss)/profit before tax	(1,644)	316
Add: Exceptional items	1,517	(409)
Adjusted loss before tax	(127)	(93)
Less: Interest receivable and similar income	(13)	(4)
Add: Interest payable and similar expenses	75	55
Adjusted operating loss	(65)	(42)
Add: Depreciation of tangible assets and right-of-use assets	11	4
Add: Amortisation of intangible assets	25	5
Adjusted EBITDA	(29)	(33)

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

9 Interest receivable and similar income

	2022 £ m	2021 £ m
Interest income on bank deposits	4	-
Interest on amounts owed by group undertakings	9	4
Total interest receivable and similar income	<u>13</u>	<u>4</u>

10 Interest payable and similar expenses

	2022 £ m	2021 £ m
Interest on bank overdrafts and borrowings	-	1
Interest on amounts due to group undertakings	72	53
Interest expense on leases	2	1
Unwinding of discount on provisions	1	-
Total interest payable and similar expenses	<u>75</u>	<u>55</u>

11 Staff costs

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

	2022 £ m	2021 £ m
Wages and salaries	171	62
Social security costs	19	7
Pension costs - defined contribution scheme	11	2
Pension costs - defined benefit scheme	5	-
Capitalised staff costs	(11)	(4)
	<u>195</u>	<u>67</u>

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

11 Staff costs (continued)

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

	2022	2021
	No.	No.
People & operations	2,796	711
Technology & business change	434	243
Commercial & finance	529	235
Group	28	25
	<u>3,787</u>	<u>1,214</u>

12 Directors' remuneration

The Directors' remuneration for the year is as follows:

	2022	2021
	£ 000	£ 000
Directors' remuneration	2,599	2,436
Company contributions to defined contribution pension scheme	25	101
Compensation for loss of office	1,229	475
	<u>3,853</u>	<u>3,012</u>

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

	2022	2021
	£ 000	£ 000
Directors' remuneration	1,609	629
Company contributions to defined contribution pension scheme	5	15
	<u>1,614</u>	<u>644</u>

During the year, retirement benefits were accruing to three Directors (2021: five) in respect of defined contribution pension schemes.

The number of Directors in respect of whose qualifying services shares were received or receivable under long term incentive plan is nil (2021: seven). No shares were received or receivable in the year by the highest-paid director in respect of qualifying services under the Company's long term incentive plan (2021: Shares were received). Total aggregate share-based payment recognised in the year in respect of the Directors' qualifying services is £39,000 (2021: £86,000).

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

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

13. Auditors' remuneration

	2022 £ 000	2021 £ 000
Audit of Company	320	150
Audit of subsidiaries	147	310
	<u>467</u>	<u>460</u>

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

14 Tax on (loss)/profit

Tax (credited)/charged in profit or loss:

	2022 £ m	2021 £ m
Current taxation		
Current taxation	(1)	(29)
Adjustments in respect of prior periods	4	-
Total current taxation	<u>3</u>	<u>(29)</u>
Deferred taxation		
Arising from origination and reversal of temporary differences	(311)	82
Arising from changes in tax rates and laws	(58)	(16)
Adjustments in respect of prior periods	(5)	-
Total deferred taxation	<u>(374)</u>	<u>66</u>
Tax (credited)/charged in profit or loss	<u>(371)</u>	<u>37</u>

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

14 Tax on (loss)/profit (continued)

The tax on (loss)/profit for the year is higher than the standard rate of corporation tax in the UK (2021: lower than the standard rate of corporation tax in the UK) of 19% (2021: 19%).

The differences are reconciled below:

	2022 £ m	2021 £ m
(Loss)/profit before tax	(1,644)	316
Corporation tax at standard rate	(312)	60
Adjustments in respect of prior periods	(1)	-
Effect of revenues exempt from taxation	(1)	(7)
Effect of expenses not deductible in determining tax (loss)/profit	1	-
Deferred tax credit relating to changes in tax rates or laws	(58)	(16)
Total tax (credit)/charge	(371)	37

Deferred tax

Deferred tax assets and liabilities

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

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

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

14 Tax on (loss)/profit (continued)

Deferred tax movement during the year:

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

Deferred tax movement during the prior year:

	At 1 January 2021 £ m	Recognised in profit and loss £ m	At 31 December 2021 £ m
Tax losses carry-forwards	39	15	54
Accelerated tax depreciation	1	-	1
Restricted interest deductions carried forward	13	1	14
Revaluation of intangible assets	(2)	-	(2)
Derivatives	-	(82)	(82)
Pension benefit obligations	-	-	-
Provisions	-	-	-
	<u>51</u>	<u>(66)</u>	<u>(15)</u>
Net tax assets/(liabilities)			

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

14 Tax on (loss)/profit (continued)

Deferred tax assets of £186m have been recognised in respect of carried forward tax losses on the basis that there will be future profits available against which to offset them. There are no time limits on the recovery of such losses. Refer to Note 3 Critical accounting judgements, for further discussion on the basis for recognition of deferred tax assets.

A deferred tax asset of £238m is also recognised in respect of the re-measurement loss on derivative energy commodity contracts which is not deductible for tax purposes. This deferred tax asset will be reversed when the relevant contracts unwind in future periods.

Deferred tax of £19m (2021: £19m) has not been recognised in relation to indefinite carry forward tax losses of £74m (gross) for it is not considered probable that the losses will be utilised based on management's assessment of the available evidence.

The change to the main UK corporation tax rate to 25% announced in the 2021 Finance Bill was substantively enacted on 24 May 2021. The rate effective from 1 April 2023 is 25% increased from the current rate of 19%. Deferred tax assets and liabilities were re-measured in 2021 based on the applicable tax rate in the period that the balances were expected to be realised. The impact of this rate change in the current period is a tax credit of £58m primarily relating to the re-measurement of new temporary differences arising in the year from the current tax rate of 19% to the deferred tax rate, which is based on the applicable tax rate in the period that the balances are expected to be realised.

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

15 Intangible assets

	Contractual customer relationships £ m	Internally generated software development costs £ m	Total £ m
Cost			
At 1 January 2022	22	32	54
Additions	-	20	20
Acquired on corporate restructuring	-	96	96
Disposals	-	(22)	(22)
At 31 December 2022	<u>22</u>	<u>126</u>	<u>148</u>
Accumulated amortisation			
At 1 January 2022	13	21	34
Amortisation charge	4	21	25
Amortisation eliminated on disposals	-	(20)	(20)
Acquired on corporate restructuring	-	40	40
At 31 December 2022	<u>17</u>	<u>62</u>	<u>79</u>
Carrying amount			
At 31 December 2022	<u>5</u>	<u>64</u>	<u>69</u>
At 31 December 2021	<u>9</u>	<u>11</u>	<u>20</u>

Amortisation charge of £25m (2021: £5m) is recognised in administrative expenses.

Included within the carrying amount of internally generated software development costs of £64m (2021: £11m) are intangible assets under construction of £26m (2021: £6m), which are not subject to amortisation.

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

16 Tangible assets

	Leasehold property £ m	Fixtures and fittings £ m	Office equipment £ m	Meter assets and miscellaneous equipment £ m	Total £ m
Cost					
At 1 January 2022	9	3	9	-	21
Additions	2	-	2	-	4
Acquired on corporate restructuring	4	-	-	1	5
Disposals	(3)	-	(2)	-	(5)
At 31 December 2022	<u>12</u>	<u>3</u>	<u>9</u>	<u>1</u>	<u>25</u>
Accumulated depreciation					
At 1 January 2022	8	3	6	-	17
Charge for the year	2	-	1	-	3
Eliminated on disposal	(3)	-	(2)	-	(5)
Acquired on corporate restructuring	<u>2</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2</u>
At 31 December 2022	<u>9</u>	<u>3</u>	<u>5</u>	<u>-</u>	<u>17</u>
Carrying amount					
At 31 December 2022	<u>3</u>	<u>-</u>	<u>4</u>	<u>1</u>	<u>8</u>
At 31 December 2021	<u>1</u>	<u>-</u>	<u>3</u>	<u>-</u>	<u>4</u>

The depreciation charge of £3m (2021: £2m) is recognised in administrative expenses. The amount of contractual commitments for the acquisition of tangible assets as at the balance sheet date is £3m (2021: £nil).

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

17 Right-of-use assets

	Property £ m	Fleet £ m	Total £ m
Cost			
At 1 January 2022	18	-	18
Additions	7	-	7
Acquired on corporate restructuring	37	25	62
Modifications	-	6	6
At 31 December 2022	<u>62</u>	<u>31</u>	<u>93</u>
Accumulated depreciation			
At 1 January 2022	6	-	6
Charge for the year	5	3	8
Acquired on corporate restructuring	<u>26</u>	<u>15</u>	<u>41</u>
At 31 December 2022	<u>37</u>	<u>18</u>	<u>55</u>
Carrying amount			
At 31 December 2022	<u>25</u>	<u>13</u>	<u>38</u>
At 31 December 2021	<u>12</u>	<u>-</u>	<u>12</u>

Depreciation charge of £8m (2021: £2m) is recognised in administrative expenses.

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

18 Investments

Subsidiaries	£ m
Cost	
At 1 January 2022	428
At 31 December 2022	428
Carrying amount	
At 31 December 2022	428
At 31 December 2021	428

Details of the subsidiaries as at 31 December 2022 and 31 December 2021 are as follows:

Name of subsidiary	Principal activity	Registered office / Country of incorporation	Proportion of ownership interest and voting rights held at 31 December	
			2022	2021
OVO Electricity Ltd*	Sale of services associated with the supply of electricity to other OVO Group companies	1 Rivergate, Temple Quay, Bristol, England, BS1 6ED UK	100%	100%
OVO Gas Ltd*	Sale of services associated with the supply of gas to other OVO Group companies	1 Rivergate, Temple Quay, Bristol, England, BS1 6ED UK	100%	100%
Spark Energy Limited*	Dormant	Grampian House, 200 Dunkeld Road, Perth, Scotland, PH1 3GH UK	100%	100%
Spark Gas Shipping Ltd*	Non-trading company	1 Rivergate, Temple Quay, Bristol, England, BS1 6ED UK	100%	100%
Kaluza Ltd*	Development of intelligent energy platform	69 Notting Hill Gate, London, England, W11 3JS UK	100%	100%
Kaluza (US) LLC	Management services	Capitol Services, Inc, 1675 South State St., Suite B, Dover, DE 19901, Kent County USA	100%	100%

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

18 Investments (continued)

Name of subsidiary	Principal activity	Registered office / Country of incorporation	Proportion of ownership interest and voting rights held at 31 December	
			2022	2021
OVO (S) Energy Services Limited*	Intermediate holding company	1 Rivergate Temple Quay, Bristol, England, BS1 6ED UK	100%	100%
OVO (S) Electricity Limited**	Dormant	1 Rivergate Temple Quay, Bristol, England, BS1 6ED UK	100%	100%
OVO (S) Gas Limited	Licensed marketing and sale of natural gas to domestic customers in the UK	1 Rivergate Temple Quay, Bristol, England, BS1 6ED UK	100%	100%
OVO (S) Energy Solutions Limited	Installation of energy efficiency measures in domestic properties	Cadworks, 41 West Campbell Street, Glasgow, Scotland, G2 6SE UK	100%	100%
OVO (S) Home Services Limited	Sale of boiler, central heating and electrical wiring services, breakdown cover and installation services	Cadworks, 41 West Campbell Street, Glasgow, Scotland, G2 6SE UK	100%	100%
OVO (S) Metering Limited**	Non-trading company	Grampian House, 200 Dunkeld Road, Perth, Scotland, PH1 3GH UK	100%	100%
Origin Communications Limited (previously OVO (S) Retail Telecoms Limited)*	Disposed of in 2022	Soapworks, Ordsall Lane, Salford, England, M5 3TT UK	0%	100%

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

* indicates direct investment of the Company.

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

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

19 Acquisitions

Acquisitions under OVO Group reorganisation

On 1 April 2022, the Company acquired the trade and assets of OVO (S) Electricity Limited (OSE) and OVO (S) Metering Limited (OSM), indirect subsidiaries of the Company, and OVO Field Force Ltd, a fellow subsidiary of OVO Finance Ltd. As part of the transactions, customers, employees, businesses and individual assets or liabilities were transferred between the subsidiaries of OVO Group Ltd. The principal activities of the transferees were as follows:

Subsidiary	Principal activity
OVO (S) Electricity Limited	Supply of electricity to domestic customers in the UK
OVO (S) Metering Limited	Installation and maintenance of smart meters in the UK
OVO Field Force Ltd	Installation and maintenance of smart meters in the UK

The acquisitions are part of a wider OVO Group internal reorganisation to simplify the business and follow on from the acquisition of the trade and assets of Spark Energy Limited in 2021. The assets and liabilities were purchased from the subsidiaries for consideration equal to their book value, except for the acquisition of the trade and assets of OSE which was transacted at the market value of £1. Assets and liabilities acquired were recognised at the transferors' book value.

The difference between the consideration for OSE's trade and assets and the book value of net liabilities acquired of £166m was taken to the merger reserve. The consideration payable to OFF was satisfied by the discharging of amounts due to the Company. The consideration payable to OSM remains outstanding as at 31 December 2022.

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

19 Acquisitions (continued)

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

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

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

19 Acquisitions (continued)

Prior year acquisition of trade and assets of Spark Energy Limited

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

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

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

20 Stocks

	31 December 2022 £ m	31 December 2021 £ m
Finished goods and goods for resale	34	-

Finished goods and goods for resale primarily comprises smart meter assets. The cost of stocks recognised as an expense in the year amounted to £24m (2021: £nil). Write-down of stocks amounted to £8m in the year (2021: £nil). These are included within cost of sales.

The cost of renewable obligation certificates recognised as an expense in the year amount to £261m (2021: £76m). This is included within cost of sales.

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

21 Debtors

	31 December 2022 £ m	31 December 2021 £ m
Amounts falling due within one year:		
Trade debtors and accrued income	793	197
Provision for impairment of trade debtors and accrued income	(252)	(117)
Net trade debtors and accrued income	541	80
Amounts owed by group undertakings	378	128
Prepayments	210	73
Income tax asset	9	41
Grant debtors	101	-
Derivative financial assets	-	468
Cash collateral	85	25
Cash-in-transit	50	-
Other debtors	40	15
Total amounts due within one year	1,414	830
Amounts falling due after more than one year:		
Deferred tax assets	488	67
Defined benefit pension asset	29	-
Derivative financial assets	37	-
Total amounts due after more than one year	554	67
Total debtors	1,968	897

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

Grant debtors consist of grant income receivable from the Government in relation to the Energy Price Guarantee Scheme. Refer to Government support schemes in the Summary of significant accounting policies for further details on the scheme.

Derivative financial assets relate to certain energy contracts classified as held for trading. Energy contracts that are not designated as own-use contracts constitute financial instruments under IFRS 9 and are carried at fair value through profit or loss. Refer to Note 29 for further details.

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

22 Cash at bank and in hand

	31 December 2022 £ m	31 December 2021 £ m
Cash at bank	<u>379</u>	<u>40</u>

Restricted cash

Of the £379m cash at bank, £269m relates to cash received from the Government not yet distributed to customers under the Energy Bills Support Scheme. The use of this cash is restricted to be distributed to eligible customers to reduce their energy bills under the scheme. Cash available for use as at 31 December 2022 is therefore £110m. Refer to Government support schemes in the Summary of significant accounting policies for further details on the scheme.

23 Creditors: amounts falling due within one year

	31 December 2022 £ m	31 December 2021 £ m
Trade creditors	383	259
Accruals	531	409
Amounts owed to group undertakings	1,361	604
Social security and other taxes	5	2
Current lease liabilities	9	3
Other creditors	299	5
Deferred income	783	145
Derivative financial liabilities	<u>1,054</u>	<u>-</u>
	<u><u>4,425</u></u>	<u><u>1,427</u></u>

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

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

Amounts due to group undertakings are unsecured, have no fixed date of repayment and are repayable on demand. Included in amounts due to group undertakings are loans payable of £505m to OVO Finance Ltd, the immediate parent company of OVO Energy Ltd. The majority of the loans were provided to the Company to fund the acquisition of SSE Energy Services Group Limited. The loans carry an average interest rate of 11%. Interest is incurred at either 7% or 8.55% on other interest bearing balances.

Of the other creditors amount, £292m relates to obligations not yet satisfied under the Energy Bills Support Scheme as at the balance sheet date which consist of cash received from the Government of £269m not yet distributed to customers and £23m unredeemed vouchers issued to prepayment customers. Refer to Government support schemes in the Summary of significant accounting policies for further details on the scheme.

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

24 Creditors: amounts falling due after more than one year

	31 December 2022 £ m	31 December 2021 £ m
Amounts due to group undertakings	18	-
Non-current lease liabilities	34	13
Derivative financial liabilities	-	39
	<u>52</u>	<u>52</u>

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

25 Leases

Leases included in creditors

	31 December 2022 £ m	31 December 2021 £ m
Current lease liabilities	9	3
Non-current lease liabilities	<u>34</u>	<u>13</u>

Lease liabilities maturity analysis

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

	31 December 2022 £ m	31 December 2021 £ m
Less than one year	11	3
Between two and five years	25	12
Greater than five years	<u>21</u>	<u>3</u>
Total lease liabilities (undiscounted)	<u>57</u>	<u>18</u>

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

The current year interest expense on lease liabilities (included in interest payable and similar expenses) was £2m (2021: £1m).

The total cash outflow for leases for the year ended 31 December 2022 was £11m (2021: £3m).

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

26 Provisions for liabilities

	Onerous contracts provisions £ m	Restructuring provision £ m	Deferred tax liabilities £ m	Other provisions £ m	Total £ m
At 1 January 2022	-	1	82	3	86
Additional provisions	5	37	-	17	59
Increase through business combinations	40	-	-	7	47
Provisions used	(35)	(29)	-	(3)	(67)
Unused provision reversed	(1)	(2)	(82)	-	(85)
Increase due to unwinding of discount	1	-	-	-	1
Decrease from transfers and other changes	-	-	-	2	2
At 31 December 2022	<u>10</u>	<u>7</u>	<u>-</u>	<u>26</u>	<u>43</u>

Onerous contracts provisions

During the year, onerous contracts provisions were transferred to the Company from OVO (S) Electricity Limited. As part of the acquisition of OVO (S) Energy Services Limited Group (SSE) in 2020, a Master Services Agreement (MSA) with SSE Telecommunications Limited was entered into in connection with the supply of telephony services. At the time of the acquisition, the agreement was deemed an unfavourable contract as management considered the costs of meeting the obligations under the contract exceeded the economic benefits expected to be received from it. It is management's intention to terminate the MSA at the earliest possible time. The costs is expected to be fully utilised over the next 12 months.

Restructuring provision

Following the acquisition of SSE in 2020, the OVO Group initiated an integration programme which has resulted in the redundancy of a number of employees in the Company. In the current year, the Group further announced a voluntary redundancy programme to reduce the number of roles across the Group by 1,700. The programme was aimed at simplifying the business to reduce costs. Restructuring costs currently provided for are expected to be fully utilised over the next 12 months.

Deferred tax liabilities

Refer to Note 14 for details on deferred tax liabilities.

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

26 Provisions for liabilities (continued)

Other provisions

Other provisions comprise £18m relating to obligations under agreements with meter assets providers, £4m dilapidation provisions and £2m facility agreement exit fee provision.

a. Obligations under agreements with meter assets providers

The costs provided for obligations under agreements with meter assets providers are expected to be utilised over the lifespan of the agreements.

b. Dilapidation provisions

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

c. Facility agreement exit fee provision

Upon the occurrence of an exit event for a fully repaid facility agreement, the Company is required to make an exit fee payment based on the enterprise value of the OVO Group at the date of the event. The recognised provision reflects the Directors' best estimate of the fair value of this fee at 31 December 2022.

27 Called up share capital

Allotted, called up and fully paid shares

	31 December 2022		31 December 2021	
	No.	£	No.	£
Ordinary share capital of £0.01 each	12,500	125.00	12,500	125.00

Rights, preferences and restrictions

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

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

28 Other reserves

Share based payment reserve

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

Merger reserve

On 1 April 2022, the Company acquired the trade and assets of OVO (S) Electricity Limited, an indirect subsidiary for consideration of £1. The trade and assets comprise total net liabilities at a book value of £166m. The difference between the consideration for OSE's trade and assets and the net liabilities acquired of £166m was taken to the merger reserve.

29 Derivatives and financial instruments

Summary fair values

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

	31 December 2022	31 December 2022	31 December 2021	31 December 2021
	Carrying value	Fair value	Carrying value	Fair value
	£ m	£ m	£ m	£ m
Financial assets				
Derivative financial assets (current)	-	-	468	468
Derivative financial assets (non-current)	37	37	-	-
Trade and other debtors	1,189	1,189	248	248
Cash at bank and in hand	379	379	40	40
Financial liabilities				
Derivative financial liabilities (current)	(1,054)	(1,054)	-	-
Derivative financial liabilities (non-current)	-	-	(39)	(39)
Trade and other creditors	(2,593)	(2,593)	(1,422)	(1,422)
Lease liabilities (current)	(9)	(9)	(3)	(3)
Lease liabilities (non-current)	(34)	(34)	(13)	(13)

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

29 Derivatives and financial instruments (continued)

Basis of determining fair value

Financial assets and liabilities through profit or loss

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

Financial assets at amortised cost

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

Financial liabilities at amortised cost

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

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

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

	2022 £ m	2021 £ m
Opening value of derivative financial assets (net of liabilities)	429	-
Movement recognised through profit or loss	(1,446)	429
Closing value of derivative financial (liabilities (net of assets))/ assets (net of liabilities)	(1,017)	429

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

30 Pension and other schemes

The Company operates both defined contribution and benefit pension schemes. The pension cost charge under the defined contribution scheme for the year represents contributions payable by the Company to the scheme and amounted to £11m (2021: £2m).

Defined benefit pension scheme

Introduction

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

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

Profile of the scheme

The Defined Benefit Obligation (DBO) includes benefits for current employees, former employees and current pensioners. 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 20 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 Company is paying contributions equivalent to 32.7% of salaries for employees in the Southern section and 39.0% of salaries for employees in the Hydro section to meet the expected cost of benefits being built up by these employees. The next funding valuation is due no later than 31 March 2023 when funding arrangements for the scheme will be reviewed. Contributions of around £1m are expected to be paid by the Company during the year ending 31 December 2023.

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

30 Pension and other schemes (continued)

Risks associated with the scheme

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

Asset volatility

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

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

Changes in bond yields

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

Inflation risk

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

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

Life expectancy risk

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

Risk management

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

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

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

30 Pension and other schemes (continued)

Reporting at 31 December 2022

The results of the latest formal valuation at 31 March 2020 have been adjusted to the balance sheet date, taking account of 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 balance sheet date are as follows:

	31 December 2022 %	31 December 2021 %
Discount rate	4.70	1.90
RPI Inflation	3.10	3.10
CPI Inflation	2.70	2.70
Rate of general long term increase in salaries	3.20	3.20
Pension increases in payment (RPI max 5% p.a.)	2.90	3.00
Pension increases in payment (RPI max 3% p.a.)	<u>2.30</u>	<u>2.40</u>

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

30 Pension and other schemes (continued)

Post retirement mortality assumptions

	31 December 2022 Years	31 December 2021 Years
Life expectancy for male currently aged 60	26.40	26.30
Life expectancy for female currently aged 60	28.40	28.30
Life expectancy at 60 for male currently aged 40	27.90	27.80
Life expectancy at 60 for female currently aged 40	29.90	29.90

	31 December 2022	31 December 2021
	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 Southern section and by 109% for Hydro section
Mortality future improvements adopted	CMI 2021 projections model with Sk parameter of 7.0 and A parameter of 0.25, and long term improvement rate of 1.25% p.a.	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.
GMP equalisation	Cost of equalising benefits for differences in GMPs between males and females taken to be around 0.2% of liabilities	Cost of equalising benefits for differences in GMPs between males and females taken to be around 0.2% of liabilities
Cash commutation	Allowance made for members to take maximum permitted lump 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

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

30 Pension and other schemes (continued)

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

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

	31 December 2022 £ m
Fair value of scheme assets	85
Present value of scheme liabilities	(56)
Defined benefit pension scheme surplus	<u>29</u>

Minimum funding requirement

When determining the adjustment in respect of the minimum funding requirement, it has been assumed that the Company would be entitled to a refund from the scheme of any surplus arising in the scheme in future.

Scheme assets

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

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

Analysis of assets

The scheme assets are invested in the following asset classes:

	31 December 2022 £ m
Cash/net current assets	9
Equities	12
Corporate bonds	33
Index-linked gilts	31
Total market of assets	<u>85</u>

Actual return on scheme assets

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

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

30 Pension and other schemes (continued)

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

Scheme liabilities

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

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

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

30 Pension and other schemes (continued)

Amounts recognised in the income statement

	2022 £ m
Amounts recognised in operating (loss)/profit	
Current service cost	3
Past service cost	2
	<hr/>
Recognised in arriving at operating (loss)/profit	5
	<hr/>
Total recognised in the income statement	5
	<hr/>

Amounts taken to the statement of comprehensive income

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

Sensitivity to key assumptions

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

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

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

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

31 Share-based payments

OVO Group share scheme

Scheme description

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

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

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

D shares are also awarded as part of the Long term Incentive Plan (LTIP) scheme. They have a vesting period based on performance conditions.

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

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

32 Related party transactions

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

Transactions with the ultimate parent entity

Imagination Industries Ltd

During the year, the Company incurred costs of £24m payable to Imagination Industries Ltd (2021: £5m). As at 31 December 2022, £33m remained outstanding (2021: £15m).

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

33 Parent and ultimate parent undertaking

The Company's immediate parent is OVO Finance Ltd.

As at 31 December 2022, the ultimate parent was Imagination Industries Ltd which is the largest group of undertakings for which group financial statements are drawn up and of which the Company is a member. These financial statements are available upon request from the registered office at 9 Pembridge Road, Notting Hill, London, W11 3JY.

The ultimate parent as at the balance sheet date was Imagination Industries Ltd. Following a group restructure on 7 March 2023, Energy Transition Holdings Ltd became the Company's ultimate parent company.

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

The ultimate controlling party is Stephen Fitzpatrick.

34 Subsequent events since the end of the year ended 31 December 2022

There are no subsequent events that have a material impact on these financial statements.