

Registration number: 10722770

OVO Finance Ltd

Annual Report and Consolidated Financial Statements

for the Year Ended 31 December 2021



OVO Finance Ltd

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OVO Finance Ltd

Company Information

Directors	Vincent Casey Jonson Cox Raman Bhatia Stephen Murphy
Registered office	1 Rivergate Temple Quay Bristol England BS1 6ED
Independent auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 2 Glass Wharf Temple Quay Bristol BS2 0FR

OVO Finance Ltd

Strategic Report for the Year Ended 31 December 2021

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

Business Overview

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

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

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

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

2021 Strategic Update

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

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

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

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

Digital transformation

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

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

OVO Finance Ltd

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

2021 Strategic Update (continued)

Kaluza

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

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

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

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

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

Zero Carbon Homes

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

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

OVO Finance Ltd

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

2021 Strategic Update (continued)

Key financial and performance indicators

The Group made an adjusted EBITDA of £169m for the year ended 31 December 2021 (2020: adjusted EBITDA of £107m) and has net assets of £65m (2020: net liabilities of £283m). The Group has seen a decrease in customer numbers from 2020 to 2021 in the year which was in line with expected levels of churn. Despite this, both annualised gross profit margin and adjusted EBITDA have increased as a result of decreased realised commodity costs and increased prices. Cash has also increased in the year which is reflective of improved working capital practices year-on-year. Net assets have increased significantly in the current year due to the recognition of £422m derivative energy contracts measured at fair value. During the year the Group has re-assessed the volume threshold at which contracts are deemed to be highly probable of resulting in physical delivery which has led to a larger proportion of the contract book being designated as trading. In the prior year all contracts were assessed as own use and hence no asset or liability was recognised. These contracts will be used to fulfill customer contracts which are priced below market spot prices in the short term and therefore, the derivative financial assets recognised as at 31 December 2021 will be reversed when these contracts unwind in future periods.

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

	Unit	2021	2020
UK Retail customer numbers	No.	4,500,000	4,700,000
Cash	£ m	142	40
Annualised gross profit margin	%	16	14
Adjusted EBITDA*	£ m	169	107

* Adjusted EBITDA is defined as operating profit/(loss), after adjusting for depreciation, amortisation, impairment and exceptional items and certain re-measurements including fair value gain/(loss) on derivative financial instruments (i.e. expenses or credits that are deemed unusual by nature and/or scale and significance). See below for reconciliation of adjusted EBITDA to statutory results. Refer to Note 7 for details of exceptional items and certain re-measurements.

Reconciliation to statutory results	2021	2020
	£ m	£ m
Group operating profit/(loss)	438	(103)
(Less)/Add: Exceptional items and certain re-measurements*	(371)	110
Add: Depreciation and non-exceptional impairment of property, plant and right-of-use assets	18	23
Add: Amortisation and impairment of intangible assets	84	77
Adjusted EBITDA	169	107

* Refer to Note 7 for details of exceptional items and certain re-measurements.

OVO Finance Ltd

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

Subsequent events since the end of the reporting period

Non-adjusting events

Energy crisis

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

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

Voluntary redundancy programme

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

Sale of Revenue Protection business

The Group is at the final stage of commercial discussion to sell its Revenue Protection business, which is a line of business within OVO (S) Metering Limited, a wholly owned subsidiary. The sale is expected to complete in 2022.

Streamlined Energy and Carbon Reporting

OVO Group Ltd, the immediate parent entity of OVO Holdings Ltd, in turn the immediate parent entity of OVO Finance Ltd, is subject to the Streamlined Energy and Carbon Reporting Framework Regulations. Details of OVO Finance Ltd's compliance against these regulations is included in the wider OVO Group Ltd's disclosures.

OVO Finance Ltd

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

Corporate Governance Statement

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

Opportunity and Risk

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

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

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

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

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

OVO Finance Ltd

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

Financial risks

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

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

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

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

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

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

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

Stakeholders

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

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

Section 172 Statement

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

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

OVO Finance Ltd

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

Section 172 Statement (continued)

Our stakeholders

Our members

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

Our people

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

Our planet

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

Governments and regulators

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

Our communities

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

OVO Finance Ltd

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

Section 172 Statement (continued)

Our suppliers

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

Embedding Section 172 in Board decision-making

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

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

Case Study: Responding to the energy crisis

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

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

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

OVO Finance Ltd

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

Section 172 Statement (continued)

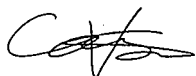
To help our customers receive the answers they need immediately, we created a comprehensive guide and FAQ section on our websites. We also launched our Payment Support Product, the industry's first Open Banking digital tool, enabling members looking for support to quickly access a detailed, accurate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

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

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

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

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



.....
Vincent Casey
Director

OVO Finance Ltd

Directors' Report for the Year Ended 31 December 2021

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

Directors

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

Stephen Fitzpatrick (resigned 18 January 2021)

Vincent Casey

Adrian Letts (resigned 1 March 2022)

Christopher Houghton (resigned 31 August 2021)

Stacey Cartwright - Chairman (resigned 19 July 2021)

Anthony Keeling (appointed 1 March 2021 and resigned 31 August 2021)

Jonson Cox

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

Raman Bhatia (appointed 18 January 2021)

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

Stephen Murphy (appointed 19 July 2021)

Principal activities

The principal activities of the Group is the procurement and sale of UK electricity from the wholesale markets and renewable sources; the supply of gas and related services, the installation of boilers and smart meters, the sale of boiler and home care cover as well as the development of technology solutions to support the energy market.

Dividends

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

Financial instruments

Financial risk management objectives and policies have been established making use of financial instruments for the purpose of managing the exposure of the Group to commodity price risk, credit risk, interest rate risk and liquidity risk. This is discussed in Note 32 of the financial statements.

Charitable donations

During the year the Group made charitable donations of £759,000 to The OVO Charitable Foundation (2020: £812,000).

Employee engagement

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

OVO Finance Ltd

Directors' Report for the Year Ended 31 December 2021 (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 year. Other stakeholder engagement is further discussed in the Strategic Report under the heading 'Stakeholders'.

Employment of disabled persons

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

Research and development

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

Branches outside the United Kingdom

Kaluza Ltd, which is a wholly owned subsidiary of the Group, has a branch, Kaluza Limited Sucursal em Portugal, located in Lisbon, Portugal which provides engineering services to other Group companies.

Future developments

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

Subsequent events after the end of the reporting period

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

OVO Finance Ltd

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

Going concern

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

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

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

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

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

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

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

Under the forecast (both base case and downside scenarios) the Group and Company have sufficient liquidity over the full going concern period. However, as a result of the key uncertainties noted above the Group is forecasting that it will breach certain of its financial covenants within the next 12 months (further details on the financial covenants of the Group are included within the notes to the accounts). Breach of these covenants would allow counterparties, if they so decide, to request additional collateral. The counterparty may terminate the contract if appropriate additional collateral is not provided, if requested, within a timely manner. If this were to happen, the Group may not be able to secure an alternative counterparty to facilitate continued trading on a sustainable basis.

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

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

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

OVO Finance Ltd

Directors' Report for the Year Ended 31 December 2021 (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 last financial year and is currently in force. The Company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its Directors.

Disclosure of information to the auditors

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

Streamlined Energy and Carbon Reporting

OVO Group Ltd, the immediate parent entity of OVO Holdings Ltd, in turn the immediate parent entity of OVO Finance Ltd, is subject to the Streamlined Energy and Carbon Reporting Framework Regulations. Details of OVO Finance Ltd's compliance against these regulations are included in the wider OVO Group Ltd's disclosures.

Statement of corporate governance arrangements

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

OVO Finance Ltd

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

Statement of Directors responsibilities

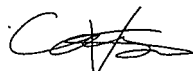
The Directors acknowledge their responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

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 UK-adopted international accounting standards. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group and 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 applicable UK-adopted international accounting standards have 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 Group and the Company will continue in business.

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

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



.....
Vincent Casey
Director



Independent auditors' report to the members of OVO Finance Ltd

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2021 and of the group's profit and the group's and company's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Consolidated Financial Statements (the "Annual Report"), which comprise: the Consolidated and Company Statements of Financial Position as at 31 December 2021; the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statements of Changes in Equity and the Consolidated and Company Statements of Cash Flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

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

Other than those disclosed in note 12, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Material uncertainty related to going concern

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

Independent auditor's report to the members of OVO Finance Ltd (continued)

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

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

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

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

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

Reporting on other information

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

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

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

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

Strategic report and Directors' Report

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

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

OVO Finance Ltd

Independent auditor's report to the members of OVO Finance Ltd (continued)

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

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

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

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

OVO Finance Ltd

Independent auditor's report to the members of OVO Finance Ltd (continued)

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

KE K M

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

OVO Finance Ltd

Consolidated Income Statement for the Year Ended 31 December 2021

		Underlying business performance 2021 £ m	Exceptional items and certain re- measurements 2021* £ m	Results for the year 2021 £ m	Underlying business performance 2020** £ m	Exceptional items and certain re- measurements 2020* £ m	Results for the year 2020** £ m
	Note						
Revenue	4	4,492	-	4,492	4,454	-	4,454
Cost of sales		(3,745)	(14)	(3,759)	(3,817)	(15)	(3,832)
Gross profit		747	(14)	733	637	(15)	622
Administrative expenses		(565)	(38)	(603)	(531)	(95)	(626)
Impairment of financial assets - customer debtors		(117)	-	(117)	(116)	-	(116)
Re-measurement of derivative energy contracts	22	-	422	422	-	-	-
Other operating income	5	2	1	3	17	-	17
Operating profit/(loss)	6	67	371	438	7	(110)	(103)
Finance income	8	1	-	1	2	-	2
Finance costs	8	(64)	-	(64)	(65)	-	(65)
Net finance costs	8	(63)	-	(63)	(63)	-	(63)
Profit/(loss) before tax		4	371	375	(56)	(110)	(166)
Income tax (charge)/credit	12	32	(67)	(35)	23	17	40
Profit/(loss) for the year		36	304	340	(33)	(93)	(126)
Profit/(loss) attributable to:							
Owners of the parent		36	304	340	(33)	(93)	(126)
Profit/(loss) for the year		36	304	340	(33)	(93)	(126)

The above results were derived from continuing operations.

* Refer to Note 7 for details of current and prior year exceptional items and certain re-measurements.

** Impairment of financial assets - customer debtors and administrative expenses have been restated from £68m to £116m and from £674m to £626m respectively in the prior year to reflect the gross impairment of debtors. This was a reclassification adjustment only with no impact on operating profit/(loss).

The notes on pages 31 to 109 form an integral part of these financial statements.

OVO Finance Ltd

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

	Note	2021 £ m	2020 £ m
Profit/(loss) for the year		<u>340</u>	<u>(126)</u>
Other comprehensive income/(expense)			
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of defined benefit obligation	28	11	(10)
Deferred tax on defined benefit obligation	12	<u>(3)</u>	<u>2</u>
Total other comprehensive income/(expense)		<u>8</u>	<u>(8)</u>
Total comprehensive income/(expense) for the year		<u><u>348</u></u>	<u><u>(134)</u></u>
Total comprehensive income/(expense) attributable to:			
Owners of the Company		<u>348</u>	<u>(134)</u>
		<u><u>348</u></u>	<u><u>(134)</u></u>

The notes on pages 31 to 109 form an integral part of these financial statements.

OVO Finance Ltd

(Registration number: 10722770)

Consolidated and Company Statements of Financial Position as at 31 December 2021

		Group		Company	
	Note	2021 £ m	2020* £ m	2021 £ m	2020 £ m
Assets					
Non-current assets					
Property, plant and equipment	13	8	8	-	-
Right-of-use assets	14	35	49	-	-
Intangible assets	15	543	553	-	-
Deferred tax assets	12	140	100	2	2
Investments in subsidiaries	16	-	-	263	260
Defined benefit pension asset	28	20	13	-	-
		<u>746</u>	<u>723</u>	<u>265</u>	<u>262</u>
Current assets					
Inventories	20	29	18	-	-
Trade and other receivables	21	919	1,107	496	466
Derivative financial instruments	22	461	-	-	-
Income tax asset		4	13	2	1
Cash and cash equivalents	23	142	40	-	-
		<u>1,555</u>	<u>1,178</u>	<u>498</u>	<u>467</u>
Assets classified as held for sale	19	-	8	-	-
Total assets		<u>2,301</u>	<u>1,909</u>	<u>763</u>	<u>729</u>
Liabilities					
Current liabilities					
Trade and other payables	24	(1,105)	(1,000)	(203)	(166)
Deferred income		(526)	(675)	-	-
Loans and borrowings	25	-	(91)	-	(91)
Lease liabilities	26	(12)	(14)	-	-
Provisions	27	(39)	(28)	-	-
		<u>(1,682)</u>	<u>(1,808)</u>	<u>(203)</u>	<u>(257)</u>
Non-current liabilities					
Deferred tax liabilities	12	(80)	-	-	-
Loans and borrowings	25	(386)	(292)	(386)	(292)
Lease liabilities	26	(30)	(44)	-	-
Provisions	27	(19)	(48)	-	-
Derivative financial instruments	22	(39)	-	-	-
		<u>(554)</u>	<u>(384)</u>	<u>(386)</u>	<u>(292)</u>
Total liabilities		<u>(2,236)</u>	<u>(2,192)</u>	<u>(589)</u>	<u>(549)</u>

The notes on pages 31 to 109 form an integral part of these financial statements.

OVO Finance Ltd

(Registration number: 10722770)

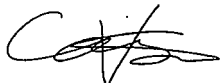
Consolidated and Company Statements of Financial Position as at 31 December 2021 (continued)

		Group		Company	
	Note	2021 £ m	2020* £ m	2021 £ m	2020 £ m
Net assets/(liabilities)		<u>65</u>	<u>(283)</u>	<u>174</u>	<u>180</u>
Equity					
Other reserves		(143)	(143)	189	189
Retained earnings/(accumulated losses)		<u>208</u>	<u>(140)</u>	<u>(15)</u>	<u>(9)</u>
Total equity, attributable to owners of the parent		<u>65</u>	<u>(283)</u>	<u>174</u>	<u>180</u>

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

No income statement is presented for the Company as permitted by section 408 of the Companies Act 2006. The Company made a loss for the financial year of £6m (2020: loss of £3m).

The financial statements on pages 20 to 109 were approved by the Board of Directors on 23 June 2022 and signed on its behalf by:



.....
Vincent Casey
Director

OVO Finance Ltd

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

	Other reserves £ m	Accumulated losses £ m	Total £ m
At 1 January 2020	(143)	(6)	(149)
Loss for the year	-	(126)	(126)
Other comprehensive expense	-	(8)	(8)
At 31 December 2020	<u>(143)</u>	<u>(140)</u>	<u>(283)</u>

	Other reserves £ m	(Accumulated losses)/retained earnings £ m	Total £ m
At 1 January 2021	(143)	(140)	(283)
Profit for the year	-	340	340
Other comprehensive income	-	8	8
At 31 December 2021	<u>(143)</u>	<u>208</u>	<u>65</u>

The notes on pages 31 to 109 form an integral part of these financial statements.

OVO Finance Ltd

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

	Other reserves £ m	Accumulated losses £ m	Total £ m
At 1 January 2020	189	(6)	183
Loss for the year	-	(3)	(3)
At 31 December 2020	<u>189</u>	<u>(9)</u>	<u>180</u>

	Other reserves £ m	Accumulated losses £ m	Total £ m
At 1 January 2021	189	(9)	180
Loss for the year	-	(6)	(6)
At 31 December 2021	<u>189</u>	<u>(15)</u>	<u>174</u>

The notes on pages 31 to 109 form an integral part of these financial statements.

OVO Finance Ltd

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

	Note	2021 £ m	2020 £ m
Cash flows from operating activities			
Profit/(loss) for the year		340	(126)
Adjustments for non-cash items			
Depreciation of property, plant and equipment	13	7	9
Depreciation and impairment of right-of-use assets	14	12	23
Amortisation of intangible assets	15	84	77
Defined benefit pension transactions		4	3
Finance income	8	(1)	(2)
Finance costs	8	64	65
Income tax charge/(credit)	12	35	(40)
Net gain on derivative financial instruments at fair value through profit or loss	22	(422)	-
Other movements		(2)	3
		<u>121</u>	<u>12</u>
Working capital adjustments			
Increase in inventories		(11)	(10)
Decrease in trade and other receivables		188	116
Increase/(decrease) in trade and other payables		69	(169)
Decrease in deferred income		(149)	(45)
Decrease in provisions		(24)	(10)
		<u>194</u>	<u>(106)</u>
Cash generated from/(used in) operations		194	(106)
Income tax received/(paid)		12	(1)
		<u>206</u>	<u>(107)</u>
Net cash flow generated from/(used in) operating activities		<u>206</u>	<u>(107)</u>
Cash flows from investing activities			
Interest received		-	2
Payments for intangible assets		(53)	(50)
Acquisition of subsidiary, net of cash acquired	17	-	(227)
Proceeds from sale of discontinued operation	18	8	-
Payments for trade and assets acquired	17	(17)	-
Payments for property, plant and equipment		(1)	(3)
		<u>(63)</u>	<u>(278)</u>
Net cash flow used in investing activities		<u>(63)</u>	<u>(278)</u>

The notes on pages 31 to 109 form an integral part of these financial statements.

OVO Finance Ltd

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

	Note	2021 £ m	2020 £ m
Cash flows from financing activities			
Proceeds from bank borrowings	25	-	400
Capitalised financing costs	25	-	(37)
Proceeds from related party financing		10	78
Interest paid		(34)	(18)
Repayment of lease liabilities	26	(17)	(21)
Net cash flow (used in)/generated from financing activities		(41)	402
Net increase in cash and cash equivalents		102	17
Cash and cash equivalents at 1 January		40	23
Cash and cash equivalents at 31 December		142	40

The notes on pages 31 to 109 form an integral part of these financial statements.

OVO Finance Ltd

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

Reconciliation of liabilities arising from financing activities

	At 1 January 2021 £ m	Financing cash flows £ m	Non-cash changes Other changes £ m	At 31 December 2021 £ m
Non-current loans and borrowings	292	(34)	128	386
Current loans and borrowings	91	-	(91)	-
Non-current lease liabilities	44	-	(14)	30
Amounts due to related parties	185	10	11	206
Current lease liabilities	14	(17)	15	12
	<u>626</u>	<u>(41)</u>	<u>49</u>	<u>634</u>

	At 1 January 2020 £ m	Financing cash flows £ m	New leases £ m	Non-cash changes Other changes £ m	At 31 December 2020 £ m
Non-current loans and borrowings	-	345	-	(53)	292
Current loans and borrowings	-	-	-	91	91
Non-current lease liabilities	18	-	26	-	44
Amounts due to related parties	90	78	-	17	185
Current lease liabilities	2	(21)	12	21	14
	<u>110</u>	<u>402</u>	<u>38</u>	<u>76</u>	<u>626</u>

The 'Other changes' column includes transaction costs, and the effect of amortisation of transaction costs, accrued but not yet paid interest on interest-bearing loans and borrowings including lease liabilities, and reclassification of amounts between non-current and current liabilities.

OVO Finance Ltd

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

	2021 £ m	2020 £ m
Cash flows from operating activities		
Loss for the year	(6)	(3)
Adjustments for non-cash items		
Finance income	(48)	(49)
Finance costs	55	54
Income tax credit	(1)	(2)
	-	-
Working capital adjustments		
Decrease in trade and other receivables	16	-
Net cash flow generated from operating activities	16	-
Cash flows from investing activities		
Payments for investments in subsidiaries	(1)	(2)
Net cash flow used in investing activities	(1)	(2)
Cash flows from financing activities		
Proceeds from bank borrowings	-	400
Proceeds from/(repayment of) related party financing	18	(398)
Interest paid	(33)	-
Net cash flow (used in)/generated from financing activities	(15)	2
Net increase/(decrease) in cash and cash equivalents	-	-
Cash and cash equivalents at 1 January	-	-
Cash and cash equivalents at 31 December	-	-

The notes on pages 31 to 109 form an integral part of these financial statements.

OVO Finance Ltd

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

Reconciliation of liabilities arising from financing activities

	At 1 January 2021 £ m	Financing cash flows £ m	Other changes £ m	At 31 December 2021 £ m
Non-current loans and borrowings	292	(33)	127	386
Current loans and borrowings	91	-	(91)	-
Amounts due to related parties	163	18	20	201
	<u>546</u>	<u>(15)</u>	<u>56</u>	<u>587</u>
	At 1 January 2020 £ m	Financing cash flows £ m	Other changes £ m	At 31 December 2020 £ m
Non-current loans and borrowings	-	400	(108)	292
Current loans and borrowings	-	-	91	91
Amounts due to related parties	75	(398)	486	163
	<u>75</u>	<u>2</u>	<u>469</u>	<u>546</u>

The 'Other changes' column includes transaction costs, and the effect of amortisation of transaction costs, accrued but not yet paid interest on interest-bearing loans and borrowings including lease liabilities, and reclassification of amounts between non-current and current liabilities.

OVO Finance Ltd

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

1 General information

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

The address of its registered office is:

1 Rivergate

Temple Quay

Bristol

England

BS1 6ED

United Kingdom

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

2 Accounting policies

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

Summary of significant accounting policies and key accounting estimates

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

OVO Finance Ltd

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

2 Accounting policies (continued)

Basis of preparation

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

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

The financial statements have been prepared under the historical cost convention, except for the following:

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

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

No income statement is presented for the Company as permitted by section 408 of the Companies Act 2006. The Company made a profit for the financial year of £6m (2020: loss of £3m).

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

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

Going concern

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

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

OVO Finance Ltd

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

2 Accounting policies (continued)

Going concern (continued)

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

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

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

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

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

Under the forecast (both base case and downside scenarios) the Group and Company have sufficient liquidity over the full going concern period. However, as a result of the key uncertainties noted above the Group is forecasting that it will breach certain of its financial covenants within the next 12 months (further details on the financial covenants of the Group are included within the notes to the accounts). Breach of these covenants would allow counterparties, if they so decide, to request additional collateral. The counterparty may terminate the contract if appropriate additional collateral is not provided, if requested, within a timely manner. If this were to happen, the Group may not be able to secure an alternative counterparty to facilitate continued trading on a sustainable basis.

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

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

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

OVO Finance Ltd

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

2 Accounting policies (continued)

Basis of consolidation

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

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

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

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

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

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

OVO Finance Ltd

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

2 Accounting policies (continued)

Changes in accounting policy

New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2021:

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

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

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

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

New standards, interpretations and amendments not yet effective

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

OVO Finance Ltd

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

2 Accounting policies (continued)

Revenue recognition

Recognition

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

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

Installation and rental of smart meters

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

Voiceline and broadband revenue

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

Sale of home and emergency cover

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

The principles in IFRS 15 are applied to revenue recognition criteria using the following 5 step model:

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

OVO Finance Ltd

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

2 Accounting policies (continued)

Transaction price

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

(i) Variable consideration

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

(ii) Consideration payable to a customer

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

Accrued income and receivables

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

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

Contract liabilities

A contract liability is the obligation to provide goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group provides goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities, deferred income, are recognised as revenue when the Group 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, contract balances are reported net. The model used to determine the netting of customer balances was changed during the year. This has resulted in a materially higher level of netting as at 31 December 2021 compared with 31 December 2020.

Capitalisation of costs to obtain or fulfil a contract

The costs of obtaining or fulfilling a contract are recognised as an asset if certain criteria are met. Capitalised costs are amortised on a straight line basis over the remaining contract term, unless the pattern of good or service delivery indicates a more appropriate profile. To be eligible for capitalisation, costs must be directly attributable to specific contracts, relate to future activity, and generate future economic benefits. Capitalised costs are regularly assessed for recoverability.

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

OVO Finance Ltd

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

2 Accounting policies (continued)

Exceptional items and certain re-measurements

Exceptional items and certain re-measurements 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 and certain re-measurements include fair value gain/(loss) on derivative financial instruments.

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

Government grants

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

Finance income and costs

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

Foreign currency transactions and balances

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

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

OVO Finance Ltd

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

2 Accounting policies (continued)

Tax

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

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

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

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

OVO Finance Ltd

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

2 Accounting policies (continued)

Property, plant and equipment

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

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

Depreciation

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

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

Goodwill

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

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

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

OVO Finance Ltd

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

2 Accounting policies (continued)

Intangible assets

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

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

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

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

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

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

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

Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

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
Other intangible assets	3 - 5 years straight line
Contractual customer relationships	Over the expected life of the contract

OVO Finance Ltd

Notes to the Financial Statements for the Year Ended 31 December 2021 (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 amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash flows (cash-generating units). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

Investments

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

Cash and cash equivalents

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

Trade receivables

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

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

OVO Finance Ltd

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

2 Accounting policies (continued)

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

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

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

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

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

Inventories

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

OVO Finance Ltd

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

2 Accounting policies (continued)

Trade payables

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

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

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.

Borrowings

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

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

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

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

OVO Finance Ltd

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

2 Accounting policies (continued)

Provisions

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

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

Share based payments

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

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, sales growth targets and remaining an employee of the Group 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 Group revises their estimates of the number of options that are expected to vest based on the non-market vesting conditions. They recognise the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

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

OVO Finance Ltd

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

2 Accounting policies (continued)

Leases

Definition

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

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

Initial recognition and measurement

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

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

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

Subsequent measurement

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

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

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

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

OVO Finance Ltd

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

2 Accounting policies (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 Group then accounts for these in line with the accounting policy for new leases. If either of the conditions are not met, the modified lease is not accounted for as a separate lease and the consideration is allocated to the contract and the lease liability is re-measured using the lease term of the modified lease and the discount rate as determined at the effective date of the modification.

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

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

Short term and low value leases

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

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

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

OVO Finance Ltd

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

2 Accounting policies (continued)

Financial instruments

Initial recognition

The Group recognises financial assets and financial liabilities in the statement of financial position when, and only when, the Group becomes party to the contractual provisions of the financial instrument.

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

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

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

Classification and measurement

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

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

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

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

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

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

At 31 December 2021, the Group had no assets measured at FVOCI.

OVO Finance Ltd

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

2 Accounting policies (continued)

Financial assets at amortised cost

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

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

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

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

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

Financial assets not otherwise classified above are classified and measured as FVTPL. This classification includes derivative financial assets.

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 financial liabilities.

OVO Finance Ltd

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

2 Accounting policies (continued)

Commodity derivatives

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

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

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

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

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

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.

OVO Finance Ltd

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

2 Accounting policies (continued)

Defined contribution pension obligation

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

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

Defined benefit pension obligation

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

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

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

Past-service costs are recognised immediately in the income statement.

Employee benefits

The Group operates a flexible benefit scheme for qualifying employees whereby in addition to their salary, those employees are invited to select certain benefits with a value based on a percentage of their base pay. All costs related to the scheme are expensed in the income statement in the year 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 Group pays fixed contributions into a separate entity and will have no legal or constructive obligations to pay further amounts. The Group has enrolled in the automatic pension scheme since November 2013.

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

OVO Finance Ltd

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

3 Critical accounting judgements and key sources of estimation uncertainty

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

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

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

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

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

This estimate is subject to an internal validation process which compares calculated unbilled volumes to a theoretical real-time billing benchmark measure of unbilled volumes with reference to historical consumption patterns adjusted for seasonality/weather and aggregated metering data used in industry reconciliation processes. At 31 December 2021 revenue arising from estimated consumption amounted to £1,217m (2020: £1,678m). The judgements applied, and the assumptions underpinning these judgements in arriving at this estimated amount, are considered to be appropriate. However, a change in these assumptions would have an impact on the amount of revenue recognised. A 1% change in the overall assumptions made in reaching this estimate would impact the amount of revenue recognised by approximately £12m (2020: £17m).

Impairment of trade receivables (estimation uncertainty)

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

The assumption that future performance of customer debt settlement will be reflective of past performance is the most significant assumption within the expected credit loss provisioning model. To address this risk, the Group reviews the provision rates for each segment on a regular basis to ensure they include the most up to date assumptions and use forward looking information. In order to test the sensitivity of the impairment of the Group's trade receivables balance, the Group has considered the impact of an additional ageing of trade receivables which required an extra 0.5% of revenue being provided for. This would lead to a £8m increase in the expected credit loss provision in 2021 (2020: £23m).

OVO Finance Ltd

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

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

Deferred tax assets (accounting judgement and estimation uncertainty)

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

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

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

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

Derivative financial instruments (accounting judgement)

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

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

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

OVO Finance Ltd

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

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

Onerous contracts (accounting judgement)

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

Pensions and other post-employment benefits (accounting judgement)

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

OVO Finance Ltd

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

4 Revenue

The analysis of the Group's revenue for the year from continuing operations is as follows:

	2021 £ m	2020 £ m
Sale of gas and electricity	4,187	4,173
Installation and rental of smart meters	162	133
Sale of home and emergency cover	61	43
Voiceline and broadband revenue	49	51
Other revenue	33	54
	<u>4,492</u>	<u>4,454</u>

All revenue was generated within the UK in the current and prior year.

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

Assets and liabilities related to contracts within customers

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

	31 December 2021 £ m	Group 31 December 2020 £ m	1 January 2020 £ m
Assets related to contracts with customers			
Trade receivables	603	556	113
Accrued income	369	599	74
Provision for impairment of trade receivables and accrued income	(310)	(257)	(78)
Total current assets related to contracts with customers	<u>662</u>	<u>898</u>	<u>109</u>
Contract liabilities			
Deferred income	(526)	(675)	(90)
Total current contract liabilities	<u>(526)</u>	<u>(675)</u>	<u>(90)</u>

OVO Finance Ltd

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

4 Revenue (continued)

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

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

5 Other operating income

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

	2021 £ m	2020 £ m
Government grants	1	17
Research and development expenditure credit	1	-
Gain on sale of discontinued operation	1	-
	<u>3</u>	<u>17</u>

Government grants relate to grants received in respect of furloughed employees under the Coronavirus Job Retention Scheme, a scheme introduced by the UK government to support organisations during the COVID-19 pandemic.

OVO Finance Ltd

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

6 Operating profit/(loss)

Arrived at after charging/(crediting)

	2021	Restated 2020
	£ m	£ m
Impairment of financial assets - customer debtors	117	116
Depreciation expense - property, plant and equipment	7	9
Depreciation expense - right-of-use assets	11	14
Impairment - right-of-use assets	1	9
Amortisation - intangible assets	84	77
Government grants	<u>(1)</u>	<u>(17)</u>

Impairment of financial assets - customer debtors have been restated from £68m to £116m in the prior year to reflect the gross impairment of debtors. This was a reclassification adjustment only with no impact on operating profit/(loss).

7 Exceptional items and certain re-measurements

	2021	2020
	£ m	£ m
Integration	26	15
Group reorganisation	10	73
Industry and regulatory	14	-
Mergers and acquisitions	1	22
Re-measurement of derivative energy contracts	<u>(422)</u>	<u>-</u>
Exceptional items and certain re-measurements included within Group operating profit/(loss)	(371)	110
Exceptional items and certain re-measurements included within Group profit/(loss) before tax	(371)	110
Net taxation on exceptional items and certain re-measurements	67	(17)

OVO Finance Ltd

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

7 Exceptional items and certain re-measurements (continued)

Integration

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

Group reorganisation

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

Also included in Group reorganisation is the gain on sale of Large Power Metering operation of £1m in the current year. Refer to Note 18 Disposal for further details.

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 the programme spans over more than a year.

Industry & Regulatory Costs

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

Mergers & acquisitions

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

Re-measurement of derivative energy contracts

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

Income statement classification

Recognised in cost of sales are £14m exceptional industry and regulatory costs (2020: £15m exceptional restructuring costs). £422m re-measurement of derivative energy contracts is recognised in re-measurement of derivative energy contracts (2020: £nil). £1m gain on sale of discontinued operation is recognised in other operating income (2020: £nil). The remaining total of £38m exceptional costs is recognised in administrative expenses (2020: £95m).

OVO Finance Ltd

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

7 Exceptional items and certain re-measurements (continued)

Adjusted EBITDA

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

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

Adjusted EBITDA is defined as operating profit/(loss), after adjusting for depreciation, amortisation, impairment and items that are deemed unusual in nature and of significance including re-measurement of derivative energy contracts.

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

	2021	2020
	£ m	£ m
Group operating profit/(loss)	438	(103)
Exceptional items and certain re-measurements	(371)	110
Depreciation and non-exceptional impairment of property, plant and equipment and right-of-use assets	18	23
Amortisation and impairment of intangible assets	84	77
Adjusted EBITDA	169	107

OVO Finance Ltd

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

8 Finance income and costs

	2021 £ m	2020 £ m
Finance income		
Interest income on bank deposits	-	1
Interest receivable on related party loans	<u>1</u>	<u>1</u>
Total finance income	<u>1</u>	<u>2</u>
Finance costs		
Interest and finance charges paid or payable for loans and borrowings	(37)	(41)
Interest payable on related party loans	(22)	(17)
Interest expense on leases	(3)	(4)
Unwinding of discount on provisions	<u>(2)</u>	<u>(3)</u>
Total finance costs	<u>(64)</u>	<u>(65)</u>
Net finance costs	<u>(63)</u>	<u>(63)</u>

9 Staff costs

Group:

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

	2021 £ m	Restated 2020 £ m
Wages and salaries	271	247
Social security costs	27	25
Pension costs - defined contribution scheme	18	18
Pension costs - defined benefit scheme	<u>9</u>	<u>10</u>
	<u>325</u>	<u>300</u>

Payroll costs of £33m have been capitalised in the current year (Restated 2020: £18m).

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

OVO Finance Ltd

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

9 Staff costs (continued)

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

	2021	Restated 2020
	No.	No.
People & operations	5,069	5,740
Technology & business change	876	724
Commercial & finance	411	342
Group	26	31
	<u>6,382</u>	<u>6,837</u>

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

Company:

The Company had no direct employees or salary costs in the year (2020: none).

10 Directors' remuneration

The Directors' remuneration for the year is as follows:

	2021	Restated 2020
	£ '000	£ '000
Remuneration	2,706	1,347
Compensation for loss of office	767	-
Contributions paid to defined contribution pension schemes	101	51
	<u>3,574</u>	<u>1,398</u>

In respect of the highest paid director:

	2021	Restated 2020
	£ '000	£ '000
Remuneration	629	312
Contributions paid to defined contribution pension schemes	15	14
	<u>644</u>	<u>326</u>

OVO Finance Ltd

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

10 Directors' remuneration (continued)

Prior year Directors' remuneration disclosures have been restated in the current year to provide comparative figures for the current year disclosures.

The Directors' remuneration and salary costs for the current year are recognised in OVO Energy Ltd (2020: OVO Group Ltd and OVO Energy Ltd).

The Directors' compensation is paid by OVO Energy Ltd (2020: OVO Group Ltd and OVO Energy Ltd) which makes no recharge to the entity. The Directors are additionally Directors of the parent entity and a number of fellow subsidiaries, and it is not possible to make a reasonable apportionment of their compensation in respect of each of the subsidiaries. The total compensation of the Directors of the Company have been disclosed above.

Retirement benefits were accruing to 6 of the Directors remunerated directly by the Company (2020: 5). The number of Directors in respect of whose qualifying services shares were received or receivable under long-term incentive schemes is 8 (2020: 6). Shares were received or receivable in the year by the highest-paid director in respect of qualifying services under the Group's long-term incentive scheme (2020: no shares). Total aggregate share-based payments recognised in the year in respect of the Directors' qualifying services is £89,000 (2020: £110,000).

11 Auditors' remuneration

	2021	2020
	£'000	£'000
Audit of Company	40	80
Audit of subsidiaries	460	940
Total audit fees	500	1,020
Audit-related assurance services	-	63
Tax compliance services	9	138
Services related to corporate finance transactions	-	949
Other non-audit services	181	431
Total non-audit services	190	1,581
Total auditors' remuneration	690	2,601

OVO Finance Ltd

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

12 Income tax (charge)/credit

Tax charged/(credited) in the income statement:

	2021 £ m	2020 £ m
Current taxation		
Adjustment in respect of prior periods	-	(1)
Total current income tax	-	(1)
Deferred taxation		
Current year	71	(27)
Adjustment in respect of prior periods	-	(4)
Arising from changes in tax rates and laws	(36)	(8)
Total deferred taxation	35	(39)
Tax expense/(credit) in the income statement	35	(40)

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

The differences are reconciled below:

	2021 £ m	2020 £ m
Profit/(loss) before tax	375	(166)
Corporation tax at standard rate	71	(32)
Increase from effect of expenses not deductible for tax purposes	-	5
Adjustment in respect of prior periods	-	(1)
Decrease in deferred tax from adjustment for a prior period	-	(4)
Deferred tax credit relating to changes in tax rates or laws	(36)	(8)
Total tax charge/(credit)	35	(40)

OVO Finance Ltd

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

12 Income tax (charge)/credit (continued)

Deferred tax

Group

Deferred tax movement during the year:

	At 1 January 2021 £ m	Recognised in income £ m	Recognised in other comprehensive income £ m	Recognised on business combinations £ m	At 31 December 2021 £ m
Accelerated tax depreciation	30	7	-	-	37
Restricted interest deductions carried forward	13	2	-	-	15
Revaluation of intangible assets	(60)	(2)	-	(2)	(64)
Tax losses carry-forwards	119	37	-	-	156
Pension benefit obligations	(2)	1	(3)	-	(4)
Derivatives	-	(80)	-	-	(80)
Net tax assets/(liabilities)	<u>100</u>	<u>(35)</u>	<u>(3)</u>	<u>(2)</u>	<u>60</u>

Deferred tax movement during the prior year:

	At 1 January 2020 £ m	Recognised in income £ m	Recognised in other comprehensive income £ m	Recognised on business combinations £ m	At 31 December 2020 £ m
Accelerated tax depreciation	-	8	-	22	30
Restricted interest deductions carried forward	-	13	-	-	13
Revaluation of intangible assets	(12)	3	-	(51)	(60)
Tax losses carry-forwards	19	14	-	86	119
Pension benefit obligations	-	1	2	(5)	(2)
Derivatives	-	-	-	-	-
Net tax assets/(liabilities)	<u>7</u>	<u>39</u>	<u>2</u>	<u>52</u>	<u>100</u>

OVO Finance Ltd

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

12 Income tax (charge)/credit (continued)

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

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

The change to the main UK corporation tax rate to 25% announced in the 2021 Finance Bill was substantively enacted on 24 May 2021. The rate effective from 1 April 2023 is now 25% increased from the current rate of 19%. Deferred tax assets and liabilities have been remeasured based on the applicable tax rate in the period that the balances are expected to be realised. The impact of this remeasurement in the period is £37m.

OVO Finance Ltd

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

13 Property, plant and equipment

Group

	Leasehold property £ m	Furniture and fittings £ m	Office Equipment £ m	Meter assets and miscellaneous equipment £ m	Total £ m
Cost or valuation					
At 1 January 2020	9	2	5	-	16
Additions	-	-	3	-	3
Acquired through business combinations	-	-	-	19	19
Transfers to assets held for sale	-	-	-	(8)	(8)
Disposals	-	-	(2)	-	(2)
At 31 December 2020	9	2	6	11	28
Additions	5	-	3	-	8
Disposals	-	-	-	(1)	(1)
At 31 December 2021	14	2	9	10	35
Accumulated depreciation					
At 1 January 2020	7	2	3	-	12
Charge for the year	1	-	1	7	9
Transfers to assets held for sale	-	-	-	(1)	(1)
At 31 December 2020	8	2	4	6	20
Charge for the year	3	-	1	3	7
At 31 December 2021	11	2	5	9	27
Carrying amount					
At 31 December 2021	3	-	4	1	8
At 31 December 2020	1	-	2	5	8
At 1 January 2020	2	-	2	-	4

The depreciation charge of £7m (2020: £9m) is recognised in administrative expenses.

OVO Finance Ltd

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

14 Right-of-use assets

Group

	Property £ m	Fleet £ m	Total £ m
Cost or valuation			
At 1 January 2020	22	-	22
Acquired through business combinations	33	21	54
Modifications	-	(1)	(1)
At 31 December 2020	55	20	75
Modifications	(2)	-	(2)
At 31 December 2021	53	20	73
Accumulated depreciation			
At 1 January 2020	3	-	3
Charge for the year	8	6	14
Impairment	9	-	9
At 31 December 2020	20	6	26
Charge for the year	7	4	11
Impairment	1	-	1
At 31 December 2021	28	10	38
Carrying amount			
At 31 December 2021	25	10	35
At 31 December 2020	35	14	49
At 1 January 2020	19	-	19

An impairment charge of £1m is recognised in administration expenses in the year (2020: £9m). Depreciation charge of £11m (2020: £14m) is recognised in administrative expenses.

OVO Finance Ltd

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

15 Intangible assets

Group

	Goodwill £ m	Trade names £ m	Contractual customer relationships £ m	Software and IT development costs £ m	Other intangible assets £ m	Total £ m
Cost						
At 1 January 2020	38	6	78	26	7	155
Additions	-	-	-	50	-	50
Acquired through business combinations	109	45	259	54	-	467
At 31 December 2020	147	51	337	130	7	672
Additions	-	-	-	52	-	52
Acquired through business combinations	7	-	-	15	-	22
At 31 December 2021	154	51	337	197	7	746
Accumulated amortisation						
At 1 January 2020	1	1	18	20	2	42
Amortisation charge	-	11	47	18	1	77
At 31 December 2020	1	12	65	38	3	119
Amortisation charge	-	12	46	25	1	84
At 31 December 2021	1	24	111	63	4	203
Carrying amount						
At 31 December 2021	153	27	226	134	3	543
At 31 December 2020	146	39	272	92	4	553
At 1 January 2020	37	5	60	6	5	113

The amortisation charge of £84m (2020: £77m) is recognised in administrative expenses.

Included within the carrying amount of the Software and IT development costs of £134m (2020: £92m) are intangible assets under construction of £84m (2020: £46m), which are not subject to amortisation.

OVO Finance Ltd

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

15 Intangible assets (continued)

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

Impairment assessment

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

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

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

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

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

OVO Finance Ltd

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

16 Investments in subsidiaries

Group subsidiaries

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

Name of subsidiary	Principal activity	Registered office / Country of incorporation	Proportion of ownership interest and voting rights held	
			2021	2020
OVO Energy Ltd*	Sale of electricity and gas to customers in the UK	1 Rivergate Temple Quay, Bristol, England, BS1 6ED, UK	100%	100%
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%
OVO Field Force Ltd*	Installation and maintenance of smart meters	1 Rivergate Temple Quay, Bristol, England, BS1 6ED, UK	100%	100%
Corgi Homeplan Ltd*	Sale of boiler and home care products	1 Masterton Park, South Castle Drive, Dunfermline, Fife, Scotland, KY11 8NX, UK	100%	100%
Corgi Homeheat Limited*	Dissolved	1 Masterton Park, South Castle Drive, Dunfermline, Fife, Scotland, KY11 8NX, UK	0%	100%
OVO Insurance Services Ltd.*	Insurance services	PO Box 155, Mill Court, La Charroterie, St Peter Port, Guernsey, GY1 4ET	100%	100%
Spark Energy Limited	Sale of electricity and gas to customers in the UK	Grampian House, 200 Dunkeld Road, Perth, Scotland, PH1 3GH, UK	100%	100%
Spark Gas Shipping Ltd	Supply of gas and related services in the UK	1 Rivergate Temple Quay, Bristol, England, BS1 6ED, UK	100%	100%

OVO Finance Ltd

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

16 Investments in subsidiaries (continued)

Name of subsidiary	Principal activity	Registered office / Country of incorporation	Proportion of ownership interest and voting rights held	
			2021	2020
Kaluza Ltd	Development of intelligent energy platform	140-142 Kensington Church Street, London, England, W8 4BN, UK	100%	100%
Kaluza (US) LLC	Management services	Capitol Services, Inc, 1675 South State St., Suite B, Dover, DE 19901, Kent County, USA	100%	0%
OVO (S) Energy Services Limited	Intermediate holding company	1 Rivergate Temple Quay, Bristol, England, BS1 6ED, UK	100%	100%
OVO (S) Electricity Limited	Supply of electricity to domestic customers in the UK	1 Rivergate Temple Quay, Bristol, England, BS1 6ED, UK	100%	100%
OVO (S) Gas Limited	Licensed marketing and sale of natural gas to domestic customers in the UK	1 Rivergate Temple Quay, Bristol, England, BS1 6ED, UK	100%	100%
OVO (S) Energy Solutions Limited	Installation of energy efficiency measures in domestic properties	Grampian House, 200 Dunkeld Road, Perth, Scotland, PH1 3GH, UK	100%	100%
OVO (S) Home Services Limited	Sale of boiler, central heating and electrical wiring services, breakdown cover and installation services	Grampian House, 200 Dunkeld Road, Perth, Scotland, PH1 3GH, UK	100%	100%
OVO (S) Metering Limited	Meter reading operations and meter operator work throughout the UK	Grampian House, 200 Dunkeld Road, Perth, Scotland, PH1 3GH, UK	100%	100%
OVO (S) Telecoms Limited	Sale of telephone and broadband connectivity and associated services to consumers in the UK	1 Rivergate Temple Quay, Bristol, England, BS1 6ED, UK	100%	100%

* indicates direct investment of OVO Finance Ltd

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

OVO Finance Ltd

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

16 Investments in subsidiaries (continued)

Summary of the Company investments

	31 December 2021 £ m	31 December 2020 £ m
Investments in subsidiaries	<u>263</u>	<u>260</u>
Subsidiaries		£ m
Cost		
At 1 January 2020		258
Additions		<u>2</u>
At 31 December 2020		260
Additions		<u>3</u>
At 31 December 2021		<u>263</u>
Carrying amount		
At 31 December 2021		<u>263</u>
At 31 December 2020		<u>260</u>

The Company invested further capital into OVO Insurance Services Ltd. in the year.

OVO Finance Ltd

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

17 Acquisitions

Acquisition of trade and assets of Intelligent Energy Technologies Ltd

On 12 February 2021, the Group acquired the trade and assets of Intelligent Energy Technology Ltd, a subsidiary of OVO Group Ltd. The principal activity of Intelligent Energy Technology Ltd is the development of demand side grid balancing services for the electricity network. The acquisition is part of an internal reorganisation of the group headed by OVO Group Ltd. The acquisition was financed through a loan from OVO Holdings Ltd, the Group's immediate parent company.

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

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

	31 December 2021 £ m
Assets and liabilities acquired	
Identifiable intangible assets	15
Trade and other receivables	1
Trade and other payables	(4)
Deferred tax liability	(2)
Total identifiable assets	10
Goodwill	7
Total consideration	17
Cash flow analysis:	
Cash consideration	17
Net cash outflow arising on acquisition	17

Intangible assets of £15m have been recognised on acquisition. This relates to software and IT development costs acquired.

Trade and other receivables relate to amounts owed by related parties. The fair value and the gross amount are £1m. It is expected the full contractual cash flows can be collected.

The goodwill of £7m arising from the acquisition is attributable to the potential to offer wider platform solutions combining the capabilities of the newly acquired and existing platforms. None of the goodwill amount is expected to be deductible for tax purposes.

OVO Finance Ltd

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

17 Acquisitions (continued)

Prior year acquisition of SSE Energy Services Group Limited

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

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

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

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

	31 December 2020 £ m
Assets and liabilities acquired	
Identifiable intangible assets	358
Property, plant and equipment	19
Right-of-use assets	54
Defined benefit pension asset	26
Inventory	1
Cash and cash equivalents	180
Trade and other receivables	1,085
Income tax asset	9
Deferred tax asset	52
Trade and other payables	(722)
Deferred income	(630)
Lease liabilities	(54)
Provisions	(80)
Total identifiable assets	298
Goodwill	109
Total consideration	407
Cash flow analysis:	
Cash consideration	407
Less: cash and cash equivalent balances acquired	(180)
Net cash outflow arising on acquisition	227

OVO Finance Ltd

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

17 Acquisitions (continued)

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

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

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

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

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

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

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

From the date of acquisition, the SSE Energy Services Group Limited (now renamed OVO (S) Energy Services Limited) contributed £3,258m revenue and £87m profit before tax from continuing operations of the Group. If the acquisition had taken place at the beginning of the year, revenue from continuing operations would have been £4,622m and loss before tax from continuing operations for the Group would have been £164m.

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

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

OVO Finance Ltd

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

18 Disposals

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

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

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

OVO Finance Ltd

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

19 Assets classified as held for sale

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

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

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

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

Write-down of property, plant and equipment

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

20 Inventories

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

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

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

OVO Finance Ltd

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

21 Trade and other receivables

	Group		Company	
	31 December 2021 £ m	31 December 2020 £ m	31 December 2021 £ m	31 December 2020 £ m
Trade receivables	603	556	-	-
Accrued income	369	599	-	-
Provision for impairment of trade receivables and accrued income	(310)	(257)	-	-
Net trade receivables and accrued income	662	898	-	-
Receivables from related parties	-	3	496	466
Prepayments	85	35	-	-
Other receivables	172	171	-	-
	<u>919</u>	<u>1,107</u>	<u>496</u>	<u>466</u>

The fair value of those trade and other receivables classified as financial assets are disclosed in Note 31.

The Group's exposure to credit and market risks, including impairments and allowances for credit losses, relating to trade and other receivables is disclosed in Note 32.

OVO Finance Ltd

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

22 Derivative financial instruments

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

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

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

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

OVO Finance Ltd

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

23 Cash and cash equivalents

	Group		Company	
	31 December 2021 £ m	31 December 2020 £ m	31 December 2021 £ m	31 December 2020 £ m
Cash at bank	<u>142</u>	<u>40</u>	<u>-</u>	<u>-</u>

24 Trade and other payables

	Group		Company	
	31 December 2021 £ m	31 December 2020 £ m	31 December 2021 £ m	31 December 2020 £ m
Trade payables	275	219	-	-
Accrued expenses	570	527	-	-
Amounts due to related parties	222	185	201	163
Social security and other taxes	7	10	-	-
Other payables	<u>31</u>	<u>59</u>	<u>2</u>	<u>3</u>
	<u>1,105</u>	<u>1,000</u>	<u>203</u>	<u>166</u>

The Group's exposure to market and liquidity risks, including maturity analysis, related to trade and other payables is disclosed in Note 32.

The Shell commodity purchasing arrangement gives rise to a variable liability to Shell which is a combination of accounts payable and future purchase commitments secured on the cash and debtors of OVO Energy Ltd. As at the year end there was no outstanding liability on the extended credit facility. The arrangement has associated financial covenants, against which the Group has been compliant during the years ended 31 December 2021 and 31 December 2020.

OVO Finance Ltd

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

25 Loans and borrowings

The statement of financial position includes the following amounts relating to loans and borrowings:

	Group		Company	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
	£ m	£ m	£ m	£ m
Loans and borrowings				
Bank borrowings	<u>386</u>	<u>383</u>	<u>386</u>	<u>383</u>

The split of the above amounts between current and non-current loans and borrowings is as follows:

	Group		Company	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
	£ m	£ m	£ m	£ m
Current loans and borrowings				
Bank borrowings	<u>-</u>	<u>91</u>	<u>-</u>	<u>91</u>

	Group		Company	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
	£ m	£ m	£ m	£ m
Non-current loans and borrowings				
Bank borrowings	<u>386</u>	<u>292</u>	<u>386</u>	<u>292</u>

OYO Finance Ltd

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

25 Loans and borrowings (continued)

Bank borrowings

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

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

During the year, management's expectation of the term loan facilities repayment profile was revised. As a result, the portion of current borrowings in the prior year has been reclassified as non-current in the current year.

Both term loan facilities agreements were amended on 30 December 2021, replacing the interest rate calculation mechanism as a result of the interest rate benchmark reform (IBOR). Following the amendments, interest rates are based on SONIA (Sterling Overnight Index Average) and a credit spread adjustment. The Group took the practical expedient available under IBOR Phase 2 amendments to account for these changes by updating the effective interest rate without the recognition of an immediate gain or loss.

OVO Finance Ltd

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

26 Lease liabilities

Group

The statement of financial position includes the following amounts relating to lease liabilities:

	Group		Company	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
	£ m	£ m	£ m	£ m
Current lease liabilities	12	14	-	-
Non-current lease liabilities	30	44	-	-
Total lease liabilities	42	58	-	-

Lease liabilities maturity analysis

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

	31 December 2021	31 December 2020
	£ m	£ m
Less than one year	14	17
Between one and five years	23	35
Greater than five years	12	16
Total lease liabilities (undiscounted)	49	68

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

The current year interest expense on lease liabilities (included in finance costs) was £3m (2020: £4).

The total cash outflows for leases for the year ended 31 December 2021 were £17m (2020: £21m).

OVO Finance Ltd

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

27 Provisions

Group

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

Restructuring provision

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

Onerous contracts provisions

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

OVO Finance Ltd

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

27 Provisions (continued)

Facility agreement exit fee provision

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

Dilapidation provision

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

Other provisions

Other provisions mainly comprise of £3m relating to obligations under agreements with meter assets providers.

OVO Finance Ltd

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

28 Pension and other schemes

Defined contribution pension scheme

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

Defined benefit pension schemes

Introduction

The 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 SSE Energy Services Group Limited by the Group in order to provide retirement benefits for eligible company employees.

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

Profile of the scheme

The Defined Benefit Obligation (DBO) includes benefits for current employees, former employees and current pensioners. The vast majority of the DBO is attributable to current employees.

The scheme duration is an indicator of the weighted-average time until benefit payments are made. For the scheme as a whole, the duration is approximately 23 years.

Funding requirements

UK legislation requires that pension schemes are funded prudently. The first formal valuation of the scheme since inception on 14 January 2020 had an effective date of 31 March 2020, and resulted in a surplus of £10.4m relative to technical provisions overall. Following the scheme's first formal valuation, the Group is paying contributions equivalent to 32.7% of salaries for employees in the Southern section and 39.0% of salaries for employees in the Hydro section to meet the expected cost of benefits being built up by these employees.

Risks associated with the scheme

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

Asset volatility

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

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

OVO Finance Ltd

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

28 Pension and other schemes (continued)

Changes in bond yields

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

Inflation risk

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

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

Life expectancy

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

Risk management

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

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

OVO Finance Ltd

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

28 Pension and other schemes (continued)

Reporting at 31 December 2021

The results of the latest formal valuation at 31 March 2020 have been adjusted to the statement of financial position date, taking account of any material experience over the period since 31 March 2020, changes in market conditions, and differences in the financial and demographic assumptions. The present value of the Defined Benefit Obligation, and the related current service cost, were measured using the projected unit credit method.

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

Principal actuarial assumptions

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

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

Post retirement mortality assumptions

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

OVO Finance Ltd

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

28 Pension and other schemes (continued)

	31 December 2021	31 December 2020
	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 2020 projections model with Sk parameter of 7.0 and A parameter of 0.25, and long-term improvement rate of 1.25% p.a.	CMI 2019 projections model with Sk parameter of 7.0 and A parameter of 0.25, and long-term improvement rate of 1.25% p.a.
GMP equalisation	Cost of equalising benefits for differences in GMPs between males and females taken to be around 0.2% of liabilities	Cost of equalising benefits for differences in GMPs between males and females taken to be around 0.2% 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

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

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

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

OVO Finance Ltd

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

28 Pension and other schemes (continued)

Scheme assets

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

	31 December 2021 £ m	31 December 2020 £ m
Fair value at start of year	108	-
Interest income on scheme assets	1	1
Remeasurement gains on scheme assets	6	16
Net increase in assets from bulk transfers	3	87
Employer contributions	5	7
Net benefits paid out	(3)	(3)
Fair value at end of year	<u>120</u>	<u>108</u>

Analysis of assets

The major categories of scheme assets are as follows:

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

Actual return on scheme assets

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

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

OVO Finance Ltd

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

28 Pension and other schemes (continued)

Scheme liabilities

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

	31 December 2021 £ m	31 December 2020 £ m
Present value at start of year	95	-
Current service cost	6	6
Past service cost (including curtailments)	3	4
Actuarial (gains)/losses arising from changes in financial assumptions	(5)	26
Net increase in liabilities from bulk transfers	3	61
Interest expense	1	1
Net benefits paid out	<u>(3)</u>	<u>(3)</u>
Present value at end of year	<u><u>100</u></u>	<u><u>95</u></u>

Amounts recognised in the income statement

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

OVO Finance Ltd

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

28 Pension and other schemes (continued)

Amounts taken to the statement of comprehensive income

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

Sensitivity analysis

The key assumptions used for IAS 19 are: discount rate, inflation and mortality. If different assumptions were used, this could have a material effect on the results disclosed. The sensitivity of the results to these assumptions is set out below. The sensitivity information shown has been prepared by approximately adjusting the IAS 19 liabilities calculated at the statement of financial position date using the same method used to adjust the results of the latest formal valuation to the statement of financial position date.

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

OVO Finance Ltd

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

29 Share capital and reserves

Allotted, called up and fully paid shares

	31 December 2021		31 December 2020	
	No.	£	No.	£
Ordinary Shares of £1 each	104	104	104	104

Nature and purpose of reserves

Other reserves (Group)

Other reserves comprise a merger reserve of (£143m) (2020: (£143m)), which arose as part of a corporate restructure in 2019.

Other reserves (Company)

Other reserves comprise a merger reserve of £189m (2020: £189m), which arose as part of a corporate restructure in 2019.

OVO Finance Ltd

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

30 Share-based payments

OVO Group Share Scheme

Scheme details and movements

In July 2014, OVO Group established a new employee share plan. Under the terms of the scheme, OVO Group awarded its own employees and employees of other group companies class B, C, D and E ordinary shares in OVO Group Ltd. The share based payment expense is recognised in the income statement of the employing companies of the OVO Finance Ltd group.

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

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

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

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

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

OVO Finance Ltd

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

30 Share-based payments (continued)

Analysis of charge to the income statement

£ '000	2021	2020
'B' Shares	138	350
'C' Shares	-	-
'D' Shares	-	-
'E' Shares	-	-
	<u>138</u>	<u>350</u>

Reconciliation of movements in awards

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

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

OVO Finance Ltd

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

30 Share-based payments (continued)

Pricing

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

'B' Shares

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

'C' Shares

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

'D' Shares

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

'E' Shares

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

OVO Finance Ltd

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

31 Financial instruments

Group

Set out below is a comparison, by class, of the carrying amounts and fair values of the Group's financial instruments:

	31 December 2021 £ m	31 December 2021 £ m	31 December 2020 £ m	31 December 2020 £ m
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Financial assets at amortised cost				
Cash and cash equivalents	142	142	40	40
Trade and other receivables	823	823	1,066	1,066
Total financial assets at amortised cost	965	965	1,106	1,106
Financial assets through profit or loss				
Derivative financial instruments	461	461	-	-
Total financial assets through profit or loss	461	461	-	-
Total financial assets	1,426	1,426	1,106	1,106
Financial liabilities				
Financial liabilities at amortised cost				
Trade and other payables	1,098	1,098	990	990
Loans and borrowings	386	415	383	400
Lease liabilities	42	42	58	58
Total financial liabilities at amortised cost	1,526	1,555	1,431	1,448
Financial liabilities through profit or loss				
Derivative financial instruments	39	39	-	-
Total financial liabilities through profit or loss	39	39	-	-
Total financial liabilities	1,565	1,594	1,431	1,448

OVO Finance Ltd

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

31 Financial instruments (continued)

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

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

- The fair value of financial assets is based on the expectation of recovery of balances. Impaired receivables mainly relate to customers from whom it is unlikely that full payment will ever be received. The primary inputs used to impair the receivable balances are not based on observable market data.
- The fair value of loans and borrowings and lease liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.
- The fair value of derivative financial instruments are determined with reference to closing market prices. All derivatives are classified as Level 2 within the fair value hierarchy. The fair value measurements are those derived from inputs, other than quoted prices, that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Company

Set out below is a comparison, by class, of the carrying amounts and fair values of the Company's financial instruments:

	31 December 2021 £ m	31 December 2021 £ m	31 December 2020 £ m	31 December 2020 £ m
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Financial assets at amortised cost				
Trade and other receivables	496	496	466	466
Total financial assets at amortised cost	496	496	466	466
Total financial assets	496	496	466	466
Financial liabilities				
Financial liabilities at amortised cost				
Trade and other payables	203	203	166	166
Loans and borrowings	386	415	383	400
Total financial liabilities at amortised cost	589	618	549	566
Total financial liabilities	589	618	549	566

OVO Finance Ltd

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

31 Financial instruments (continued)

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

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

- The fair value of financial assets is based on the expectation of recovery of balances. Impaired receivables mainly relate to customers from whom it is unlikely that full payment will ever be received. The primary inputs used to impair the receivable balances are not based on observable market data.
- The fair value of loans and borrowings is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

32 Financial risk management and impairment of financial assets

Group

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

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

Credit risk and impairment

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

The carrying amount of financial assets represents the maximum credit exposure. Therefore, the maximum exposure to credit risk at the balance sheet date was £823m (2020: £1,066m) being the total of the carrying amount of financial assets, excluding derivative financial instruments and cash, which include trade receivables and accrued income. Included in the carrying amount of financial assets are security deposits held by suppliers and distributors as collateral which amount to £48m (2020: £52m).

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

OVO Finance Ltd

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

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

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

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

Macroeconomic conditions

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

Past due and impaired financial assets

Allowances for impairment by credit losses

	Trade receivables and accrued income £ m
2021	
At start of year	257
Additional impairment for credit losses recognised in the year	117
Amounts written off	(64)
At end of year	310
	Trade receivables and accrued income £ m
2020	
At start of year	78
Additional impairment for credit losses recognised in the year	116
Amounts written off	(48)
Increase arising via acquisition of subsidiary	111
At end of year	257

OVO Finance Ltd

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

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

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

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

2021	Days past due					Total
	Accrued income & non-energy customer receivables	Current	31-60 days	61-90 days	>90 days	
	£ m	£ m	£ m	£ m	£ m	£ m
Expected credit loss rate	21%	27%	22%	33%	49%	32%
Estimated total gross carrying amount at default	390	106	82	70	324	972
Expected credit loss	82	29	18	23	158	310

2020	Days past due					Total
	Accrued income & non-customer receivables	Current	31-60 days	61-90 days	>90 days	
	£m	£m	£m	£m	£m	£m
Expected credit loss rate	9%	45%	16%	33%	47%	22%
Estimated total gross carrying amount at default	653	113	77	61	252	1,156
Expected credit loss	56	51	12	20	118	257

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

OVO Finance Ltd

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

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

Market risk

Interest rate risk

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

Sensitivity analysis

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

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

Effect of IBOR reform

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

OVO Finance Ltd

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

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

Commodity price risk

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

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

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

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

Sensitivity analysis:

The Group has performed an analysis of the sensitivity of the Group's financial position and performance to changes in commodity prices in respect to derivative energy contracts measured at fair value through profit or loss. The impact of changes in commodity prices on the fair value of the Group's derivative financial assets is as follows:

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

OVO Finance Ltd

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

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

Liquidity risk

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

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

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

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

Maturity analysis

	Within 1 year	Between 1 and	After more	Total
	£ m	5 years	than 5 years	£ m
2021		£ m	£ m	
Trade and other payables	1,098	-	-	1,098
Lease liabilities	14	23	12	49
Loans and borrowings	-	415	-	415
Derivative financial instruments	-	39	-	39
	<u>1,112</u>	<u>477</u>	<u>12</u>	<u>1,601</u>
2020	Within 1 year	Between 1 and	After more	Total
	£ m	5 years	than 5 years	£ m
		£ m	£ m	
Trade and other payables	990	-	-	990
Loans and borrowings	-	-	400	400
Lease liabilities	17	35	16	68
	<u>1,007</u>	<u>35</u>	<u>416</u>	<u>1,458</u>

OVO Finance Ltd

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

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

Capital risk management

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

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

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

	31 December 2021	31 December 2020
	£ m	£ m
Loans and borrowings	386	383
Lease liabilities	42	58
Less: cash and cash equivalents	(142)	(40)
Net debt	<u>286</u>	<u>401</u>
Total equity	65	(283)
Total capital	<u>351</u>	<u>118</u>
Gearing ratio	81%	340%

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

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

33 Related party transactions

Key management personnel

Key management includes Directors of the Company. The compensation paid or payable to key management for employee services to the Group's subsidiaries is disclosed in Note 10.

Summary of transactions with key management

Loans with Directors are disclosed as follows:

	Directors £ '000
2021	
At start of year	-
Advanced	632
Repaid	<u>(167)</u>
At end of year	<u>465</u>

OVO Finance Ltd

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

33 Related party transactions (continued)

Group & Company

Summary of transactions with parent entities

OVO Holdings Ltd (Group & Company)

As at 31 December 2021, OVO Finance Ltd owed funds to its immediate parent OVO Holdings Ltd of £184m (2020: £148m). The balance is inclusive of £19m (2020: £15m) interest incurred during the year. The remaining movement in the year relates to advances to the Company in the year. Included within the loans from OVO Holdings Ltd are loans that relate to the financing of the acquisition of SSE which bear interest based on the corresponding external interest incurred by OVO Holdings Ltd. The loans are repayable on demand. Interest is incurred at 7% on other interest bearing balances.

OVO Group Ltd (Group & Company)

As at 31 December 2021, OVO Finance Ltd Group owed funds to OVO Group Ltd of £23m (2020: £23m). The balance is inclusive of £2m (2020: £2m) interest incurred during the year, at a rate of 7% or 8.55%. The remaining movement in the year relates to advances from or repayments to OVO Group Ltd in the year. As at 31 December 2021, OVO Finance Ltd Company owed funds to OVO Group Ltd of £nil (2020: £nil). The balance was repaid in full in 2020.

Imagination Industries Ltd (Group)

During the year, the Group incurred costs of £21m payable to Imagination Industries Ltd (2020: £21m). As at 31 December 2021, the Group owed £15m to Imagination Industries Ltd (2020: £14m). The remaining movement in the year relates to payments to Imagination Industries Ltd.

Summary of transactions with group entities

Intelligent Energy Technology Ltd (Group)

As at 31 December 2021, OVO Finance Ltd Group was owed funds from Intelligent Energy Technology Ltd of £nil (2020: £3m). The balance was repaid in full in the year.

Kantan Ltd. (Group)

As at 31 December 2021, OVO Finance Ltd Group was owed funds from Kantan Ltd. of £500k (2020: £85k). The movement in the year relates to advances to Kantan Ltd.

OVO Finance Ltd

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

33 Related party transactions (continued)

Summary of transactions with subsidiaries (Company)

2021

Subsidiary	Loan provided to/(received from)	Loan repaid to/(from)	Interest received	Interest by/(to) as at paid	Amounts owed as at 31 December 2021
	£ m	£ m	£ m	£ m	£ m
OVO Energy Ltd	17	(33)	48	-	496
Corgi Homeplan Ltd	-	-	-	(2)	(17)
OVO Insurance Services Ltd.	-	(2)	-	-	-

Summary of transactions with subsidiaries (Company)

2020

Subsidiary	Loan provided to/(received from)	Loan repaid to/(from)	Interest received	Interest by/(to) as at paid	Amounts owed as at 31 December 2020
	£ m	£ m	£ m	£ m	£ m
OVO Energy Ltd	432	(17)	49	-	464
Corgi Homeplan Ltd	(4)	-	-	-	(15)
OVO Insurance Services Ltd.	2	-	-	-	2

All amounts owed by and due to related parties 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. Included in amounts owed by OVO Energy Ltd are loans receivable that relate to the financing of the acquisition of SSE and bear interest based on the corresponding external interest incurred by OVO Finance Ltd.

Outstanding balances at the year end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2021, no provision for expected credit losses was recognised relating to amounts owed by related parties (2020: £nil).

OVO Finance Ltd

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

34 Parent and ultimate parent undertaking

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

The smallest consolidated statements that incorporate OVO Finance Ltd are those of OVO Group Ltd, which are available upon request from the registered office 1 Rivergate Temple Quay, Bristol, England, BS1 6ED, UK.

The Company's immediate parent is OVO Holdings Ltd.

OVO Holdings Ltd is a wholly owned subsidiary of OVO Group Ltd.

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

The ultimate controlling party is Stephen Fitzpatrick.

35 Contingent liabilities

Group

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

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

OVO Finance Ltd

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

36 Subsequent events after the end of the reporting period

Non-adjusting events

Energy crisis

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

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

Voluntary redundancy programme

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

Sale of Revenue Protection business

The Group is at the final stage of commercial discussion to sell its Revenue Protection business, which is a line of business within OVO (S) Metering Limited, a wholly owned subsidiary. The sale is expected to complete in 2022. There are no assets or liabilities carried at the carrying book value that are included in the disposal.