

**Driving
Progress
to Zero
Carbon.**



**Annual Report and
Financial Statements 2022**

The energy to do more.

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

#1

Best online experience³

#1

Diverse Company of the Year²

#1

Green Energy Supplier¹

- 1. Winner, Green Energy Supplier of the Year at the Energy Awards
- 2. National Diversity Awards
- 3. Uswitch awards



› To find out more about us, visit us online, just scan the QR code here ›

2022 in numbers.

Value of

£50m

for our Customer
Support package

Milestone reached

4m

trees planted

CO₂e avoided:

4,536

tonnes through home
energy tech

Cost of driving

3p

per mile on
Charge Anytime

Milestone reached

1,000

heat pumps
installed

8

Belonging
D&I Networks

Supported

92

onshore wind and
solar projects

In contact with

300k

customers
every week¹

EV charging²

97.5%

optimised

¹ On average over 2022

² EVs on Charge Anytime

Let's talk business.

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

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

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

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

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



Standing for more.

We are four million customers strong.

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

We harness people power...

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

...and technology to revolutionise energy.

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

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

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

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

We always look for a better way, whether that's by delivering a better service, employing brilliant people or improving our products and processes.

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

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

Our strategy to make a big difference.

Give our customers even more value

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

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

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

Invest in technology

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

Introduce more people to OVO

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

Enable a smooth energy transition

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

Support vulnerable customers

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

Retain and attract the brightest and best

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

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2022 Review

“In what proved to be an extremely difficult year for the industry, I am pleased that OVO and its leadership team demonstrated our continued commitment to serving our customers and maintaining our resilience. We now look forward to partnering with all OVO customers on their journey to a decarbonised and secure energy future.”

Stephen Murphy,
Chair

Raman Bhatia
Chief Executive Officer

**"2022 has defined
our commitment to
our customers, our
resilience and our
dedication to build
a greener, fairer
energy system."**

OVO's response to the energy crisis

Taking action for customers

Our

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

OVO's £50m Customer Support Package

What actually caused the energy crisis?

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

How were UK households affected?

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

What did OVO do about it?

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

- ❑ Payment holidays for debt repayment for all prepayment meter customers so that every penny put on the meter throughout the winter would go towards heating, not clearing debt
- ❑ A 200% increase in emergency top-up credit for customers on a prepayment meter, and a continued commitment to never disconnect customers' meters from the grid
- ❑ Free technology and services such as smart thermostats, electric throws and boiler checks
- ❑ A new charity partnership with The Trussell Trust to support food banks to meet increased need this winter – in addition to our continued partnership with StepChange
- ❑ To urge the Government to soften the impact of price rises, OVO set out a Ten Point Plan to address the energy crisis, which can be found on our website and page 24 of the Strategic Report. Many of the plan's proposals, such as ending the prepayment meter poverty premium, have since been adopted by the Government

3,337

customers received a free boiler service

6,132

free thermostats provided to homes

30,000

electric blankets donated to customers

Our goal to decarbonise homes gathered momentum

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

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

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

We supported the development of new renewable energy onto the grid

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

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

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

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

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

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

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

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

More investment in technology

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

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

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

We appointed a new CEO

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

A focus on energy and the decarbonisation of the home

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

We won!

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

Financial performance review

Key financial and performance indicators

	2022	2021
UK Retail Energy Supply customer numbers ('000)	4,000	4,100
UK Retail Energy Supply total gas and electricity volume (TWh)	41	51
Adjusted EBITDA (£m) ¹	20	159
Statutory (loss)/profit for the year (£m) ⁴ (after non-cash commodity hedge revaluation loss of £1.4bn (2021: gain of £422m))	(1,275)	335
Cash (£m) ³	474	145
Net debt (£m) ²	363	411

Reconciliation of adjusted performance measures to statutory results

	2022 (£m)	2021 (£m)
Statutory (loss)/profit for the year ⁴	(1,275)	335
Add: Income tax (credit)/expense	(377)	35
(Loss)/profit before tax	(1,652)	370
Add: Exceptional items and certain re-measurements	1,485	(372)
Add: Net finance costs	69	58
Add: Share of net losses of associates accounted for using equity method	2	1
Add: Depreciation and non-exceptional impairment of property, plant and equipment and right-of-use assets	14	18
Add: Amortisation of intangible assets	102	84
Adjusted EBITDA	20	159

1. Adjusted EBITDA is defined as operating (loss)/profit, after adjusting for depreciation, amortisation, impairment and exceptional items and certain re-measurements including fair value gain/(loss) on derivative financial instruments.

2. Net debt is defined as total loans and borrowings plus lease liabilities less cash and cash equivalents excluding restricted cash.

3. Cash of £474m (2021: £145m) includes restricted cash of £269m (2021: £nil).

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

Underlying business performance

The unprecedented high and volatile commodity prices in FY22 were a key driver of the Group's financial performance, position and cash flow. The Group's adjusted EBITDA for the year ended 31 December 2022 was £20m (2021: £159m). The downturn in the Group's adjusted EBITDA was primarily driven by lower margins as a result of the impact of rising wholesale commodity prices.

At four million, our customer numbers have remained largely consistent with the prior year, due to low levels of market switching and reduced customer acquisition activities in a period of high commodity prices. Warmer weather in 2022 compared to 2021 and customers reducing their energy use, for sustainability and cost reasons, have led to a reduction in underlying consumption.

Despite limited customer growth and lower consumption, revenue increased by 49% to £6.7bn (2021: £4.5bn), largely driven by the impact of higher wholesale prices on retail tariffs. Nonetheless, the Group's gross profit decreased from £747m in 2021 to £657m in financial year 2022 as the cost of buying energy for our customers was at times higher than the prices set under the regulated Price Cap. Additionally, higher customer bills and wider economic uncertainty resulted in an increase of £48m in the bad debt charge, which amounted to £165m in the year. However, bad debt charge as a percentage of revenue remained consistent with the prior year at 2.5% (2021: 2.6%).

Rising energy prices led to rising concern among our customers and an increase in calls to our customer care advisors. We met this challenge by investing in our contact centres. We increased the number of our customer centre advisors and enhanced their training both to improve customer service quality and to better help those of our customers with difficult and more complex circumstances.

These initiatives brought extra costs which, together with our £50m Customer Support Package, significantly contributed to our lower earnings.

Statutory result

Overall, the statutory loss for the year was £1.3bn, which includes a re-measurement loss of £1.4bn on derivative energy contracts, exceptional items of £47m and depreciation and amortisation of £116m.

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

These contracts will be used to fulfil customer contracts. Therefore, the derivative financial liabilities recognised as at 31 December 2022 will be reversed when these contracts unwind in future periods.

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

Exceptional items of £47m (2021: £50m) primarily relate to integration and reorganisation costs incurred as the Group continues to simplify the business following the acquisition of SSE Energy Services. Integration and reorganisation costs increased by £39m in 2022 as the Group ramped up integration activities and undertook a voluntary redundancy exercise. These costs were offset by a gain of £21m recognised on the disposal of Origin Communications Limited (previously OVO (S) Retail Telecoms Limited), and a gain of £9m on the disposal of OVO Energy (France) SAS, as we continue to exit from businesses that are not core to UK domestic energy supply and decarbonisation initiatives.

What's been happening in 2023.

Path to Zero

In April 2023, we launched Path to Zero, a defining moment in our history that focused on delivering the true net zero pathway for our customers.

Recognising that '100% renewable' electricity tariffs do very little to support decarbonisation we wanted to find a better way.

Path to Zero is all about the tailored steps our customers can take to decarbonise their homes.

We committed to investing in helping customers reduce energy, shift energy use to greener times, and support them to make the step towards full electrification of their transport and heating.

We committed to launch a fund for developing green skills that will train a generation to install heat pumps, which is critical in the decarbonisation of heating.

As a result OVO has also taken the decision to move away from tariffs underpinned by the outdated REGO (Renewable Guarantees of Origin) system. We will instead invest in our Path to Zero initiatives as well as wind and solar projects that we know will generate the renewables we need.

Over 2023 we will continue to call for change to the energy system to make green energy tariffs much more meaningful.

Intelligent Charging

OVO and Kaluza announced INFLEXION, a world-first vehicle-to- everything (V2X) trial, which will enable millions of customers to power their entire homes with their EV battery in the future.

The scheme, an exciting collaboration between Kaluza, OVO Energy, Volkswagen Group UK, and EV smart charging tech business, Indra, allows EV drivers to power their home with their car, and also to sell any surplus energy back to the grid.

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

Best Place to Work

OVO was awarded Best Place to Work for Women and Top 10 for Very Big Organisation in the exclusive Sunday Times Best Places to Work 2023 awards.

The nationwide workplace survey honours and celebrates Britain's top employers and acknowledges the best workplaces for women, LGBTQIA+ community, those with a disability, ethnic minorities, younger and older workers, and wellbeing.

We were recognised for our highly progressive people offer and putting our green ethos and flexibility right at the centre.

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

Reporting on our impact.

We're committed to measuring and disclosing our impact on the climate and our decarbonisation progress. The below table summarises OVO and Kaluza's¹ energy use and associated greenhouse gas (GHG) emissions.

Energy consumption figures

Area	Energy source	2022 energy consumption (kWh)			2021 energy consumption (kWh)
		OVO	Kaluza	Total	OVO
Building energy consumption	Natural gas	5,239,680	54,779	5,294,459	5,544,066
	Diesel	59,030	–	59,030	71,602
	Electricity	8,114,245	282,448	8,396,693	7,963,469
Fleet energy consumption	Diesel	10,122,555	–	10,122,555	18,418,538
	Petrol	1,043,995	–	1,043,995	1,814,587
	Electricity	1,799,099	–	1,799,099	245,287
	Hybrid	5,753	–	5,753	31,840
	Plug-in hybrid	1,323	–	1,323	1,350
	Not specified	–	36,414	36,414	–
Business travel energy consumption	Diesel	1,192,174	–	1,192,174	721,444
	Petrol	166,523	–	166,523	92,455
	Electricity	2,545	–	2,545	245,287
	Hybrid	6,127	–	6,127	4,828
	Plug-in hybrid	601	–	601	–
Total kWh consumed		27,753,650	373,641	28,127,291	34,909,466

1. Kaluza is a subsidiary of the Group which engages in the development of an intelligent energy platform that introduces new flexibility into the energy system by optimising individual devices. Kaluza is a subsidiary of the Group and therefore, falls into compliance for Streamlined Energy and Carbon Reporting (SECR).

GHG emissions figures

Emissions scope	Area	Energy source	2022 GHG emissions (tonnes CO ₂ e)			2021 GHG emissions (tonnes CO ₂ e)
			OVO	Kaluza	Total	OVO
Scope 1 emissions	Building energy consumption	Natural gas	943	11	954	1,015
		Diesel	15	–	15	18
	Fugitive emissions	R410A	75	–	75	60
		R407C	15	–	15	–
		R32	2	–	2	–
	Fleet energy consumption	Diesel	2,444	–	2,444	4,364
		Petrol	238	–	238	418
		Hybrid	1	–	1	8
		Plug-in hybrid	1	–	1	–
	Total Scope 1 emissions		3,734	11	3,745	5,883
Scope 2 emissions	Business travel energy consumption	Electricity (location-based)	1,465	55	1,520	1,691
		Electricity (market-based)	131	–	131	410
	Fleet energy consumption	Electricity (location-based)	346	–	346	52
		Electricity (market-based)	763	–	763	–
	Total Scope 2 emissions (location-based)		1,811	55	1,866	1,743
	Total Scope 2 emissions (market-based)		894	–	894	462
Scope 1 and Scope 2 emissions	Total Scope 1 and Scope 2 emissions (location-based)		5,545 [^]	66	5,611	7,626 [^]
	Total Scope 1 and Scope 2 emissions (market-based)		4,628 [^]	11	4,639	6,345 [^]
	Total Scope 1 and Scope 2 emissions intensity relative to revenue (location-based) (tonnes CO ₂ e/£m)		0.84	–	0.84	1.70
	Total Scope 1 and Scope 2 emissions intensity relative to revenue (market-based) (tonnes CO ₂ e/£m)		0.69	–	0.69	1.41
Scope 3 emissions (Emissions from consumption of fuel for the purposes of transport)	Business travel energy consumption	Diesel	303	–	303	180
		Petrol	40	–	40	22
		Electricity	1	–	1	–
		Hybrid	2	–	2	1
		Unknown	–	9	9	–
	Total Scope 3 business travel emissions*		346	9	355	203
Revenue	OVO Group Ltd revenue (£m)		6,713	–	6,713	4,493

[^] PricewaterhouseCoopers LLP (PwC) was engaged to provide independent limited assurance over selected information in the Annual Report for the year ended 31 December 2022. Information that is within PwC's limited assurance scope is marked with the symbol [^]. See PwC's Assurance Statement here: <https://www.ovo.com/sustainability-assurance-report/> and OVO's 2022 Basis of Preparation at <https://company.ovo.com/basis-of-preparation/>.

* Please note that these emissions only cover our Scope 3 emissions from consumption of fuel for the purposes of transport, as per the requirements of the SECR. You can see our full Scope 3 accounts in our Plan Zero report published here: <https://company.ovo.com/planzero/plan-zero-progress-and-reporting-2>.

Performance

Our absolute Scope 1 and Scope 2 market-based emissions and location-based emissions decreased by 26.9% and 26.5% respectively between 2021¹ and 2022.

Energy and GHG emissions reduction actions

For the whole nation, 2022 was a very different year to 2021. At OVO we settled into a 'new normal' operationally following the easing of COVID-19 restrictions.

As lockdown measures and restrictions reduced, we saw a return to some in-person working across our sites. This was boosted by the return of in-person events and meetings, and our field teams were able to go into more of our customers' homes.

We also announced a streamlining of our property portfolio with a move to three office hubs: in Bristol, London and Glasgow.

Over 2022, we continued to make progress towards our Plan Zero operational decarbonisation goals. In September, we announced our refreshed Plan Zero framework which included a more challenging operational net zero target and has allowed for simpler, more frequent internal reporting on progress.

Alongside our financial metrics, we now include metrics on fleet decarbonisation and office energy efficiency in monthly reporting to our leadership team. Crucially, and in line with these new metrics, we accelerated the uptake of electric vehicles (EVs) across our fleet, meaning EVs now make up almost half of our total fleet.

Property initiatives

Focusing on three hubs (London, Bristol and Glasgow) has reduced the number of our properties by 15, which equates to an annual reduction in energy consumption of 290,500 kWh.

These core offices are on our building energy management platform so their energy consumption is monitored and any deviations from the norm are investigated. Of our core offices, London and Glasgow have onsite solar generation.

We continually seek improvements to increase energy productivity whether by adjusting system settings for seasonal or unexpected weather variations or by monitoring plant operating times to align with occupancy levels.

Overall, our efficiency initiatives and consolidation of our property portfolio have resulted in a reduction of building electricity consumption by 4.8% and building gas consumption by 5.5% in comparison with 2021.

Electrifying our vehicle fleet

We continue making progress towards our Plan Zero goal of having a 100% EV fleet by 2025. We acquired 395 EVs and disposed of 759 internal combustion engine vehicles.

These changes boosted the proportion of EVs in our fleet in 2022 to 48% (2021: 12%) and significantly reduced overall fleet emissions. But we face some challenges to our ambitions, not least the global shortage of microchips which has slowed EV production.

We're continuing to increase the number of EV chargers installed at our engineers' homes, installing 265 by the end of 2022 (2021: 73), an increase of more than 360%.

This year, we onboarded Mina, an EV-driver reimbursement solution partner, that allows our drivers to be reimbursed quickly for the exact amount of energy they use whilst charging their EV at home. So far, we have 43% of our EV drivers supported through this platform.

Public charging remains a barrier for drivers who can't charge at home and we are working on various initiatives to improve this. We are also continuing with driver education via our EV champions who dispel the myths around EVs and help other drivers understand the range of capabilities and benefits EVs have.

Business travel

This year, we saw our business travel emissions increase, largely due to the easing of COVID-19 restrictions and more of our people travelling between offices for in-person meetings and events.

We also hosted two roadshows this year to showcase some of the amazing work that our teams from across OVO have been leading on. From Plan Zero, learning and development, to Belonging, we encouraged our people to come together again and collaborate face-to-face.

Other impact reporting

Customers

The largest portion (over 99%) of our total carbon footprint comes from our Scope 3 emissions, driven by the electricity and gas that we sell to our customers.

The calculation of these emissions depends upon the UK Grid's electricity fuel mix figures, which reflect the different energy sources from which the electricity we supply originates (e.g. wind, solar, etc.). Fuel mix figures are published each summer by the energy sector regulator, Ofgem; therefore, our 2022 Scope 3 emissions are unavailable at the time of preparation of this report.

We'll calculate these Scope 3 emissions for 2022 once the fuel mix is published and will disclose our complete emissions profile in our Plan Zero 2022 progress report, due to be published in September 2023.

Please note that our location- and market-based Scope 3 emissions for 2021 were 11,862,715 tCO₂e and 12,639,252 tCO₂e respectively, as published in our Plan Zero 2021 progress report found here². The market-based figure was also assured by PwC and you can find their limited assurance statement for our 2021 Scope 3 market-based emissions here¹.

Reporting methodology

Our reporting approach is aligned with the WRI GHG Reporting Protocol Corporate Standard. The basis of preparation document outlining the reporting methodology in detail can be found on our website¹.

Assurance

PricewaterhouseCoopers LLP (PwC) was engaged to provide independent limited assurance over selected information in the Annual Report and Accounts for the year ended 31 December 2022. PwC's limited assurance scope covers the following information: total Scope 1 and Scope 2 emissions (location-based) and total Scope 1 and Scope 2 emissions (market-based). Both metrics are marked with the symbol [^] in the data table above. See PwC's Assurance Statement here¹.

Considering TCFD in how we report

Please note that we will provide further information with respect to what we have done so far to consider the TCFD framework and the impact and outcomes for OVO in our 2022 Plan Zero Report, due to be published in Autumn 2023.

The climate crisis is the single most important issue facing the welfare of the planet and its people. Plan Zero is our ambitious sustainability strategy which covers our commitment to the climate, our customers and our culture. Through Plan Zero, we have set stretching decarbonisation targets and balance this with ensuring a just transition for all of our customers and fostering an innovative, change-maker culture at OVO where everyone can grow and belong.

We recognise the importance of disclosing against the recommendations of the TCFD framework, and to demonstrate our commitment to the climate, we have conducted our first TCFD analysis this year.

This year, we will be using the TCFD guidance and framework to disclose our work on climate risk to date and have included a summary of our considerations in this report.

From next year, we will be required to make disclosures in line with the new Companies Act. These align, but are not exactly the same as the TCFD and will be reported in 2024.

Climate Governance

Here at OVO, the tone is set from the top – it is our CEO who oversees our climate performance and who is also accountable for the delivery of our Plan Zero goals.

Our Leadership team puts in place the resources, support, processes and decision-making to help OVO's people put the environment first. Please see our environment policy on our website³.

Our Board has overarching responsibility for ensuring the longevity of the business. The Board's Risk Committee oversees all of OVO's business risks and reports to the Board as needed, including for physical and transition risks associated with our changing climate.

We have a dedicated Sustainability team, which supports the delivery of key projects and initiatives, and we're in the process of establishing a dedicated sustainability governance framework, which will take in the views of representatives from across OVO. All of our people have a responsibility to drive progress to achieving Plan Zero, and we're aiming to increase the proportion of training hours that focus on the build out of green skills to help bridge the decarbonisation skills gap.

Strategy

Since we launched Plan Zero, the world has been transformed by a global pandemic, and the UK has plunged into a cost of living crisis. Industry guidance to help companies set truly sustainable net zero targets has also been updated. As we're committed to following the latest climate science, our refreshed strategy recognises and responds to the challenges of today and reiterates the importance of leaving no one behind on the transition to net zero. You can see more information on our sustainability strategy on our website².

1. PricewaterhouseCoopers LLP (PwC) also provided independent limited assurance over OVO's Scope 1 and Scope 2 market-based and location-based emissions in the Annual Accounts for the year ended 31 December 2021. See PwC's 2021 Assurance Statement at <https://www.ovo.com/sustainability-assurance-report/> and OVO's 2021 Basis of Preparation at <https://company.ovo.com/basis-of-preparation/>

2. <https://company.ovo.com/planzero/plan-zero-progress-and-reporting-2/>

3. <https://company.ovo.com/environmental-policy/>

Strategic Report
Other impact reporting continued

This year, we also conducted our first qualitative scenario analysis. We started this process by mapping out our value chain.

First and foremost, the energy that we sell needs to be generated or extracted, transported and then distributed to our customers' homes.

The low carbon technologies required to electrify our customers' homes and transportation systems follow a different value chain. The raw materials needed for the technologies are extracted and refined, then manufactured to create a product, and finally transported to and installed in our customer's homes.

Our direct operations consist of where our people work (our property portfolio including offices and depots, as well as any remote working locations of our people) and our engineers' logistics network.

Ultimately, our value chain's end point is our customers' homes.

There are a range of different physical and transition risks and opportunities, which vary in likelihood and severity, over the different areas of our value chain, for example, physical risks such as extreme weather events and temperature extremes, or transitional risks such as changes in consumer demand. On the other hand, climate-related opportunities, such as technological development and growing demand for electricity, present commercial opportunities for OVO.

Our scenario analysis assessment considered three scenarios from the Shared Socioeconomic Pathways (SSP) database. We'll be publishing full details of this assessment as part of our 2022 Plan Zero report, which will be available in September 2023.

Risk management

The identification, assessment and management of climate-related risk is incorporated into our existing risk management framework, which quantifies severity of risk against financial, reputational, regulatory and service impacts.

Climate risk is tracked by our Risk Committee as a principal risk, as there is the potential for climate-related physical and transition risks and opportunities to impact us over the short, medium and long term.

Metrics and targets

Since 2019, OVO has reported on Scope 1, 2 and 3 greenhouse gas emissions in accordance with the GHG Protocol. Our full carbon footprint will be published in our Plan Zero 2022 progress report including full Scope 3 disclosure.

Through Plan Zero, we have committed to transition to net zero and are hoping to reach this position by 2035. This ambition has milestone stages:

- ❑ Reaching net zero across our operational emissions by 2025; and
- ❑ Reducing our emissions from gas sold by 25% by 2025; 50% by 2030 and reaching a net zero position by 2035.

Plan Zero summarises our commitment to the climate, customers and our culture. Each of these focus areas is supported by a range of quantitative performance indicators that ensure we are tracking progress.

How we govern.

Our Board sets our strategy and guides our culture, values, brand and reputation. It makes sure that we understand and meet our obligations to customers, our people, regulators and shareholders in a way that promotes our long-term interests. It also has overall responsibility for our governance, risk management and internal control systems.

In this reporting period, OVO Group Ltd has applied the Wates Corporate Governance Principles for Large Private Companies. OVO Group Ltd complies with the principles as follows.

Purpose and leadership

OVO's vision is to power human progress with clean, affordable energy for everyone. Plan Zero sets out our purpose – to drive progress to zero carbon living – and our strategy for achieving this. We recognise our role in leading the transition from fossil fuels to renewable energy, and in building an energy system fit for a more sustainable and renewable future.

The OVO Group is currently managed by the following individuals:

Director
Stephen Murphy (Chair)
Jonson Cox (Senior Independent Director)
Kunal Dasgupta (Non-Executive Director)
Stephen Fitzpatrick (Non-Executive Director)
Daniel Sasaki (Non-Executive Director)
Go Muromoto (Non-Executive Director)
Raman Bhatia (Executive Director)
Vincent Casey (Executive Director)

OVO Group Ltd and its subsidiary Boards are made up of the individuals listed above and other senior management.

The Board of OVO Group Ltd is shown in the Directors Report.

Directors' responsibilities

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

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

In late 2021, the OVO Group Ltd Board implemented a new committee structure – Audit Committee, Remuneration Committee and Risk Committee – which has operated throughout 2022. During 2022, each committee met three times.

In 2022, the Audit Committee reviewed the 2021 annual report, considered the report from the external auditor and reviewed finance controls. The Risk Committee reviewed OVO's principal risks, received updates on customer migrations, regulatory policy, tax, and health and safety, and reviewed macro market updates ahead of winter 2022. The activity of the Remuneration Committee is set out in the remuneration section below.

Reporting to the OVO Group Ltd Board, the leadership team: sets group wide strategy and tracks performance against it; oversees the 'how' of the combined business; makes decisions and resolves issues of group wide significance; and makes investment and resource allocation decisions.

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 risks and has categorised these into seven principal risk themes to allow us to understand where risk may arise:

- ❑ Financial and Commodity
- ❑ People and Culture
- ❑ Customer Proposition
- ❑ Customer Operations
- ❑ Regulation, Compliance and Reporting
- ❑ Security and Resilience
- ❑ Climate and Environment

We define principal risks as those which could stop the Group from offering the best customer service, prevent it from delivering Plan Zero and adversely impact its financial health.

OVO's leadership team is responsible for identifying risk and taking action to manage risk to a tolerable level. It is helped in its understanding of risk by OVO's Risk team.

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

Remuneration

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

The Remuneration Committee approves OVO's Long term Incentive Plan, which is designed to reward and retain our senior management, based on OVO's growth trajectory. Each year, the Committee considers whether to invite our people to join the Plan, and the target award given to those people – based on seniority/level of impact on the organisation's success.

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

Annually, all executive remuneration is benchmarked against external market data. This exercise identifies any spikes in specific disciplines and allows OVO to review remuneration by gender/ethnicity/level. Any changes to executive remuneration are reviewed and approved by the Remuneration Committee.

Stakeholders

Our Section 172(1) statement provides more detail on how we engage stakeholders and consider their interests in Board decision-making.

Section 172(1) Statement.

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

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

Our customers

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

Our people

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

Our communities

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

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

A focus on those around us,

Governments and regulators

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

Our suppliers

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

The planet

OVO's impacts on the environment and our planet are central to OVO's business strategy to deliver Plan Zero. We recognise that our business operations have environmental impacts, including carbon emissions, air pollution, natural resource use, water consumption and generation of waste. OVO Group has a formalised Environment Policy which sets out our commitment to minimise the negative impacts of our business activities on the environment across our value chain. Our entire business strategy is informed by Plan Zero and our mission to provide mass market, affordable and simple solutions that support our customers to take action against climate change to help them decarbonise their homes.

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

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

Embedding Section 172 into Board decision-making processes

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

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

Our plan to address the energy crisis.

A Ten Point Plan.

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

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

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

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

In the short term

1

Bring forward the energy rebate to be paid in full before Christmas

2

Set up a Fuel Poverty Taskforce to identify those most in need

3

Immediately increase funding for debt advisory charities

In the medium term

4

Abolish the prepayment meter poverty penalty

5

Reduce bill shocks – in a progressive way

6

Make bills simpler and fairer by abolishing the standing charge

7

Insulate everything: mobilise a national energy efficiency effort

In the long term

8

Ensure the Future System Operator has a mandate for securing long term energy demand

9

Bring back the Department of Energy and Climate Change

10

Introduce a carbon tax

We published our 'Ten Point Plan' to address the energy crisis and gained significant media coverage to amplify its recommendations. Following publication, we undertook extensive engagement with government, the regulator, our communities and third party organisations

in an effort to build momentum in support of the proposals. We are proud to report that a number of the policies have been adopted by the UK Government and we look forward to continuing to advocate for these proposals throughout 2023.

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



Vincent Casey
Director

Directors' Report About us.

Also OVO10 participants 2022

OVO Together, Bristol

OVO Together, Bristol

Path to Zero Launch Event

The Directors' report

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

OVO Group Ltd Board

The OVO Group Ltd Board is committed to fulfilling our purpose, and overseeing OVO's strategy to achieve it in a way that is ethical, responsible and creates long term value for all of our stakeholders.

Our Code of Conduct is published on our website¹ and supports our culture by reinforcing the ethical behaviours we expect at OVO.

During 2022, all of our people received training on the code. The OVO Group Ltd Board is chaired by Stephen Murphy, who during the year ended 31 December 2022 also held the position as the Chairman of London & Capital Group Limited. The role of Chair is separate from that of Chief Executive.

During the year, a total of eight director appointments were active, consisting of one independent non-executive director, five shareholder non-executive directors, and two executive directors. The Directors of the Company who were in office during the year and up to the date of signing the financial statements are listed below. In 2022, the OVO Group Ltd Board met 10 times and the Directors attended as follows:

Director	% 2022 meetings attended during appointment
Stephen Murphy (Independent Chair)	100%
Stephen Fitzpatrick (Shareholder Director)	100%
Adrian Letts ¹ (Executive Director)	100%
Atsushi Suzuki ² (Shareholder Director)	n/a
Go Murumoto ³ (Shareholder Director)	100%
Daniel Sasaki (Shareholder Director)	40%
Kunal Dasgupta ⁴ (Shareholder Director)	n/a
Vincent Casey (Executive Director)	100%

1 Resigned 1 March 2022, 2 Resigned 1 January 2022, 3 Appointed 1 January 2022, 4 Appointed 15 December 2022

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

Principal activities

The principal activities of the Group are set out below:

- ☐ the procurement and supply of gas and electricity from the wholesale markets and renewable sources;
- ☐ the installation, repair and maintenance of boilers and the provision of boiler and heating cover;
- ☐ the installation of smart meters and the provision of related services;
- ☐ the supply of energy efficiency solutions; and
- ☐ the development of technology solutions to support the energy market.

Dividends

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

Financial instruments

Financial risk management objectives and policies have been established for the purpose of making use of financial instruments in managing the exposure of the Group to commodity price risk, credit risk, interest rate risk and liquidity risk. Details of financial risk management objectives and policies can be found in Note 33 of the financial statements.

Charitable donations

During the year, the Group made charitable donations of £2,349,000 (2021: £759,000). The donations to the StepChange Debt Charity and The Trussell Trust are part of OVO's initiative to support UK consumers in response to the cost of living crisis.

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

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 'Our stakeholders'.

Other stakeholder engagement

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

1. <https://company.ovo.com>

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 of 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. Further details of the Group's future developments can be found in the Strategic Report. For further information, also visit our website².

Subsequent events after the year ended 31 December 2022

Subsequent to the balance sheet date, Intelligent Energy Technology Ltd, a subsidiary of the Group, has entered into a share purchase agreement with Gulf Oil International Limited to sell its shareholding in Indra Renewable Technologies Limited, with completion of the transaction subject to certain conditions

Going concern

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

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.

Streamlined energy and carbon reporting

Details of the Group's compliance against the Streamlined Energy and Carbon Reporting Framework Regulations can be found in the Strategic Report under the heading 'Streamlined Energy and Carbon Reporting'.

Corporate governance

The Group's statement on corporate governance can be found in the Strategic Report under the heading 'Statement on corporate governance arrangements'.

Disclosure of information to the auditors

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

Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors

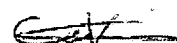
have elected to prepare the financial statements in accordance with UK-adopted international accounting standards. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company 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 then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK-adopted international accounting standards in conformity with the requirements of the Companies Act 2006 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 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 that enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and the Company, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's and the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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



Vincent Casey
Executive Director

2. <https://www.ovoenery.com>

Financial Statements

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Financial statements

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Independent Auditors' Report to the Members of OVO Group Ltd

Report on the audit of the financial statements

Opinion

In our opinion, OVO Group 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 2022 and of the Group's loss 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 as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Consolidated and Company Statements of Financial Position as at 31 December 2022; 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

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

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

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

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

Reporting on other information

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

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

With respect to the Strategic report and the Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included. Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and the Directors' report

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

In light of the knowledge and understanding of the 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 the Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

In preparing the financial statements, the directors are responsible for assessing the 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.

Independent Auditors' Report to the Members of OVO Group Ltd continued

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

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

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

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



Mark Skedgel (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
27 June 2023

Consolidated Income Statement for the Year Ended 31 December 2022

	Note	2022 £m		2021 £m		Results for the year
		Underlying business performance	Exceptional items and certain re-measurements ¹	Underlying business performance	Exceptional items and certain re-measurements ¹	
Revenue	4	6,730	–	6,730	4,513	4,513
Cost of sales		(6,073)	–	(6,073)	(3,766)	(3,780)
Gross profit		657	–	657	747	733
Administrative expenses		(595)	(76)	(671)	(574)	(614)
Net impairment losses of financial assets – customer debtors	5	(165)	–	(165)	(117)	(117)
Re-measurement of derivative energy contracts	22	–	(1,438)	(1,438)	–	422
Other operating income	6	7	29	36	1	5
Operating (loss)/profit	7	(96)	(1,485)	(1,581)	57	429
Finance income	9	5	–	5	–	–
Finance costs	9	(74)	–	(74)	(58)	(58)
Net finance costs	9	(69)	–	(69)	(58)	(58)
Share of net losses of associates accounted for using the equity method	17	(2)	–	(2)	(1)	(1)
(Loss)/profit before tax		(167)	(1,485)	(1,652)	(2)	370
Income tax credit/(expense)	13	39	338	377	33	(35)
(Loss)/profit for the year		(128)	(1,147)	(1,275)	31	335
(Loss)/profit attributable to:						
Owners of the Company		(126)	(1,147)	(1,273)	32	336
Non-controlling interests		(2)	–	(2)	(1)	(1)
(Loss)/profit for the year		(128)	(1,147)	(1,275)	31	335

¹ Refer to Note 8 for details of current and prior year exceptional items and certain re-measurements. The above results were derived from continuing operations with the exception of businesses disposed of referred to in Note 18.

Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2022

	Note	2022 £m	2021 £m
(Loss)/profit for the year		(1,275)	335
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Re-measurements of defined benefit surplus	29	10	11
Deferred tax on defined benefit surplus	13	(3)	(3)
Total other comprehensive income		7	8
Total comprehensive (expense)/income for the year		(1,268)	343
Total comprehensive (expense)/income attributable to:			
Owners of the Company		(1,266)	344
Non-controlling interests		(2)	(1)
		(1,268)	343

Consolidated and Company Statements of Financial Position as at 31 December 2022

		2022		2021	
	Note	Group £m	Company £m	Group £m	Company £m
Assets					
Non-current assets					
Property, plant and equipment	14	8	–	8	–
Right-of-use assets	15	38	–	35	–
Intangible assets	16	482	5	535	5
Deferred tax assets	13	440	–	142	–
Investments in subsidiaries	17	–	203	–	200
Investments accounted for using the equity method	17	8	–	8	–
Defined benefit pension asset	29	29	–	20	–
Derivative financial instruments	22	38	–	–	–
		1,043	208	748	205
Current assets					
Inventories	20	34	–	29	–
Trade and other receivables	21	1,215	88	936	105
Derivative financial instruments	22	–	–	461	–
Income tax asset		7	–	3	–
Cash and cash equivalents	23	474	2	145	–
		1,730	90	1,574	105
Assets classified as held for sale	19	1	–	–	–
Total assets		2,774	298	2,322	310
Liabilities					
Current liabilities					
Trade and other payables	24	(1,299)	(10)	(907)	(26)
Deferred income		(906)	–	(534)	–
Lease liabilities	26	(9)	–	(12)	–
Provisions	28	(20)	–	(39)	–
Derivative financial instruments	22	(1,054)	–	–	–
		(3,288)	(10)	(1,492)	(26)

Consolidated and Company Statements of Financial Position as at 31 December 2022 continued

	Note	2022		2021	
		Group £m	Company £m	Group £m	Company £m
Non-current liabilities					
Trade and other payables	24	(18)	–	–	–
Deferred tax liabilities	13	–	–	(80)	–
Loans and borrowings	25	(525)	–	(514)	–
Provisions	28	(28)	–	(19)	–
Lease liabilities	26	(34)	–	(30)	–
Derivative financial instruments	22	–	–	(39)	–
		(605)	–	(682)	–
Total liabilities		(3,893)	(10)	(2,174)	(26)
Net (liabilities)/assets		(1,119)	288	148	284
Equity					
Share capital	30	–	–	–	–
Share premium	30	133	133	133	133
Other reserves	30	–	80	1	80
(Accumulated losses)/Retained earnings		(1,252)	75	15	71
Total equity, attributable to owners of the parent		(1,119)	288	149	284
Non-controlling interests		–	–	(1)	–
Total equity		(1,119)	288	148	284

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 £4m (2021: loss of £13m).

The financial statements on pages 35 – 103 were approved by the Board on 26 June 2023 and signed on its behalf by:



Vincent Casey
Director

OVO Group Ltd
Registered number: 08862063

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

	Attributable to owners of the parent				Non-controlling interests	Total equity
	Share capital £m	Share premium £m	Other reserves £m	(Accumulated losses)/ Retained earnings £m		
At 1 January 2021	–	133	–	(329)	–	(196)
Profit/(loss) for the year	–	–	–	336	(1)	335
Other comprehensive income	–	–	–	8	–	8
Movement in foreign currency translation reserve	–	–	1	–	–	1
At 31 December 2021	–	133	1	15	(1)	148

	Attributable to owners of the parent				Non-controlling interests	Total equity
	Share capital £m	Share premium £m	Other reserves £m	Retained earnings/ (Accumulated losses) £m		
At 1 January 2022	–	133	1	15	(1)	148
Loss for the year	–	–	–	(1,273)	(2)	(1,275)
Other comprehensive income	–	–	–	7	–	7
Decrease in non-controlling interest in subsidiaries ¹	–	–	–	(1)	3	2
Movement in foreign currency translation reserve	–	–	(1)	–	–	(1)
At 31 December 2022	–	133	–	(1,252)	–	(1,119)

¹ On 9 September 2022, the Group sold its shareholding in OVO Energy (France) SAS (OEF) to ENI Gas & Power France S.A. (ENI). In the prior year, the Group owned 75% of OEF and recognised a non-controlling interest in OEF representing ENI's 25% interest in the company. The carrying amount of the existing 25% non-controlling interest was £1m as at 31 December 2021. Prior to the sale in the year, the Group had subscribed for further shares in OEF which increased its ownership to 99.75% from 75% and, as a result, the Group recognised a decrease in non-controlling interests of £3m and an increase in equity attributable to owners of the parent of £3m. The Group subsequently disposed of its shareholding in OEF. Refer to Note 18 Disposals for further details.

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

	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total equity £m
At 1 January 2021	–	133	80	84	297
Loss for the year	–	–	–	(13)	(13)
At 31 December 2021	–	133	80	71	284

	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total equity £m
At 1 January 2022	–	133	80	71	284
Profit for the year	–	–	–	4	4
At 31 December 2022	–	133	80	75	288

Consolidated Statement of Cash Flows for the Year Ended 31 December 2022

	Note	2022 £m	2021 £m
Cash flows from operating activities			
(Loss)/profit for the year		(1,275)	335
Adjustments for non-cash items			
Depreciation of property, plant and equipment	14	4	7
Depreciation and impairment of right-of-use assets	15	10	12
Amortisation of intangible assets	16	102	84
Defined benefit pension transactions		2	4
Finance income	9	(5)	—
Finance costs	9	74	58
Net gain on disposals of subsidiaries and businesses	6	(29)	(4)
Income tax (credit)/expense	13	(377)	35
Research and development expenditure credit	6	(7)	(1)
Net loss/(gain) on derivative financial instruments at fair value through profit or loss	22	1,438	(422)
Share of net losses of associates accounted for using the equity method	17	2	1
Other movements		5	1
		(56)	110
Working capital adjustments			
Increase in inventories		(5)	(11)
(Increase)/decrease in trade and other receivables		(282)	178
Increase in trade and other payables		424	73
Increase/(decrease) in deferred income		378	(143)
Decrease in provisions		(11)	(24)
Cash generated from operations		448	183
Income tax received		—	12
Net cash flow generated from operating activities		448	195
Cash flows from investing activities			
Interest received		1	—
Cash receipts from repayment of loans, classified as investing activities		5	—
Proceeds from the sale of business	18	1	8
Proceeds from the disposal of subsidiaries, net of cash disposed	18	14	3
Payments for property, plant and equipment		(5)	(1)
Payments for intangible assets		(59)	(53)
Payments for investments in associates accounted for using equity method		(2)	(5)
Net cash flow used in investing activities		(45)	(48)

Consolidated Statement of Cash Flows for the Year Ended 31 December 2022 continued

	Note	2022 £m	2021 £m
Cash flows from financing activities			
Interest paid		(24)	(34)
Repayment of bank borrowing		(38)	–
Principal elements of lease payments	26	(12)	(17)
Net cash flow used in financing activities		(74)	(51)
Net increase in cash and cash equivalents		329	96
Cash and cash equivalents at 1 January		145	49
Cash and cash equivalents at 31 December¹	23	474	145

¹ Cash and cash equivalents as at 31 December 2022 include £269m relating to cash received from the Government not yet distributed to customers under the Energy Bills Support Scheme. The use of this cash is restricted to distributing to eligible customers to reduce their energy bills under the scheme. Cash available for use as at 31 December 2022 is therefore £205m. Refer to Government support schemes in the Summary of significant accounting policies for further details on the scheme.

Company Statement of Cash Flows for the Year Ended 31 December 2022

	Note	2022 £m	2021 £m
Cash flows from operating activities			
Profit/(loss) for the year		4	(13)
Adjustments for non-cash items			
Impairment of investments in subsidiaries	17	–	5
Loss on disposal of investments		4	–
Finance income		(4)	(6)
Income tax expense		1	1
		5	(13)
Working capital adjustments			
Decrease in trade and other receivables		14	9
Decrease in trade and other payables		–	(1)
Net cash flow generated from/(used in) operating activities		19	(5)
Cash flows from investing activities			
Payments for investments in subsidiaries		(8)	(1)
Cash receipts from repayment of loans, classified as investing activities		5	–
Net cash flow used in investing activities		(3)	(1)
Cash flows from financing activities			
Repayment of related party financing		(14)	–
Net cash flow used in financing activities		(14)	–
Net increase/(decrease) in cash and cash equivalents		2	(6)
Cash and cash equivalents at 1 January		–	6
Cash and cash equivalents at 31 December	23	2	–

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

1 General information

The Company is a private company limited by share capital, incorporated and domiciled in the United Kingdom. The nature of the Group's operations and principal activities is set out in the Directors' Report on page 26.

The address of its registered office and principal place of business is:

1 Rivergate
Temple Quay
Bristol
England
BS1 6ED
UK

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

2 Accounting policies

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

Summary of significant accounting policies and key accounting estimates

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

Basis of preparation

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

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

- assets held for sale – measured at the lower of carrying amount and 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 £4m (2021: loss of £13m).

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 expect 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 had net liabilities of £1,119m (2021: net assets of £148m) and net current liabilities of £1,557m (2021: net current assets of £82m) as at the balance sheet date. The significant net liabilities positions were primarily driven by the re-measurement of commodity derivatives designated as held for trading. Despite this, the Group continues to manage its liquidity risk appropriately in the wake of volatile commodity prices. Our hedging arrangements have remained effective in managing our exposure to commodity price volatility and, together with Government customer support schemes, have managed the Group's liquidity risk. At 31 December 2022, the Group had £205m (2021: £145m) of unrestricted cash and cash equivalents. In addition to servicing interest costs, the Group prepaid £38m against its term loan facilities during the year and has remained compliant with all of its financial covenants under its financing arrangements and energy trading arrangements.

2 Accounting policies 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 following key assumptions:

- Gross margin fluctuations over the forecast period as a result of forecast commodity prices and expected movements in the regulatory price cap.
- Increased expected credit losses as a result of the impact of the UK cost of living crisis, including rising energy bills, inflation and interest rates, and increased operating costs resulting from planned initiatives aimed at mitigating bad debt risks;
- Stable customer numbers, with customer churn offset by customer growth; and
- The impact of ring-fencing of renewable obligation receipts.

The severe but plausible downside scenarios included a further increase in bad debt, an increase in customer churn, and weather scenarios. Under the forecast (both base case and downside scenarios) the Group and Company have sufficient liquidity over the full going concern period and would be compliant with its financial covenants. In addition, the Directors have a range of mitigations within the Group's direct control to protect the Group's earnings and liquidity in the event of an unlikely more severe downside scenario. These mitigations include reductions in a selection of discretionary operating and capital expenditure.

Accordingly, the Directors have a reasonable expectation that the Group and the Company have adequate liquidity and resources to continue operating for a period of at least 12 months from the date of approval of the financial statements and, therefore, has considered it appropriate to adopt the going concern basis in preparing the financial statements. The Directors do not believe there are any material uncertainties to disclose in relation to the Group's and the Company's ability to continue as a going concern.

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 31 December 2022.

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 shareholders' 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.

Notes to the Financial Statements for the Year Ended 31 December 2022 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 its annual reporting period commencing 1 January 2022:

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

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

New standards and interpretations not yet adopted

IFRS 17 Insurance Contracts will be effective from 1 January 2023. The Group currently has fixed fee service contracts that are accounted for as insurance contracts under IFRS 4 Insurance contracts. The Group has completed its assessment of IFRS 17 and expects these contracts to fall within the scope of IFRS 17 as the Group conducts individual risk assessments when setting the price of these contracts. The Group will apply the simplified Premium Allocation Approach to its contracts as the duration of the Group's insurance contracts is not greater than one year. The Group does not expect a material impact on the consolidated financial statements from the application of this standard.

Certain new accounting standards, amendments to accounting standards and interpretations not mentioned above have been published that are not mandatory for 31 December 2022 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 Group in the current or future reporting periods and on foreseeable future transactions.

Government support schemes

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

Energy Price Guarantee Scheme

The Energy Price Guarantee Scheme (EPG) protects consumers from increases in energy costs as the scheme limits the amount suppliers can charge per unit of energy used. The scheme reduces the average annual domestic household bill for the period from 1 October 2022 to 31 March 2023 to approximately £2,500 per annum, and was extended at the same level from 1 April 2023 to 30 June 2023. The scheme is expected to remain in place until April 2024. Energy suppliers are compensated by the Government for the savings delivered to households, which represent the difference between the expected price cap and the guarantee rates. Management has determined it appropriate to apply the requirements of IAS 20 Government Grants to EPG grant income. The Group recognises EPG grant income over the support period as customers are charged reduced rates. The Group recognises EPG grant income to the extent there is reasonable assurance that the Group will comply with the conditions attaching to the scheme and that the income will be received. The Group presents EPG grant income within revenue as it judges the income arises from the ordinary activities of the Group. Since the start of the scheme, the Group has recognised EPG grant income of £853m which represents the amount of savings delivered to households.

Energy Bills Support Scheme

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

2 Accounting policies continued

Revenue

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

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

Transaction price

In determining the transaction price, 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 it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur.

(ii) Consideration payable to a customer

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

Revenue recognition

The below sets out the revenue recognition accounting policies for each material revenue stream for the Group:

Sale of gas and electricity

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

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

Installation and rental of meters

Installation and rental of meters predominantly relates to the provision of meter installation to meter asset providers. Revenue from the installation of meters is recognised at a point in time as the control of installed meters passes to the 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 majority of voiceline and broadband revenue is recognised 'over time' as the provision of voiceline and broadband services is considered consistent with receipt and consumption of the benefits of the services.

Sale of home and emergency cover

Revenue from the sale of home and emergency cover predominantly relates to the provision of boiler service and boiler and central heating cover. Boiler service contracts are entered into with home services customers by Corgi Homeplan Ltd. Boiler and central heating covers are insurance contracts entered into with home services customers by OVO Insurance Services Ltd, authorised and regulated by the Guernsey Financial Services Commission. Both companies are wholly-owned subsidiaries of the Group.

Boiler service contracts are typically fixed-fee contracts for the provision of boiler service. Revenue arising from boiler services is recognised at a point in time when the service is performed.

Boiler and central heating covers protect policyholders against the risk of breakdowns. These covers generally include maintenance, repair and/or replacement of the items affected, but the benefits available to customers may vary, depending on the terms and conditions of the contracts entered into. The Group is exposed to risk transferred under these contracts, which depends on the occurrence of future uncertain events such as extreme weather events, the nature and frequency of faults, and the cost of repair or replacement of the items affected. Insurance risk is actively managed through customer risk assessment at contract inception and annual boiler service.

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

2 Accounting policies continued

The risk transferred under these contracts is not considered materially concentrated as the covers are sold to residential customers across the UK with small individual contract values. The Group regularly assesses insurance risk sensitivities such as frequency of claims and increases in fulfilment costs based on both historic and forward-looking information, and a reasonable increase in these sensitivities would not have a material impact on the results of the Group.

The amount and timing of the Group's future cash flows arising from these contracts is uncertain and is also dependent on the terms and conditions entered into with the customers, such as the items that are covered and the level of associated services that is agreed, the number of call-outs to carry out work, and limits on repairs and maintenance and/or replacement costs.

Revenue is recognised over the life of contracts (usually 12 months). Costs incurred to settle claims predominantly relate to the labour costs in servicing claims.

The below sets out the revenue and expenses relating to insurance contracts recognised in the financial statements.

	2022 £m	2021 £m
Revenue relating to insurance contracts	50	34
Expenses relating to insurance contracts	(42)	(30)

Accrued income and receivables

Accrued income is the right to consideration in exchange for goods or services provided to a 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, or 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 balances 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.

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.

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.

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

Government grants

Grants from the Government are recognised in the income statement over the period in which the related costs are recognised and only when there is reasonable assurance that the Group will comply with the conditions attached to them and the grant will be received.

Finance income and costs

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

Foreign currency transactions and financial statements of foreign operations

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

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

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

Tax

The tax expense or credit for the period comprises current tax 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, the expected period of realisation and using tax rates enacted or substantively enacted at the reporting period end date. Deferred tax is not discounted.

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

Tax assets and tax liabilities are offset in the statement of financial position where they relate to taxes levied by the same tax authority and the same taxable entity or group and the entity has a legally enforceable right to set off.

Notes to the Financial Statements for the Year Ended 31 December 2022 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
Fixtures and fittings	3 years straight line
Meter assets and miscellaneous equipment	4 to 10 years straight line
Office equipment	3 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.

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.

2 Accounting policies continued

Amortisation

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

Asset class	Amortisation method and rate
Other intangible assets	3 to 5 years straight line
Software and IT development costs	3 to 5 years straight line
Trade name	4 to 10 years straight line
Contractual customer relationships	Over the expected life of the contract

Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Other assets 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

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

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

Where the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

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

Changes in ownership interests

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

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

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

2 Accounting policies continued

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

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 accrued income. Further detail on this model and application within these financial statements can be found within Note 3.

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

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

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

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

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

Inventories

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

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. 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.

2 Accounting policies continued

Borrowings

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

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

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

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

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and 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 its estimates of the number of shares that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to the original estimates, if any, in the income statement, with a corresponding adjustment to equity.

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

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

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

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.

2 Accounting policies continued

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 basis over the term of the lease or other systematic basis if considered more appropriate. Short term and low value lease payments are included in operating expenses in the income statement.

Share capital

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

Financial instruments

Initial recognition

The 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.

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

2 Accounting policies continued

Classification and measurement

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

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

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

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

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

The classification and the basis for measurement are subject to the 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 2022, the Group had no assets measured at FVOCI.

Financial assets at amortised cost

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

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

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

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

Impairment of financial assets

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

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

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 re-measurement 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.

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 the 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.

Notes to the Financial Statements for the Year Ended 31 December 2022 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, and derivative financial instruments.

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

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

This estimate comprises both billed revenue (trade 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 2022, revenue arising from estimated consumption amounted to £1,635m (2021: £1,217m). The judgements applied, and the assumptions underpinning these judgements in arriving at this estimated amount, are considered to be appropriate. However, a change in these assumptions would have an impact on the amount of revenue recognised. Management believes that based on latest industry data the amount of revenue recognised could increase by up to £59m based on a reasonable change in the overall assumptions made in reaching this estimate.

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

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

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

The judgments applied, and the assumptions underpinning these judgements, are considered to be appropriate. However, a change in these assumptions would have an impact on the revenue recognised. The primary source of estimation uncertainty relating to unread revenue arising from eligible customers under the scheme amounted to £589m (2021: £nil). Management believes that based on latest industry data the amount of revenue recognised could increase by up to £25m based on a reasonable change in the overall assumptions made in reaching this estimate.

3 Critical accounting judgements and key sources of estimation uncertainty continued

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.

At 31 December 2022, the Group has £1,016m (2021: £422m) derivative energy contracts that are not determined as own-use contracts and are measured at fair value through profit or loss. Refer to Note 33 Financial risk management for sensitivity analysis.

Deferred tax assets (accounting judgement and estimation uncertainty)

Deferred tax assets have been recognised in respect of UK tax losses and other temporary differences giving rise to deferred tax assets where the Directors believe it is probable that these assets will be recovered, i.e. that future taxable amounts (e.g. taxable profits) will be available to utilise those temporary differences and losses. The carrying amount of the deferred tax assets are reviewed at each 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 of £188m in respect of UK tax losses are expected to be utilised over the next nine to thirteen years (2021: six to eight 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.

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 the underlying provision rates worsening by 10%. This would lead to a £24m increase in the expected credit loss provision in 2022.

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

4 Revenue

Analysis of revenue

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

	2022 £m	2021 £m
Sale of gas and electricity	5,624	4,207
Government grants – Energy Price Guarantee Scheme	853	–
Installation and rental of meters	119	162
Sale of home and emergency cover and related services	65	61
Voiceline and broadband revenue	34	49
Other revenue	35	34
	6,730	4,513

The Group has recognised grant income of £853m in the year which represents the amounts of support delivered to households and compensated by the Government under the Energy Price Guarantee Scheme (EPG). Refer to Government support schemes in the Summary of significant accounting policies for further details on the scheme.

Revenue generated outside of the UK in the year is £17m (2021: £20m) of which £14m (2021: £20m) is included within 'Sale of gas and electricity' and £3m (2021: £nil) is included within Other revenue.

Other revenue mainly consists of sale of energy efficiency solutions services of £13m (2021: £12m), sale of renewable certificates of £10m (2021: £nil), insurance claims and boiler installation services of £3m (2021: £9m), revenue protection and other meter operator services of £1m (2021: £6m) and Software-as-a-Service professional services of £1m (2021: £nil).

Assets and liabilities related to contracts with customers

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

	Group		
	31 December 2022 £m	31 December 2021 £m	1 January 2021 £m
Assets related to contracts with customers			
Trade receivables	679	603	556
Accrued income	370	374	599
Provision for impairment of trade receivables and accrued income	(329)	(310)	(257)
Total current assets related to contracts with customers	720	667	898
Contract liabilities			
Deferred income	(906)	(534)	(677)
Total current contract liabilities	(906)	(534)	(677)

Assets and liabilities related to contracts with customers have increased in the year, reflecting the impact of increased commodity prices on retail tariffs and the Government support schemes.

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

5 Net impairment losses of financial assets – customer debtors

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

	2022 £m	2021 £m
Impairment losses of trade receivables and accrued income	167	117
Reversal of previously recognised impairment losses	(2)	–
Net impairment losses of financial assets – customer debtors	165	117

6 Other operating income

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

	2022 £m	2021 £m
Gain on disposal of subsidiaries	30	3
Net (loss)/gain on disposal of businesses	(1)	1
Government grants – Coronavirus Job Retention Scheme	–	1
Research and development expenditure credit	7	1
Net foreign exchange losses	–	(1)
	36	5

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

Refer to Note 18 Disposals for further details on the gain on disposal of subsidiaries. Net (loss)/gain on disposal of businesses consists of gain on disposal of the Revenue Protection business of £1m and loss on disposal of intangible assets of £2m.

7 Operating (loss)/profit

Arrived at after charging/(crediting):

	2022 £m	2021 £m
Net impairment losses of financial assets – customer debtors	165	117
Depreciation expense – property, plant and equipment	4	7
Depreciation expense – right-of-use assets	10	11
Impairment – right-of-use assets	–	1
Amortisation – intangible assets	102	84
Government grants – Coronavirus Job Retention Scheme	–	(1)
Government grants – Energy Price Guarantee Scheme	(853)	–

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

8 Exceptional items and certain re-measurements

	2022 £m	2021 £m
Integration	37	26
Group reorganisation	39	11
Gain on disposal of subsidiaries	(30)	(3)
Net loss/(gain) on disposal of businesses	1	(1)
Industry and regulatory	–	14
Mergers and acquisitions	–	3
Re-measurement of derivative energy contracts	1,438	(422)
Exceptional items and certain re-measurements included within Group operating (loss)/profit	1,485	(372)
Exceptional items and certain re-measurements included within Group (loss)/profit before tax	1,485	(372)
Net taxation on exceptional items and certain re-measurements	(338)	68

Integration

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

Group reorganisation

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

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

Gain on disposal of subsidiaries

Gain on disposal of subsidiaries includes the gain on disposals of Origin Communications Limited (previously OVO (S) Retail Telecoms Limited) of £21m and OVO Energy (France) SAS of £9m in the year. Prior year amount included the gain on disposal of OVO Energy Australia of £3m. Refer to Note 18 Disposal for further details.

Net loss/(gain) on disposal of businesses

Net loss/(gain) on disposal of businesses consists of gain on disposal of the Revenue Protection business of £1m and loss on disposal of intangible assets of £2m. Prior year amount included the gain on disposal of Large Power Metering operation of £1m. Refer to Note 18 Disposal for further details.

Industry & regulatory

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

Mergers & acquisitions

These consist of professional fees relating to mergers and acquisitions activity in the prior year.

Re-measurement of derivative energy contracts

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

8 Exceptional items and certain re-measurements continued

Income statement classification

Recognised in cost of sales are £nil exceptional industry and regulatory costs (2021: £14m exceptional industry and regulatory costs). The £1.4bn loss arising from the re-measurement of derivative energy contracts is recognised in re-measurement of derivative energy contracts (2021: £422m gain). The £29m net gain on disposal of subsidiaries and businesses is recognised in other operating income (2021: £4m). The remaining total of £76m exceptional costs is recognised in administrative expenses (2021: £40m).

Adjusted performance measures

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

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

Adjusted EBITDA is defined as operating (loss)/profit, after adjusting for depreciation, amortisation, impairment and exceptional items and certain re-measurements including fair value gain/(loss) on derivative financial instruments. Adjusted operating (loss)/profit is defined as operating (loss)/profit, after adjusting for exceptional items and certain re-measurements including fair value gain/(loss) on derivative financial instruments. Adjusted (loss)/profit before tax is defined as (loss)/profit before tax, after adjusting for exceptional items and certain re-measurements including fair value gain/(loss) on derivative financial instruments.

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

	2022 £m	2021 £m
Statutory (loss)/profit for the year	(1,275)	335
Add: Income tax (credit)/expense	(377)	35
(Loss)/profit before tax	(1,652)	370
Add: Exceptional items and certain re-measurements	1,485	(372)
Adjusted (loss) before tax	(167)	(2)
Add: Net finance costs	69	58
Add: Share of net losses of associates accounted for using equity method	2	1
Adjusted operating (loss)/profit	(96)	57
Add: Depreciation and non-exceptional impairment of property, plant and equipment and right-of-use assets	14	18
Add: Amortisation and impairment of intangible assets	102	84
Adjusted EBITDA	20	159

9 Finance income and costs

	2022 £m	2021 £m
Finance income		
Interest income on bank deposits	5	–
Finance costs		
Interest and finance charges paid or payable for loans and borrowings	(70)	(53)
Unwinding of discount on provisions	(1)	(2)
Interest expense on leases	(3)	(3)
Total finance costs	(74)	(58)
Net finance costs	(69)	(58)

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

10 Staff costs

Group:

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

	2022 £m	2021 £m
Wages and salaries	254	274
Social security costs	28	28
Pension costs – defined contribution scheme	16	18
Pension costs – defined benefit scheme	5	9
Capitalised staff costs	(35)	(33)
Staff costs recognised in the income statement	268	296

Company:

No employees are directly employed by OVO Group Ltd. The aggregate payroll costs included in the Company financial statements during the year are £nil (2021: £nil).

Group:

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

	2022 No.	2021 No.
People & operations	3,737	5,086
Technology & business change	822	891
Commercial & finance	699	411
Group	29	26
	5,287	6,414

11 Directors' remuneration

The Directors' remuneration for the year is as follows:

	2022 £'000	2021 £'000
Remuneration	865	1,632
Contributions paid to defined contribution pension scheme	17	71
Compensation for loss of office	779	–
	1,661	1,703

In respect of the highest paid Director:

	2022 £'000	2021 £'000
Remuneration	129	558
Contributions paid to defined contribution pension scheme	–	15
Compensation for loss of office	779	–
	908	573

The Directors' remuneration and salary costs for the current year are recognised in OVO Energy Ltd (2021: OVO Energy Ltd).

Retirement benefits were accruing to one of the Directors (2021: three). The number of Directors in respect of whose qualifying services shares were received or receivable under the long term incentive plan is nil (2021: six). No 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 plan (2021: No shares were received). Total aggregate share-based payment recognised in the year in respect of the Directors' qualifying services is £40,000 (2021: £86,000).

12 Auditors' remuneration

	2022 £'000	2021 £'000
Audit of Company	170	150
Audit of subsidiaries	580	500
Total audit fees	750	650
Tax compliance services	–	9
Other non-audit services	75	181
Total non-audit fees	75	190
Total auditors' remuneration	825	840

The Group bears the costs of audit of the OVO Energy Group of the ESPS which amounted to £20,000 for the year ended 31 December 2022 (2021: £18,000). Other non-audit services include limited assurance over selected sustainability information reported in the Annual Report and agreed upon procedures in connection with the Group's term loan facilities reporting requirements.

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

13 Income tax credit/(expense)

Tax (credited)/charged in the consolidated income statement

	2022 £m	2021 £m
Current taxation		
Current taxation	2	1
Deferred taxation		
Arising from origination and reversal of temporary differences	(321)	71
Adjustment in respect of prior periods	(1)	–
Arising from changes in tax rates and laws	(57)	(37)
Total deferred taxation	(379)	34
Tax (credit)/expense in the income statement	(377)	35

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

The differences are reconciled below:

	2022 £m	2021 £m
(Loss)/profit before tax	(1,652)	370
Corporation tax at standard rate	(314)	70
Effect of expenses not deductible in determining taxable profit or tax loss	–	1
Adjustment for prior periods	(1)	–
Deferred tax not recognised for the period	4	3
Effect of different statutory tax rates	(1)	(1)
Deferred tax credit relating to changes in tax rates or laws	(57)	(37)
Effect of revenues exempt from taxation	(8)	(1)
Total tax (credit)/charge	(377)	35

13 Income tax credit/(expense) continued

Deferred tax

Group

Deferred tax movement during the year:

	At 1 January 2022 £m	Recognised in income £m	Recognised in other comprehensive income £m	Disposal of subsidiary £m	At 31 December 2022 £m
Accelerated tax depreciation	37	9	–	–	46
Provisions	–	1	–	–	1
Revaluation of intangible assets	(61)	3	–	2	(56)
Tax losses carry-forwards	156	32	–	–	188
Pension benefit obligations	(5)	1	(3)	–	(7)
Derivatives	(80)	318	–	–	238
Other items	15	15	–	–	30
Net tax assets/(liabilities)	62	379	(3)	2	440

Deferred tax movement during the prior year:

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

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

As at 31 December 2021, £80m deferred tax liabilities of the £62m net deferred tax assets were recognised as non-current liabilities on the balance sheet.

Deferred tax assets of £188m have been recognised in respect of carried forward UK tax losses on the basis that there will be sufficient future profits available against which to offset them. There are no time limits on the recovery of such losses. Refer to Note 3 Critical accounting judgements, for further discussion on the basis for recognition of deferred tax assets.

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

Deferred tax of £20m (2021: £22m) has not been recognised in relation to indefinite carry forward tax losses of £80m (gross) for which it is 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 25% increased from the current rate of 19%. Deferred tax assets and liabilities were re-measured in 2021 based on the applicable tax rate in the period that the balances were expected to be realised. The impact of this rate change in the current period is a tax credit of £57m primarily relating to the re-measurement of new temporary differences arising in the year from the current tax rate of 19% to the deferred tax rate, which is based on the applicable tax rate in the period that the balances are expected to be realised.

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

14 Property, plant and equipment

Group

	Leasehold property £m	Fixtures and fittings £m	Office equipment £m	Meter assets and miscellaneous equipment £m	Total £m
Cost					
At 1 January 2021	9	2	6	11	28
Additions	5	–	3	–	8
Disposals	–	–	–	(1)	(1)
At 31 December 2021	14	2	9	10	35
Additions	2	–	2	–	4
Disposals	(4)	–	(3)	(9)	(16)
At 31 December 2022	12	2	8	1	23
Accumulated depreciation					
At 1 January 2021	8	2	4	6	20
Charge for the year	3	–	1	3	7
At 31 December 2021	11	2	5	9	27
Charge for the year	1	–	2	1	4
Eliminated on disposal	(4)	–	(3)	(9)	(16)
At 31 December 2022	8	2	4	1	15
Carrying amount					
At 31 December 2022	4	–	4	–	8
At 31 December 2021	3	–	4	1	8
At 1 January 2021	1	–	2	5	8

The depreciation charge of £4m (2021: £7m) is recognised in administrative expenses.

The amount of contractual commitments for the acquisition of property, plant and equipment as at the balance sheet date is £3m (2021: £nil).

15 Right-of-use assets

Group

	Property £m	Fleet £m	Total £m
Cost			
At 1 January 2021	53	23	76
Modifications	(1)	(1)	(2)
Disposals	(1)	–	(1)
At 31 December 2021	51	22	73
Additions	7	–	7
Modifications	–	6	6
At 31 December 2022	58	28	86
Accumulated depreciation and impairment			
At 1 January 2021	20	7	27
Charge for the year	7	4	11
Impairment	1	–	1
Eliminated on disposal	(1)	–	(1)
At 31 December 2021	27	11	38
Charge for the year	6	4	10
At 31 December 2022	33	15	48
Carrying amount			
At 31 December 2022	25	13	38
At 31 December 2021	24	11	35
At 1 January 2021	33	16	49

Depreciation charge of £10m (2021: £11m) is recognised in administrative expenses. There is no impairment recognised in the year (2021: £1m recognised in administration expenses).

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

16 Intangible assets

Group

	Goodwill £m	Contractual customer relationships £m	Software and IT development costs £m	Trade name £m	Other intangible assets £m	Total £m
Cost						
At 1 January 2021	153	338	142	51	7	691
Additions	–	–	53	–	–	53
At 31 December 2021	153	338	195	51	7	744
Additions	–	–	59	–	–	59
Disposals	–	(12)	(23)	–	–	(35)
Transfers to assets held for sale	–	(5)	–	–	–	(5)
At 31 December 2022	153	321	231	51	7	763
Accumulated amortisation						
At 1 January 2021	3	65	42	12	3	125
Amortisation charge	–	46	26	11	1	84
At 31 December 2021	3	111	68	23	4	209
Amortisation charge	–	46	42	13	1	102
Amortisation eliminated on disposal	–	(5)	(21)	–	–	(26)
Transfers to assets held for sale	–	(4)	–	–	–	(4)
At 31 December 2022	3	148	89	36	5	281
Carrying amount						
At 31 December 2022	150	173	142	15	2	482
At 31 December 2021	150	227	127	28	3	535
At 1 January 2021	150	273	100	39	4	566

Amortisation charge of £102m (2021: £84m) is recognised in administrative expenses.

Included within the carrying amount of the Software and IT development costs of £142m (2021: £127m) are intangible assets under construction of £42m (2021: £78m), which are not subject to amortisation. Carrying value of development costs associated with the Kaluza platform included in Software and IT development is £67m (2021: £50m). The remaining amortisation period of the Kaluza platform is between three and five years (2021: four and five years). Contractual customer relationships include customer relationships acquired from SSE with a carrying value of £153m (2021: £193m). The remaining amortisation period is between four and six years (2021: three and seven years).

16 Intangible assets continued

Impairment assessment

At each reporting period end date, an annual impairment test for goodwill and intangibles not yet ready for use is undertaken. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash flows (cash-generating units) and the carrying value of the cash-generating units is compared to their recoverable amount. Where the recoverable amount is less than the carrying value, an impairment occurs. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. There has been no indication that other non-financial assets might be impaired.

The recoverable amount 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. Pre-tax cash flows used in the value in use calculations are derived from the Group's board-approved budget for 2023 and five-year forecast. Long term growth rates have been used in the extrapolation of cash flow projections beyond the five-year forecast period and are determined with reference to publicly available historical data and long term growth rate forecasts from external sources, adjusted for management assumptions where appropriate. Cash flows are discounted at a pre-tax rate that reflects both current market assessments of the time value of money and the risks specific to the CGUs. Discount rates are based on the estimated weighted average cost of capital of each CGU, adjusted to reflect the impact of tax to derive a pre-tax discount rate. Inflation rates used in the forecast range from 3% to 5% and are based on publicly available inflation forecasts, adjusted for management assumptions where appropriate.

The Group considers UK Retail Energy and Home Services to be separate CGUs. The key assumptions used in the value in use calculations for impairment assessment for these CGUs are set out below:

	UK Retail Energy	Home Services (previously Corgi)
Goodwill allocated to CGU	£113m (2021: £113m)	£37m (2021: £37m)
Assumptions		
Revenue	Existing customers adjusted for growth forecast based on customer acquisition activity and the current and anticipated market conditions. Gas and electricity revenue based on forward market prices and price caps.	
Gross margin	Gross margins achieved in latest periods adjusted for current market conditions and the impact of expected regulatory changes on cost of goods.	
Operating costs	Payroll costs based on projected headcount in line with expected efficiency achieved as a result of integration and cost saving initiatives and inflation expectations. Sales & marketing and customer acquisition costs in line with the Group's growth plan. Credit losses based on historical assumptions updated for current market conditions and growth assumptions on revenue and customers.	
Growth rate to perpetuity	0% (2021: 0%)	0% (2021: 2%)
Pre-tax discount rate	19% (2021: 18%)	19% (2021: 15%)

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.

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

16 Intangible assets continued

Company

	Software and IT development costs £m	Total £m
Cost		
At 1 January 2021	5	5
At 31 December 2021	5	5
At 31 December 2022	5	5
Carrying amount		
At 31 December 2022	5	5
At 31 December 2021	5	5
At 1 January 2021	5	5

17 Investments

Group subsidiaries

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

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

17 Investments continued

Name of subsidiary	Principal activity	Registered office / Country of incorporation	Proportion of ownership interest and voting rights held	
			2022	2021
OVO Field Force Ltd	Non-trading company	1 Rivergate Temple Quay, Bristol, England, BS1 6ED, UK	100%	100%
Corgi Homeplan Ltd	Sale of boiler, central heating and electrical wiring services, breakdown cover and installation services	Cadworks, 41 West Campbell Street, Glasgow, Scotland, G2 6SE, UK	100%	100%
Kantan Ltd.*	Development of software application	9 Pembridge Road, London, England, W11 3JY, UK	91.84% / 100%	91.84% / 100%
Intelligent Energy Technology Ltd*	Holding company	1 Rivergate Temple Quay, Bristol, England, BS1 6ED, UK	100%	100%
OVO Insurance Services Ltd.	Insurance services	PO Box 155, Mill Court, La Charroterie, St Peter Port, Guernsey, GY1 4ET	100%	100%
OVO Energy (France) SAS*	Disposed of	231 rue Saint-Honore 75001 Paris, France	0%	75%
OVO Energy (Netherlands) B.V.*	Dissolved	Netherlands	0%	100%
OVO Energy (Italy) S.r.l.*	Dissolved	Via dell'Annunciata n. 23/4, Avv. Francesco Dagnino c/o LEXIA Avvocati, 20121, Milan, Italy	0%	100%
OVO Energy Spain SL*	Sale of electricity and gas to customers in Spain	C. Muntaner 328 Entresuelo 1a, 08021 Barcelona, Spain	100%	100%
OVO Energy Japan GK*	Dissolved	Level 11, Aoyama Palacio Tower 3-6-7 Kita-Aoyama Minato-ku, Tokyo, Japan	0%	100%

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

17 Investments continued

Name of subsidiary	Principal activity	Registered office / Country of incorporation	Proportion of ownership interest and voting rights held	
			2022	2021
OVO Energy Germany GmbH*	Dormant	CO23 Berlin UG, Stresemannstr. 23, 10963 Berlin, Germany	100%	100%
OVO (S) Energy Services Intermediate holding company Limited		1 Rivergate Temple Quay, Bristol, England, BS1 6ED, UK	100%	100%
OVO (S) Electricity Limited	Dormant	1 Rivergate Temple Quay, Bristol, England, BS1 6ED, UK	100%	100%
OVO (S) Gas Limited	Licensed marketing and sale of natural gas to domestic customers in the UK	1 Rivergate Temple Quay, Bristol, England, BS1 6ED, UK	100%	100%
OVO (S) Energy Solutions Limited	Installation of energy efficiency measures in domestic properties	Cadworks, 41 West Campbell Street, Glasgow, Scotland, G2 6SE, UK	100%	100%
OVO (S) Home Services Limited	Sale of boiler, central heating and electrical wiring services, breakdown cover and installation services	Cadworks, 41 West Campbell Street, Glasgow, Scotland, G2 6SE, UK	100%	100%
OVO (S) Metering Limited	Non-trading company	Grampian House, 200 Dunkeld Road, Perth, Scotland, PH1 3GH, UK	100%	100%
Origin Communications Limited (previously OVO (S) Retail Telecoms Limited)	Disposed of	Soapworks, Ordsall Lane, Salford, England, M5 3TT, UK	0%	100%

* Indicates direct investment of the Company

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

For the year ended 31 December 2022, the following subsidiaries were entitled to exemption from audit under Section 479A of the Companies Act 2006 relating to subsidiary companies:

OVO Holdings Ltd
 Spark Gas Shipping Ltd
 OVO Field Force Ltd
 Corgi Homeplan Ltd
 Kantan Ltd.
 Intelligent Energy Technology Ltd
 OVO (S) Energy Services Limited
 OVO (S) Electricity Limited
 OVO (S) Energy Solutions Limited
 OVO (S) Home Services Limited
 OVO (S) Metering Limited

OVO Group Ltd has guaranteed the liabilities of the above subsidiaries in order for them to qualify for the exemption from audit under Section 479A of the Companies Act 2006 for the year ended 31 December 2022.

17 Investments continued

Group associates

	Investments accounted for using the equity method £m
Cost	
At 1 January 2021	1
Additions	8
Share of net losses of associates	(1)
At 31 December 2021	8
Additions	2
Share of net losses of associates	(2)
At 31 December 2022	8
Carrying amount	
At 31 December 2022	8
At 31 December 2021	8

During the year, the Group subscribed for further shares in OVO Energy Pty Ltd. OVO Energy Pty Ltd ceased to be a wholly owned subsidiary and became an associate of the Group in the prior year as the Group's shareholding was diluted following AGL subscription of new shares issued by the entity. £3m of the additions in the prior year related to the retained investment at fair value recognised when the Group lost control of OVO Energy Pty Ltd. The Group's shareholding in Indra Renewable Technologies Limited was diluted following new shares issued by the entity in the year.

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

Details of the Group's associates as at 31 December 2022 and 31 December 2021 are as follows:

Name of associate	Principal activity	Registered office	Proportion of ownership interest and voting rights held	
			2022	2021
Indra Renewable Technologies Limited	Engineering design activities for industrial process and production	Sentinel House, Sparrowhawk Close, Malvern, England, WR14 1GL, UK	33.18%	45.82%
Chaddenwyth Services Limited	Energy information technology platform and service	86-90 Paul Street, London, England, EC2A 4NE, UK	29.66%	29.66%
The Renewable Exchange Limited	Trading platform and solutions for renewable generators	One The Square, Temple Quay, Bristol, England, BS1 6DG, UK	42.35% / 44%	44% / 44%
OVO Energy Pty Ltd	Sale of electricity and gas to customers in Australia	L22 120 Spencer Street, Melbourne, VIC 3000, Australia	49%	47.23%

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

17 Investments continued

Summary of the Company investments

	31 December 2022 £m	31 December 2021 £m
Investments in subsidiaries	203	200
		Investments in subsidiaries £m
Subsidiaries		
Cost		
At 1 January 2021		198
Additions		7
At 31 December 2021		205
Additions		8
Disposals		(5)
At 31 December 2022		208
Provision		
At 1 January 2021		–
Provision		5
At 31 December 2021		5
At 31 December 2022		5
Carrying amount		
At 31 December 2022		203
At 31 December 2021		200

The Company invested further capital into OVO Energy Pty Ltd and OVO Energy (France) SAS in the year. Investment in OVO Energy (France) SAS was subsequently disposed of in September 2022. Refer to Note 18 Disposals for further details.

In the prior year, the Company invested further capital into OVO Energy Pty Ltd, OVO Energy (France) SAS and OVO Energy Spain SL. An impairment charge was recognised during the prior year in relation to the carrying value of the investments.

18 Disposals

Disposal of Origin Communications Limited (previously OVO (S) Retail Telecoms Limited) and OVO Energy (France) SAS

In August 2022, the Group agreed to sell the entire issued share capital of Origin Communications Limited to Tosca IOM Finco Limited. Origin Communications Limited was an indirect wholly owned subsidiary of OVO Group Ltd which provides telephone and broadband connectivity and associated services to consumers in the UK. The sale completed on 14 October 2022.

In addition, the Group sold its shareholding of OVO Energy (France) SAS (OEF) to ENI Gas & Power France S.A. (ENI) for a consideration of €1 during the year. In the prior year, the Group owned 75% of OEF and recognised a non-controlling interest in OEF representing ENI's 25% interest in the company. Prior to the sale, the Group had subscribed for further shares in OEF which increased its ownership to 99.75% from 75%. The Group sold its 99.75% shareholding in OEF on 9 September 2022. OEF was a subsidiary which operates in the energy supply business in France.

Both subsidiaries do not represent a major line of business or geographical area of operation for the Group. The Group recognised a total gain of £30m on the disposals which is recognised in other operating income in the income statement.

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

	Origin Communications Limited 14 October 2022 £m	OVO Energy (France) SAS 9 September 2022 £m
Assets and liabilities disposed of:		
Intangible assets – acquired customer relationships	7	–
Trade and other receivables	8	10
Cash and cash equivalents	5	4
Trade and other payables	(10)	(16)
Deferred income	–	(6)
Deferred tax liabilities	(2)	–
Net assets/(liabilities) disposed of	8	(8)
Gain on disposal:		
Total consideration	29	–
Net (assets)/liabilities disposed of	(8)	8
Gain on disposal before income tax and reclassification of foreign currency translation reserve	21	8
Reclassification of foreign currency translation reserve	–	1
Gain on disposal after income tax and reclassification of foreign currency translation reserve	21	9

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

18 Disposals continued

	Origin Communications Limited 14 October 2022 £m	OVO Energy (France) SAS 9 September 2022 £m
Satisfied by:		
Cash	23	–
Deferred consideration	6	–
Total consideration	29	–
Cash flow analysis:		
Cash consideration received	23	–
Less: cash and cash equivalents disposed of	(5)	(4)
Net cash inflow/(outflow) arising on disposal	18	(4)

Prior year loss of control of OVO Energy Australia

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

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

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

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

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

18 Disposals continued

Prior year disposal of Large Power Metering operation

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

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

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

19 Assets classified as held for sale

As part of the Group's strategy to simplify operations, management has taken the decision during the year to dispose of its traditional meter rental operation which generates revenue from the rental of traditional meters. The operation is a line of business within OVO Energy Ltd, an indirectly wholly owned subsidiary. Management expects the sale of the operation to be completed in 2023. At 31 December 2022, assets relating to the operation were classified as assets held for sale.

The assets of the operation classified as held for sale as at 31 December 2022 are as follows:

	2022 £m	2021 £m
Intangible assets – acquired customer relationships	1	–
Assets held for sale	1	–

20 Inventories

	31 December 2022		31 December 2021	
	Group £m	Company £m	Group £m	Company £m
Finished goods and goods for resale	34	–	29	–

Finished goods and goods for resale primarily comprise smart meter assets. The cost of smart meter assets recognised as an expense in the year amounted to £35m (2021: £45m). Write-downs of inventories amounted to £8m in the year (2021: £nil). These are included within cost of sales.

The cost of renewable obligation certificates recognised as an expense in the year amounted to £326m (2021: £366m). This is included within cost of sales.

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

21 Trade and other receivables

	31 December 2022		31 December 2021	
	Group £m	Company £m	Group £m	Company £m
Trade receivables and accrued income	1,049	–	977	–
Provision for impairment of trade receivables and accrued income	(329)	–	(310)	–
Net trade receivables and accrued income	720	–	667	–
Amounts owed by related parties	1	87	2	103
Grant receivables	107	–	–	–
Prepayments	200	–	86	–
Cash collateral	87	–	48	–
Cash-in-transit	50	–	92	–
Other receivables	50	1	41	2
	1,215	88	936	105

Grant receivables consist of grant income receivable from the Government in relation to the Energy Price Guarantee Scheme. Refer to Government support schemes in the Summary of significant accounting policies for further details on the scheme. The increase in prepayments is due to prepayments made for commodity costs for Q1 2023.

The fair value of those trade and other receivables classified as financial assets are disclosed in Note 32.

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

22 Derivative financial instruments

	31 December 2022		31 December 2021	
	Group £m	Company £m	Group £m	Company £m
Derivative financial instruments classified in non-current assets	38	–	–	–
Derivative financial instruments classified in current assets	–	–	461	–
Derivative financial instruments classified in non-current liabilities	–	–	(39)	–
Derivative financial instruments classified in current liabilities	(1,054)	–	–	–
Total derivative financial instruments	(1,016)	–	422	–

The Group designates certain energy contracts as held for trading. Energy contracts that are not designated as 'own-use' contracts constitute financial instruments under IFRS 9 and are carried at fair value through profit or loss.

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

	2022 £m	2021 £m
Amounts recognised in operating (loss)/profit		
Re-measurement of derivative energy contracts	(1,438)	422
Amounts recognised in the consolidated income statement	(1,438)	422

23 Cash and cash equivalents

	31 December 2022		31 December 2021	
	Group £m	Company £m	Group £m	Company £m
Cash at bank	474	2	145	–

Restricted cash

Of the £474m cash at bank, £269m relates to cash received from the Government not yet distributed to customers under the Energy Bills Support Scheme. The use of this cash is restricted to distributing to eligible customers to reduce their energy bills under the scheme. Cash available for use as at 31 December 2022 is therefore £205m. Refer to Government support schemes in the Summary of significant accounting policies for further details on the scheme.

24 Trade and other payables

	31 December 2022		31 December 2021	
	Group £m	Company £m	Group £m	Company £m
Current liabilities				
Trade payables	384	–	276	–
Accrued expenses	589	–	574	–
Amounts due to related parties	15	9	15	21
Social security and other taxes	6	–	6	–
Corporation tax payable	–	1	–	2
Other payables	305	–	36	3
	1,299	10	907	26
Non-current liabilities				
Amounts due to related parties	18	–	–	–

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

The Group's exposure to market and liquidity risks, including maturity analysis, related to trade and other payables is disclosed in Note 33.

The Group's commodity purchasing arrangement gives rise to a variable liability to the creditor 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. The Group has not defaulted under the extended credit facility during each of the years ended 31 December 2022 and 2021.

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

25 Loans and borrowings

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

	31 December 2022		31 December 2021	
	Group £m	Company £m	Group £m	Company £m
Loans and borrowings				
Bank borrowings	379	–	386	–
Other borrowings	146	–	128	–
	525	–	514	–

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.

Interest was payable at 8.25% plus variable rate on the term loan facility and at 0% plus variable rate from 1 October 2020 to 14 January 2021; at 8.625% plus variable rate from 15 January 2021 to 14 January 2022; and is payable at 9.75% plus variable rate from 15 January 2022 on the second lien facility. Interest margin on the term loan facility increased by 1.5% to 9.75% from 15 July 2021. The incremental interest on the term loan facility 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. The Group made partial repayments of £38m (2021: £nil) against the term loan facility during the 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, variable 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.

Other borrowings

Other borrowings consist of loan notes issued. Loan notes are unsecured and are repayable in full on 31 December 2029. Interest is payable at 13.25%. Unpaid interest is capitalised, compounded and added to the unpaid principal amount of the loan.

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

26 Leases

Group

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

	31 December 2022 £m	31 December 2021 £m
Current lease liabilities	9	12
Non-current lease liabilities	34	30
Total lease liabilities	43	42

26 Leases continued

Lease liabilities maturity analysis

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

	31 December 2022 £m	31 December 2021 £m
Less than one year	11	14
Between one and five years	25	23
Greater than five years	21	12
Total lease liabilities (undiscounted)	57	49

The Group leases various offices and vehicles. The balance sheet amounts relating to leases are shown within Note 15 Right-of-use assets.

The current year interest expense on lease liabilities (included in finance costs) was £3m (2021: £3m).

The total cash outflow for leases for the year ended 31 December 2022 was £15m (2021: £17m).

27 Changes in liabilities arising from financing activities

The table below details changes in the Group's and Company's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were or will be classified in the Group's and Company's statement of cash flows as cash flows from financing activities.

Group

Reconciliation of liabilities arising from financing activities

	At 1 January 2022 £m	Financing cash flows £m	Non-cash changes		At 31 December 2022 £m
			New leases £m	Other changes £m	
Non-current loans and borrowings	514	(59)	–	70	525
Non-current lease liabilities	30	–	6	(2)	34
Current lease liabilities	12	(15)	1	11	9
	556	(74)	7	79	568

	At 1 January 2021 £m	Financing cash flows £m	Non-cash changes		At 31 December 2021 £m
			Other changes £m		
Non-current loans and borrowings	405	(34)	143		514
Current loans and borrowings	91	–	(91)		–
Non-current lease liabilities	44	–	(14)		30
Current lease liabilities	14	(17)	15		12
	554	(51)	53		556

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

27 Changes in liabilities arising from financing activities continued

Company

Reconciliation of liabilities arising from financing activities

	At 1 January 2022 £m	Financing cash flows £m	Non-cash changes Other changes £m	At 31 December 2022 £m
Amounts due to related parties	21	(14)	2	9

	At 1 January 2021 £m	Non-cash changes Other changes £m	At 31 December 2021 £m
Amounts due to related parties	20	1	21

The 'Other changes' column includes transaction costs, 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.

28 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 2022	46	1	5	4	2	58
Additional provisions	5	37	–	21	–	63
Provisions used	(41)	(29)	–	(2)	–	(72)
Unused amounts reversed	(1)	(2)	–	–	–	(3)
Increase due to passage of time or unwinding of discount	1	–	–	–	–	1
Increase from transfers and other changes	–	–	–	1	–	1
At 31 December 2022	10	7	5	24	2	48
Non-current liabilities	2	–	1	23	2	28
Current liabilities	8	7	4	1	–	20

Onerous contracts provisions

As part of the acquisition of OVO (S) Energy Services Limited Group (SSE) in 2020, 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 exceeded 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 of £8m disclosed above are expected to be fully utilised over the next 12 months.

Restructuring provision

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

28 Provisions continued

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

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 Directors' best estimate of the fair value of this fee at 31 December 2022.

29 Pension and other schemes

Defined contribution pension scheme

The Group operates both defined contribution and benefit pension schemes. The pension cost charge under the defined contribution scheme for the year represents contributions payable by the Group to the scheme and amounted to £16m (2021: £18m).

Defined benefit pension schemes

Introduction

The Group sponsors a funded defined benefit pension plan for qualifying UK employees – the OVO Energy Group of the ESPS. The scheme was established on 14 January 2020 following the acquisition of OVO (S) Energy Services Limited Group 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 ring-fenced 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 20 years.

Funding requirements

UK legislation requires that pension schemes are funded prudently. The first formal valuation of the scheme since inception on 14 January 2020 had an effective date of 31 March 2020, and resulted in a surplus of £10.4m relative to technical provisions overall. Following the scheme's first formal valuation, the 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. The next funding valuation is due no later than 31 March 2023 when funding arrangements for the scheme will be reviewed. Contributions of around £1m are expected to be paid by the Group during the year ending 31 December 2023.

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

29 Pension and other schemes continued

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

Changes in bond yields

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

Inflation risk

The majority of the scheme's DBO is linked to inflation, and higher inflation leads to a higher DBO (although, in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation). Most of the assets are either unaffected by or only loosely correlated with inflation, meaning that an increase in inflation will also increase the deficit.

Life expectancy

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

Risk management

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

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

Reporting at 31 December 2022

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

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

Main financial assumptions

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

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

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

29 Pension and other schemes continued

Post-retirement mortality assumptions

	31 December 2022 Years	31 December 2021 Years
Life expectancy for male currently aged 60	26.40	26.30
Life expectancy for female currently aged 60	28.40	27.80
Life expectancy at 60 for male currently aged 40	27.90	28.20
Life expectancy at 60 for female currently aged 40	29.90	29.80

	31 December 2022	31 December 2021
Mortality base table adopted	SAPS S3 Tables 'All' for males and 'Middle' for females Scaled by 105% for Southern section and by 109% for Hydro section	SAPS S3 Tables 'All' for males and 'Middle' for females Scaled by 105% for Southern section and by 109% for Hydro section
Mortality future improvements adopted	CMI 2021 projections model with Sk parameter of 7.0 and A parameter of 0.25, and long term improvement rate of 1.25% p.a.	CMI 2020 projections model with Sk parameter of 7.0 and A parameter of 0.25, and long term improvement rate of 1.25% p.a.
GMP equalisation	Cost of equalising benefits for differences in GMPs between males and females taken to be around 0.2% of liabilities	Cost of equalising benefits for differences in GMPs between males and females taken to be around 0.2% of liabilities
Cash commutation	Allowance made for members to take maximum permitted lump sum at retirement by commuting pension based on current commutation terms	Allowance made for members to take maximum permitted lump sum at retirement by commuting pension based on current commutation terms

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 2022 £m	31 December 2021 £m
Fair value of scheme assets	85	120
Present value of scheme liabilities	(56)	(100)
Defined benefit pension scheme surplus	29	20
Asset recognised in the statement of financial position	29	20

Minimum funding requirement

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

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

29 Pension and other schemes continued

Scheme assets

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

	31 December 2022 £m	31 December 2021 £m
Fair value at start of year	120	108
Interest income on scheme assets	2	1
Re-measurement (losses)/gains on scheme assets	(37)	6
Net increase in assets from bulk transfers	–	3
Contributions by employer	3	5
Net benefits paid out	(3)	(3)
Fair value at end of year	85	120

Analysis of assets

The scheme assets are invested in the following asset classes:

	31 December 2022 £m	31 December 2021 £m
Equities	12	37
Index-linked gilts	31	36
Corporate bonds	33	41
Cash/net current assets	9	6
Total market value of assets	85	120

Actual return on scheme assets

	2022 £m	2021 £m
Interest income on scheme assets	2	1
Re-measurement (losses)/gains on scheme assets	(37)	6
Actual return on scheme assets	(35)	7

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. All scheme assets are quoted.

29 Pension and other schemes continued

Scheme liabilities

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

	31 December 2022 £m	31 December 2021 £m
Present value at start of year	100	95
Current service cost	3	6
Past service cost (including curtailments)	2	3
Actuarial gains on scheme liabilities arising from changes in financial assumptions	(49)	(5)
Actuarial losses on scheme liabilities arising from changes in demographic assumptions	1	–
Actuarial losses on scheme liabilities arising from experience	1	–
Net increase in liabilities from bulk transfers	–	3
Interest expense	2	1
Net benefits paid out	(4)	(3)
Present value at end of year	56	100

Amounts recognised in the consolidated income statement

	2022 £m	2021 £m
Amounts recognised in operating (loss)/profit		
Current service cost	(3)	(6)
Past service cost (including curtailments)	(2)	(3)
Recognised in arriving at operating (loss)/profit	(5)	(9)
Amounts recognised in the income statement	(5)	(9)

Amounts taken to the consolidated statement of comprehensive income

	2022 £m	2021 £m
Re-measurement (losses)/gains on scheme assets	(37)	6
Actuarial gains arising on scheme liabilities from changes in financial assumptions	49	5
Actuarial losses on scheme liabilities arising from changes in demographic assumptions	(1)	–
Actuarial losses on scheme liabilities arising from experience	(1)	–
Amounts recognised in the statement of comprehensive income	10	11

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

29 Pension and other schemes continued

Sensitivity to key assumptions

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

The sensitivity information shown has been prepared by approximately adjusting the IAS 19 liabilities calculated at the 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.

	2022		2021	
	Change £m	Value £m	Change £m	Value £m
DBO at the end of year	–	56	–	100
0.25% p.a. decrease in the discount rate	3	60	6	107
0.25% p.a. increase in the inflation assumptions	3	59	6	107
One-year increase in life expectancy	1	58	4	105

30 Share capital and reserves

Authorised, allotted, called up and fully paid shares

	31 December 2022		31 December 2021	
	No.	£	No.	£
A Ordinary of £0.00001 each	14,598,927	146	14,598,927	146
B1 Ordinary of £0.00001 each	22,222	–	22,222	–
B2 Ordinary of £0.00001 each	47,837	–	55,264	1
B3 Ordinary of £0.00001 each	94,948	1	85,463	1
C Ordinary of £0.00001 each	27,321	–	27,321	–
D1 Ordinary of £0.00001 each	221,401	2	221,401	2
D2 Ordinary of £0.00001 each	36,038	–	36,038	–
D3 Ordinary of £0.00001 each	67,674	1	67,674	1
D4 Ordinary of £0.00001 each	28,215	–	28,215	–
D5 Ordinary of £0.00001 each	54,302	1	54,302	1
E1 Ordinary of £0.00001 each	480,374	5	514,268	5
Preferred Shares of £0.00001 each	1,869,749	19	1,869,749	19
Deferred Shares of £0.00001 each	15,572	–	89,106	1
	17,564,580	175	17,669,950	177

The B, C, D and E Ordinary shares have been issued as part of Employee Share Schemes as discussed in Note 31.

Other than A Ordinary and preferred shares, no other share classes confer voting or dividend rights. Both A Ordinary and preferred shares have full voting rights. Preferred shares rank ahead of A Ordinary shares with regards to dividend rights. On return of capital, share classes are ranked in the following order: preferred shares, D Ordinary shares, E Ordinary shares, B Ordinary Shares and A Ordinary and C Ordinary shares. A and C Ordinary shares rank pari passu on return of capital.

30 Share capital and reserves continued

Current year movements in issued capital are as follows:

	1 January 2022 £	Newly Issued £	Converted / cancelled £	31 December 2022 £
A Ordinary	14,598,927	–	–	14,598,927
B1 Ordinary	22,222	–	–	22,222
B2 Ordinary	55,264	–	(7,427)	47,837
B3 Ordinary	85,463	29,043	(19,558)	94,948
C Ordinary	27,321	–	–	27,321
D1 Ordinary	221,401	–	–	221,401
D2 Ordinary	36,038	–	–	36,038
D3 Ordinary	67,674	–	–	67,674
D4 Ordinary	28,215	–	–	28,215
D5 Ordinary	54,302	–	–	54,302
E1 Ordinary	514,268	–	(33,894)	480,374
Preference	1,869,749	–	–	1,869,749
Deferred	89,106	–	(73,534)	15,572
Total	17,669,950	29,043	(134,413)	17,564,580

Nature and purpose of reserves

Share premium (Group and Company)

In 2019, 1,658,282 A Ordinary shares were issued to Mitsubishi Corporation for consideration of £109m. Share premium of £103m was recognised in 2019, representing the excess consideration received above the nominal value of the shares issued, less £7m of associated transaction costs. The majority of the remaining share premium balance relates to share premium recognised upon the issuance of 2,424,771 preference shares to Mayfair Olympic Holdco Limited in 2015. The share premium represents the consideration of £31m less the nominal value of the shares issued and £3m associated transaction costs.

Other reserves (Group)

Other reserves primarily comprise the Group's foreign currency translation reserve of £nil (2021: £1m), which arose from the re-translation of the opening net assets and results of non-sterling functional currency operations.

Other reserves (Company)

Other reserves primarily comprise a merger reserve of £78m (2021: £78m), which arose as part of a business combination in 2014.

31 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, the Group awarded its own employees and employees of other Group companies class B, C, D and E Ordinary shares in OVO Group Ltd.

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

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

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

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

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

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

31 Share-based payments continued

Analysis of charge to the income statement

£ '000	2022	2021
B shares	135	138
C shares	–	–
D shares	–	–
E shares	–	–
	135	138

Reconciliation of movements in awards

Thousands of shares	B shares	C shares	D shares	E shares
As at 1 January 2022	164	27	408	514
Issued in the year	29	–	–	–
Forfeited in the year	(27)	–	–	(34)
Issued at 31 December 2022	166	27	408	480
Weighted average vesting period (months)	19	–	–	–

Thousands of shares	B shares	C shares	D shares	E shares
As at 1 January 2021	136	27	408	530
Forfeited in the year	(27)	–	–	(16)
Issued in the year	55	–	–	–
Issued at 31 December 2021	164	27	408	514
Weighted average vesting period (months)	15	–	–	–

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 and 2022 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.

32 Financial instruments

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

Group

	31 December 2022		31 December 2021	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Financial assets				
Financial assets through profit or loss				
Trade and other receivables	1	1	2	2
Derivative financial instruments	38	38	461	461
Total financial assets through profit or loss	39	39	463	463
Financial assets at amortised cost				
Cash and cash equivalents	474	474	145	145
Trade and other receivables	1,007	1,007	837	837
Total financial assets at amortised cost	1,481	1,481	982	982
Total financial assets	1,520	1,520	1,445	1,445
Financial liabilities				
Financial liabilities through profit or loss				
Trade and other payables	–	–	(2)	(2)
Derivative financial instruments	(1,054)	(1,054)	(39)	(39)
Total financial liabilities through profit or loss	(1,054)	(1,054)	(41)	(41)
Financial liabilities at amortised cost				
Trade and other payables	(1,311)	(1,311)	(899)	(899)
Loans and borrowings	(525)	(543)	(514)	(544)
Lease liabilities	(43)	(43)	(42)	(42)
Total financial liabilities at amortised cost	(1,879)	(1,897)	(1,455)	(1,485)
Total financial liabilities	(2,933)	(2,951)	(1,496)	(1,526)

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

32 Financial instruments continued

Company

	31 December 2022		31 December 2021	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Financial assets				
Financial assets at amortised cost				
Cash and cash equivalents	2	2	–	–
Trade and other receivables	88	88	104	104
Total financial assets at amortised cost	90	90	104	104
Total financial assets	90	90	104	104
Financial liabilities				
Financial liabilities through profit or loss				
Trade and other payables	–	–	(2)	(2)
Total financial liabilities through profit or loss	–	–	(2)	(2)
Financial liabilities at amortised cost				
Trade and other payables	(9)	(9)	(22)	(22)
Total financial liabilities at amortised cost	(9)	(9)	(22)	(22)
Total financial liabilities	(9)	(9)	(24)	(24)

The Group holds £1m convertible loan notes issued by the Group's associates (2021: £2m). These are accounted for at fair value through profit or loss and are included in trade and other receivables.

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

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 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 is 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).

33 Financial risk management and impairment of financial assets

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. The Company has limited exposure to market risk and liquidity risk due to the nature of its principal activities as a holding company but is exposed to credit risk for amounts owed by companies within the same group. The risk is therefore not considered material for the assessment of the Company'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 bank.

The carrying amount of financial assets represents the maximum credit exposure. Therefore, the maximum exposure to credit risk at the balance sheet date was £1,520m (2021: £1,445m) being the total of the carrying amount of financial assets which include trade receivables and accrued income, derivative financial instruments and cash. Included in the carrying amount of financial assets are security deposits held by suppliers and distributors as collateral which amount to £87m (2021: £48m). The collateral balance has increased in 2022 as a result of higher commodity prices. Treasury, trading and energy procurement counterparties typically have strong credit ratings and accordingly have low credit risk; the Group does not expect credit losses to arise on these balances.

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

The Group measures expected credit losses by performing an impairment analysis at each reporting date. Expected credit losses are recognised unless the Group is satisfied that no recovery of the amount owing is possible, at which point the amounts considered irrecoverable are written off against the trade receivable directly. The Group provides for impairment losses based on estimated irrecoverable amounts determined by reference to specific circumstances and the experience of management of debtor default in the industry. Trade receivables are written off only after a period of time has elapsed since the final bill. Enforcement activity continues in respect of these balances unless there are 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 is calculated based on default rates applied to different groups of outstanding receivables based on brands and payment types, whether the receivables are billed or unbilled, and whether the customer has left. The Directors have based their assessment of the level of impairment on collection rates experienced within each grouping to date.

Macroeconomic conditions

Management assesses the impact of high commodity prices on tariffs and inflation will continue to have a negative impact on household disposable income and has taken into account the impact of the economic factors when measuring expected credit losses.

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

33 Financial risk management and impairment of financial assets continued

Allowances for impairment by credit losses

	Energy supply customers £m
2022	
At start of year	310
Additional impairment for credit losses recognised in the year	167
Amounts written off	(146)
Reversal of impairment losses	(2)
At end of year	329
	Energy supply customers £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

All expected credit losses recognised within the Group related to contracts with customers. The tables below show the ageing and expected credit losses profile of billed receivables for credit customers. Billed receivables are segmented on a customer account basis by the age of the customer's oldest invoice. Ageing is not available for Pay-as-you-go receivables of £115m (2021: £85m) against which a provision of £37m is held (2021: £29m). Unbilled receivables are £351m (2021: £350m) against which a provision of £34m is held (2021: £82m). Provisions for Pay-as-you-go and unbilled receivables are calculated on a similar basis as billed receivables. In addition, the Group has non-energy supply related receivables of £40m against which no provision is held.

2022

Residential energy customers

Days past oldest invoice date	Current £m	31-90 days £m	>90 days £m	>12 months £m	Total £m
Direct debits					
Expected credit loss rate	4.8%	5.0%	6.5%	28.6%	7.6%
Gross carrying amount	21	20	31	7	79
Expected credit loss	1	1	2	2	6
Net carrying amount	20	19	29	5	73
Payment on demand					
Expected credit loss rate	20.5%	28.6%	35.2%	43.8%	36.0%
Gross carrying amount	39	28	88	112	267
Expected credit loss	8	8	31	49	96
Net carrying amount	31	20	57	63	171
Final bills					
Expected credit loss rate	42.9%	46.2%	72.5%	90.7%	79.7%
Gross carrying amount	7	13	69	108	197
Expected credit loss	3	6	50	98	157
Net carrying amount	4	7	19	10	40
Total net residential energy customer receivables	55	46	105	78	284

33 Financial risk management and impairment of financial assets continued

2021

Residential energy customers

Days past oldest invoice date	Current £m	31-90 days £m	>90 days £m	>12 months £m	Total £m
Direct debits					
Expected credit loss rate	0.0%	3.3%	8.5%	33.3%	7.8%
Gross carrying amount	26	30	47	12	115
Expected credit loss	–	1	4	4	9
Net carrying amount	26	29	43	8	106
Payment on demand					
Expected credit loss rate	18.2%	25.0%	28.1%	40.8%	30.1%
Gross carrying amount	44	32	64	76	216
Expected credit loss	8	8	18	31	65
Net carrying amount	36	24	46	45	151
Final bills					
Expected credit loss rate	50.0%	50.0%	63.8%	83.1%	72.5%
Gross carrying amount	6	14	58	89	167
Expected credit loss	3	7	37	74	121
Net carrying amount	3	7	21	15	46
Total net residential energy customer receivables	65	60	110	68	303

Market risk

Interest rate risk

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

Sensitivity analysis

The Group has performed an analysis of the sensitivity of the Group's financial position and performance to changes in interest rates. The Group deems a two percentage point move (2021: one) in UK interest rates to be reasonably possible, considering the current interest rate environment. The Group's (loss)/profit before tax is affected through the impact on floating rate borrowings as follows:

	2022		2021	
	Increase/ decrease in basis points	Effect on loss before tax £m	Increase/ decrease in basis points	Effect on profit before tax £m
Term loan facilities	+200	8	+100	8
	–200	(8)	–100	(10)

Effect of IBOR reform

The Group only has term loan facilities which previously referenced 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.

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

33 Financial risk management and impairment of financial assets continued

Commodity price risk

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

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

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

The Group regularly re-assesses the volume threshold at which contracts are deemed to be highly probable of resulting in physical delivery to reflect the latest best view of forecasted volume. This has resulted in a larger proportion of the contract book being designated as trading, but to a larger extent, the increase in the value of derivative energy contracts in the year is due to the decrease in commodity prices towards the end of the year. As at 31 December 2022, the Group has £1,016m (2021: £422m) derivative energy contracts that are not determined as own-use contracts and are measured at fair value through profit or loss.

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:

	Reasonably possible change in variable	Effect on loss before tax 2022 £m	Effect on profit before tax 2021 £m
UK gas (p/therm)	+/-25%	109/(109)	89/(91)
UK power (£/MWh)	+/-25%	56/(56)	112/(104)

33 Financial risk management and impairment of financial assets continued

Liquidity risk

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

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

The biggest threat to the Group's liquidity would arise from unusually cold weather or other factors causing customer volumes to be much higher than anticipated. This could place a strain on the Group's working capital as payments due for supplier invoices could become due before customer collection levels could be adjusted. The Group has an extended payment facility with its key supplier where the Group may defer payments past the supplier invoices due date. The Group also manages this liquidity risk by following a strict and sophisticated hedging policy.

The Group manages its cash resources to ensure it has sufficient funds to meet all expected demands as they fall due. The below sets out the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

	Maturity analysis			Total £m
	Within 1 year £m	Between 1 and 5 years £m	After more than 5 years £m	
2022				
Trade and other payables	1,293	18	–	1,311
Bank and other borrowings	–	397	146	543
Lease liabilities	11	25	21	57
Derivative financial instruments	1,054	–	–	1,054
	2,358	440	167	2,965

	Maturity analysis			Total £m
	Within 1 year £m	Between 1 and 5 years £m	After more than 5 years £m	
2021				
Trade and other payables	901	–	–	901
Bank and other borrowings	–	544	–	544
Lease liabilities	14	23	12	49
Derivative financial instruments	–	39	–	39
	915	606	12	1,533

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

33 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's total capital comprises the Group's net debt and total equity. Net debt is calculated as total loans and borrowings plus lease liabilities less cash and cash equivalents. Management monitors debt levels to limit the risk of financial distress and to improve the Group's credit standing and, in doing so, seeks to reduce its cost of debt and collateral requirements in energy trading and hedging arrangements, and to remain as an attractive counterparty to the Group's suppliers.

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.

	Group	
	31 December 2022 £m	31 December 2021 £m
Loans and borrowings	525	514
Lease liabilities	43	42
Less: cash and cash equivalents (excluding restricted cash)	(205)	(145)
Net debt	363	411
Total shareholders' (deficit)/funds	(1,119)	148
Total capital	(756)	559

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 2022 and 31 December 2021. 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 2022 and 2021.

34 Related party transactions

Key management personnel

Key management includes Directors of the Company and members of the Group executive leadership team. The executive leadership team has grown in the year and management has considered it appropriate to redetermine key management personnel to include more members of the executive leadership team. The compensation paid or payable to key management for employee services to the Group's subsidiaries is as follows:

	2022 £ '000	2021 £ '000
Wages and salaries	5,443	1,632
Compensation for loss of office	963	—
Social security costs	991	115
Pension costs – defined contribution scheme	72	71
Share-based payments	45	86
	7,514	1,904

34 Related party transactions continued

Summary of transactions with key management

Loans with Directors and key management personnel are disclosed as follows:

2022

	At 1 January 2022 £ '000	Advances to Directors £ '000	Repayments from Directors £ '000	At 31 December 2022 £ '000
Loans to Directors and key management personnel	905	–	–	905

2021

	At 1 January 2021 (Restated) £ '000	Advances to Directors (Restated) £ '000	Repayments from Directors (Restated) £ '000	At 31 December 2021 (Restated) £ '000
Loans to Directors and key management personnel	575	695	(365)	905

Loans to Directors and key management personnel are subject to interest at the official rate which was 2% for the year. Interest is accrued on a daily basis on the principal amount of the loan outstanding and is payable upon the repayment of the loan amount. Interest accruing on these loans amounted to £18,000 for the year. 2021 numbers have been restated to include loans to key management personnel and other Directors of the Group.

Summary of transactions with the ultimate parent entity Group

Imagination Industries Ltd (Group)

During the year, the Group incurred costs of £32m payable to Imagination Industries Ltd (2021: £21m). As at 31 December 2022, £33m remained outstanding from the Group to Imagination Industries Ltd (2021: £15m).

Summary of transactions with other significant shareholders

Group & Company

Mayfair Equity Partners LLP (Group & Company)

During the year, the Company incurred costs of £100k payable to Mayfair Equity Partners LLP (2021: £100k). No amounts were outstanding as at 31 December 2022 (2021: £nil).

Mitsubishi Corporation International (Europe) plc (Group & Company)

During the year, the Company incurred costs of £103k payable to Mitsubishi Corporation International (Europe) plc (2021: £105k). No amounts were outstanding as at 31 December 2022 (2021: £nil).

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

34 Related party transactions continued

Summary of transactions with subsidiaries (Company) 2022

Subsidiary	Amounts (received from)/ provided to £m	Amounts repaid (from)/to £m	Interest receivable £m	Amounts owed by/(to) as at 31 December 2022 £m
OVO Holdings Ltd	–	–	3	58
OVO Energy Ltd	(9)	(26)	–	(9)
Corgi Homeplan Ltd	–	(1)	1	12
OVO (S) Home Services Limited	5	–	–	5
Kaluza Ltd	–	–	–	6
Kantan Ltd.	2	–	–	6
OVO Field Force Ltd	–	21	–	–

Amounts due to OVO Field Force Ltd of £21m as at 31 December 2021 were novated to OVO Energy Ltd during the year. The Company received £7m cash funding from OVO Energy Ltd which is included in the cash flows from financing activities in the Company Statement of Cash Flows.

2021

Subsidiary	Amounts provided to £m	Amounts repaid from £m	Amounts impaired £m	Interest receivable £m	Interest payable £m	Amounts owed by/(to) as at 31 December 2021 £m
OVO Holdings Ltd	17	–	–	3	–	55
OVO Energy Ltd	–	(3)	–	2	–	26
Corgi Homeplan Ltd	–	–	–	1	–	12
Intelligent Energy Technology Ltd	–	(17)	–	–	–	–
Kaluza Ltd	–	–	–	1	–	6
OVO Energy (France) SAS	2	–	(5)	–	–	–
OVO Energy Pty Ltd	–	(3)	–	–	–	–
Kantan Ltd.	1	–	–	–	–	4
OVO Energy Spain SL	4	–	(6)	–	–	–
OVO Field Force Ltd	–	–	–	–	(1)	(21)

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.

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, a provision for expected credit losses was recognised relating to amounts owed by OVO Energy (France) SAS and OVO Energy Spain SL. No impairment was recognised for the amounts owed by related parties in the year ended 31 December 2022. The impairment on amounts owed by OVO Energy (France) SAS was reversed in the year ended 31 December 2022.

34 Related party transactions continued

Summary of transactions with associates (Group) 2022

Associate	Loan provided to/ (received from) £m	Loan repaid from £m	Sales to/ (purchases from) £m	Interest received £m	Interest paid £m	Amounts owed by as at 31 December 2022 £m
Indra Renewable Technologies Limited	2	(2)	-	-	-	-
The Renewable Exchange Limited	-	-	-	-	-	1
Chaddenwyth Services Limited	-	-	-	-	-	1

2021

Associate	Loan provided to/ (received from) £m	Loan repaid to/(from) £m	Sales to/ (purchases from) £m	Interest received £m	Interest paid £m	Amounts owed by/(to) as at 31 December 2021 £m
Indra Renewable Technologies Limited	-	(3)	-	-	-	-
The Renewable Exchange Limited	-	-	-	-	-	1
Chaddenwyth Services Limited	-	-	-	-	-	1

Outstanding loans to associates relate to unsecured convertible loan notes issued by the Group's associates. Interest on loan notes issued by The Renewable Exchange Limited and Chaddenwyth Services Limited is accrued at 7% and 10% respectively, and the loan notes are repayable or convertible into shareholdings in the associates at maturity or in certain events. Loan to Indra Renewable Technologies Limited was repaid in the year ended 31 December 2021 in exchange for an increased shareholding in the associate. Interest was previously accrued at 7% on the unsecured loan. In the year ended 31 December 2022, the Group agreed to extend a working capital loan facility to Indra Renewable Technologies Limited in exchange for stock warrants. Interest was accrued at 8% on the working capital loan. The facility was repaid during the year.

35 Parent and ultimate parent undertaking

As at 31 December 2022, the ultimate and immediate parent was Imagination Industries Ltd which is both the largest group of undertakings for which group financial statements are drawn up and of which the Company is a member. These financial statements are available upon request from the registered office at 9 Pembridge Road, Notting Hill, London W11 3JY. Following a group restructure on 7 March 2023, Energy Transition Holdings Ltd became the Company's ultimate parent company.

The ultimate controlling party is Stephen Fitzpatrick.

36 Subsequent events after the year ended 31 December 2022

Subsequent to the balance sheet date, Intelligent Energy Technology Ltd, a subsidiary of the Group, has entered into a share purchase agreement with Gulf Oil International Limited to sell its shareholding in Indra Renewable Technologies Limited, with completion of the transaction subject to certain conditions.



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