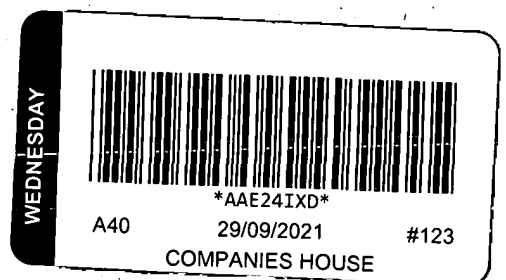


Registration number: 06890795

OVO Energy Ltd

Annual Report and Financial Statements

for the Year Ended 31 December 2020



OVO Energy Ltd

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OVO Energy Ltd

Company Information

Directors Vincent Casey

Adrian Letts

Raman Bhatia

Ben Blake

William Castell

Company secretary Vincent Casey

Registered office

1 Rivergate

Temple Quay

Bristol

United Kingdom

BS1 6ED

Independent auditors PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

2 Glass Wharf

Bristol

BS2 0FR

OVO Energy Ltd

Strategic Report for the Year Ended 31 December 2020

The Directors present their Strategic Report for the year ended 31 December 2020.

Fair review of the business

Business overview

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

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

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

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

2020 Strategic update

During the period, the Company's turnover decreased by 19% from £1,144m to £932m and our gross margin decreased by 2% from 7% to 5%.

Our principal strategy for the year focused on customer retention as we integrated SSE Energy Services into the OVO family. The coronavirus meant we had to navigate lockdown restrictions whilst seeking to optimise SMART installs and maintain service for customers to support them through the pandemic.

The coronavirus pandemic has changed the way consumers engage with their energy providers and think about their homes. Many of our customers have permanently changed their behaviour and are increasingly going online and using digital tools to serve themselves. During 2020 we saw an increase in the number of our members engaging with us online through digital channels.

Many have also learnt that they can work from home and may be considering how to work more flexibly in the future. Their appreciation of a safe, low carbon home has never been greater.

The Company's plans to continue investing through system capability and enhancing the operating model to support a larger customer base in the future.

OVO Energy Ltd

Strategic Report for the Year Ended 31 December 2020 (continued)

Zero carbon homes

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

Momentum in SMART stalled slightly due to the coronavirus, despite continuing to install in all regions in line with regulations to take all reasonable steps to roll out smart meters to our customers.

OVO was chosen by the UK Government to lead one of the UK's largest Zero Carbon Heating trials to demonstrate a practical and low cost solution to creating net-zero homes in the UK. OVO Energy and partners - Kaluza, Sunamp, Retrofit Works and Parity Projects were granted £4.2m of government funding to install up to £15,000 worth of technology in customers' homes. The trial aims to help the UK reduce emissions from residential heating, the largest single source of emissions at over 20% of the UK's total carbon emissions.

Kaluza

Energy companies across the world are racing to solve how to decarbonise their systems. They're simultaneously solving how to store and manage the abundance of low cost renewable power, and navigate the market volatility of demand spikes.

2020 saw the Kaluza platform continue to power some of OVO Energy's customer operations in the UK, bringing their decarbonisation journey to life and helping them understand the power they have to make positive change.

Working to support the energy transition to a renewable, more flexible zero carbon grid, the platform is now providing residential flexibility services to Western Power Distribution through intelligent charging of sonnen batteries.

With the UK Government agreeing to ban the sale of new Internal Combustion Engine (ICE) vehicles from 2030, Kaluza has also been investing in EV charging technology, securing partnerships with Bosch and Fiat Chrysler Automobiles to bring direct-to-car smart charging to the EV industry.

Key Financial and Performance Indicators

The Company made a loss of £255m for the year ended 31 December 2020 (2019: £64m) and has net liabilities of £443m (2019: net liabilities of £188m). During the year, customer numbers saw a net decrease between 2019 and 2020 as a result of higher customer churn driven by increased competition within the domestic energy market.

The Company's key financial and other performance indicators during the year were as follows:

	Unit	2020	2019
Customer numbers	No.	769,000	920,000
Cash at bank and in hand	£m	35	20
Annualised gross profit margin	%	5	7
Adjusted EBITDA*	£m	(201)	(48)

OVO Energy Ltd

Strategic Report for the Year Ended 31 December 2020 (continued)

* Adjusted EBITDA is defined as operating loss, after adjusting for depreciation, amortisation, impairment and exceptional items (i.e., expenses or credits that are deemed unusual by nature and/or scale and significance). See below for reconciliation of adjusted EBITDA to statutory results. Refer to Note 8 for details of exceptional items.

Reconciliation to statutory results	2020 £m	2019 £m
Operating loss	(238)	(57)
Add: Exceptional items*	28	-
Add: Depreciation and impairment of property, plant and equipment and right-of-use assets	4	3
Add: Amortisation and impairment of intangible assets	5	6
Adjusted EBITDA	<u>(201)</u>	<u>(48)</u>

* Refer to Note 8 for details of exceptional items.

Subsequent events since the end of the year ended 31 December 2020

There were no reportable subsequent events since the end of year ended 31 December 2020.

Principal risks and uncertainties

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

The Company manages commodity price risk by securing gas and electricity under forward contracts and by supplying the majority of customers on fixed price contracts.

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

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

Section 172 statement

Stakeholders are at the heart of our strategy and business model. Engaging with them helps us to understand their evolving needs and informs our strategic decision-making.

In light of our purpose and our strategy to create a world without carbon and create long term value for customers, our Directors take steps to understand the needs and priorities of each stakeholder group and do so via a number of mediums, including by direct engagement or via committees and forums. The relevance of each stakeholder may change depending on the matter at hand. In line with requirements of the UK Companies Act 2006, we provide a high-level summary of how our Directors engaged with our stakeholders and had regard to their interests when setting OVO's strategy and taking decisions concerning the business in 2020.

OVO Energy Ltd

Strategic Report for the Year Ended 31 December 2020 (continued)

Stakeholders

In an increasingly complex, changing and competitive market environment, our Board recognises that the business will only grow, prosper and successfully deliver on the ambitions set out in Plan Zero if it understands, respects and responds to the views and needs of our key stakeholders.

Our people

Without talented and committed employees, we could never deliver on our ambitions. We aspire to create the UK's best place to work in order for our people to better serve our customers and partner with them on their journey to zero carbon living. Our quarterly employee survey gives employees at all levels the chance to share views with line managers, colleagues and leadership. Our Board also engages regularly with our people through a number of employee forums, companywide town halls and smaller village halls. Our Chief People Officer attends OVO Group Board meetings regularly in order to communicate and make recommendations following employee feedback.

Our customers

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

Our planet

The climate crisis is the greatest challenge we face and awareness of the environmental impact of human activity on the planet is growing. Key concerns include air pollution, climate change and the destruction of nature and biodiversity. We're seeing growing movements for change around the world, as well as a real desire for businesses to limit their impact on the planet and take bold action on climate. Since the launch of Plan Zero, we have committed to reporting quarterly to the OVO Group Board - with a summary of each Plan Zero Steering Committee meeting.

Governments and regulators

Our Board members engage regularly with key stakeholders within the UK Government, devolved administrations, respective Parliaments and Ofgem. They also share platforms at conferences and roundtables, discussing and obtaining feedback on regulatory, policy and political priorities. We also have a dedicated Policy and Public Affairs team who regularly update Board members on policy developments and coordinate a regular engagement programme to discuss issues such as Plan Zero, market design, consumer protection and the decarbonisation of heat.

Our communities

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

OVO Energy Ltd

Strategic Report for the Year Ended 31 December 2020 (continued)

Our suppliers

Building trusted partnerships with our suppliers is important in enabling us to provide the best products at the best prices for our customers. Suppliers are engaged with Plan Zero by adhering to our Supplier Code of Conduct and we have plans to further engage suppliers by including sustainability assessments as part of the procurement process and ensuring sustainability criteria forms a minimum part of weighted assessment scoring when new suppliers are being selected.

Streamlined Energy and Carbon Reporting Framework Regulations

Disclosures in relation to the Streamlined Energy and Carbon Reporting Framework Regulations are included in the group financial statements of OVO Group Ltd which is an immediate parent entity of OVO Holdings Ltd and in turn the immediate parent entity of OVO Finance Ltd, the Company's immediate parent entity.

Approved by the Board on 27 September 2021 and signed on its behalf by:



William Castell
Director

OVO Energy Ltd

Directors' Report for the Year Ended 31 December 2020

The Directors present their report and the audited financial statements for the year ended 31 December 2020.

Directors of the Company

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

Stephen Fitzpatrick (resigned 18 January 2021)

Stephen Murphy - Chairman (resigned 18 January 2021)

Niall Wass (resigned 12 January 2021)

Vincent Casey

Adrian Letts

The following directors were appointed after the year end:

Raman Bhatia (appointed 18 January 2021)

Ben Blake (appointed 18 January 2021)

William Castell (appointed 18 January 2021)

Principal activities

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

Dividends

The Directors do not propose a dividend for the year (2019: no dividends proposed).

Financial instruments

Financial risk management objectives and policies have been established making use of financial instruments for the purpose of managing the exposure of the Company to price risk, credit risk, liquidity risk. Financial risk management objectives and policies are established and maintained at the OVO Group level. This is discussed in further details in Note 30 of the OVO Group Ltd's financial statements.

Charitable donations

During the year the Company made charitable donations of £648,000.

The OVO Charitable Foundation

£

648,000

Employee engagement

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

Other stakeholder engagement

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

OVO Energy Ltd

Directors' Report for the Year Ended 31 December 2020 (continued)

Employment of disabled persons

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

Future developments

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

Going concern

The Company made a loss for the year ending 31 December 2020 and has net liabilities. The financial statements have been prepared on a going concern basis.

The Directors believe that preparing the financial statements on the going concern basis is appropriate due to the continued financial support of the parent company OVO Group Ltd. The Directors have received confirmation that OVO Group Ltd intend to support the Company for at least one year after these financial statements were signed.

The wholesale energy market is currently experiencing extremely high and volatile prices. The Group manages commodity price risk by securing gas and electricity under forward contracts. Cash flow and liquidity risks are managed through a combination of short and long range forecasting tools.

In the event of a severe downside scenario, the Group had a range of mitigating factors under their direct control to protect the Group's earnings and liquidity. The Group also has a number of arrangements with its creditors which allow for extended payment terms through the seasonal cycle in order to manage working capital commitments.

The Directors have reasonable expectation that the Group has adequate liquidity and resources to continue operating for a period of at least 12 months from the date of approval of these 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 the last financial year and is currently in force.

Disclosure of information to the auditors

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

OVO Energy Ltd

Directors' Report for the Year Ended 31 December 2020 (continued)

Statement of directors responsibilities

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

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

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

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

Approved by the Board on 27 September 2021 and signed on its behalf by:



William Castell
Director



Independent auditors' report to the members of OVO Energy Ltd

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2020; the statement of comprehensive income and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence.

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

Conclusions relating to going concern

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

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

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

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

Reporting on other information

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

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

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

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

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to Ofgem licence conditions and UK tax legislation, and we considered the extent to which non-

compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the posting of inappropriate journal entries to manipulate financial performance, and management bias in accounting estimates and judgements. Audit procedures performed by the engagement team included:

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

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

KE RM

Katharine Finn (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
27 September 2021

OVO Energy Ltd

Statement of Comprehensive Income for the Year Ended 31 December 2020

	Note	Underlying 2020 £m	Exceptional 2020* £m	Total 2020 £ m	2019 £ m
Turnover	4	932	-	932	1,144
Cost of sales		<u>(884)</u>	<u>-</u>	<u>(884)</u>	<u>(1,059)</u>
Gross profit		48	-	48	85
Administrative expenses		(122)	(28)	(150)	(133)
Impairment of financial assets		(137)	-	(137)	(12)
Other operating income	5	1	-	1	2
Other gains	6	<u>-</u>	<u>-</u>	<u>-</u>	<u>1</u>
Operating loss	7	(210)	(28)	(238)	(57)
Interest receivable and similar income	9	1	-	1	-
Interest payable and similar expenses	10	<u>(55)</u>	<u>-</u>	<u>(55)</u>	<u>(3)</u>
Loss before tax		(264)	(28)	(292)	(60)
Tax on loss on ordinary activities	14	<u>36</u>	<u>1</u>	<u>37</u>	<u>(4)</u>
Loss for the financial year		<u>(228)</u>	<u>(27)</u>	<u>(255)</u>	<u>(64)</u>
Total comprehensive expense		<u>(228)</u>	<u>(27)</u>	<u>(255)</u>	<u>(64)</u>

The above results were derived from continuing operations.

* There were no exceptional items recognised in 2019. Refer to Note 8 for details of current year exceptional items.

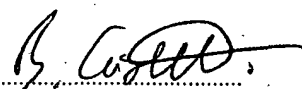
The notes on pages 16 to 48 form an integral part of these financial statements.

OVO Energy Ltd

(Registration number: 06890795)
Balance Sheet as at 31 December 2020

	Note	31 December 2020 £ m	31 December 2019 £ m
Fixed assets			
Intangible assets	15	16	21
Tangible assets	16	3	4
Right-of-use assets	17	14	14
Investments	18	428	-
		<u>461</u>	<u>39</u>
Current assets			
Stocks	21	-	1
Debtors	22	798	167
Cash at bank and in hand	23	35	20
		<u>833</u>	<u>188</u>
Creditors: Amounts falling due within one year	24	<u>(1,718)</u>	<u>(396)</u>
Net current liabilities		<u>(885)</u>	<u>(208)</u>
Total assets less current liabilities		<u>(424)</u>	<u>(169)</u>
Creditors: Amounts falling due after more than one year	25	(16)	(16)
Provisions for liabilities	27	<u>(3)</u>	<u>(3)</u>
Net liabilities		<u>(443)</u>	<u>(188)</u>
Capital and reserves			
Called up share capital	28	-	-
Other reserves		2	2
Profit and loss account		<u>(445)</u>	<u>(190)</u>
Total shareholders' deficit		<u>(443)</u>	<u>(188)</u>

The financial statements on pages 13 to 48 were approved by the Board on 27 September 2021 and signed on its behalf by:


William Castell
Director

OVO Energy Ltd

Statement of Changes in Equity for the Year Ended 31 December 2020

	Other reserves £ m	Accumulated losses £ m	Total £ m
At 1 January 2020	2	(190)	(188)
Loss for the year	-	(255)	(255)
Total comprehensive expense	-	(255)	(255)
At 31 December 2020	2	(445)	(443)

	Other reserves £ m	Accumulated losses £ m	Total £ m
At 1 January 2019	2	(126)	(124)
Loss for the year	-	(64)	(64)
Total comprehensive expense	-	(64)	(64)
At 31 December 2019	2	(190)	(188)

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020

1 General information

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

The address of its registered office is:

1 Rivergate
Temple Quay
Bristol
England
United Kingdom
BS1 6ED

These financial statements were authorised for issue by the Board on 27 September 2021.

2 Accounting policies

Summary of significant accounting policies and key accounting estimates

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

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101") and the Companies Act 2006 as applicable to companies using FRS 101. The Company transitioned from EU-adopted IFRS to FRS 101 for all periods presented. There were no material amendments on the adoption of FRS 101.

In preparing these financial statements, the Company has applied the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ('Adopted IFRS'), but has made amendments, where necessary, in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The financial statements have been prepared under the historical cost convention.

The Company's parent undertaking, OVO Group Ltd, includes the Company in its consolidated financial statements. The consolidated financial statements of OVO Group Ltd are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from 1 Rivergate, Temple Quay, Bristol, England, BS1 6ED.

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

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

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

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

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

Summary of disclosure exemptions

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

- A cash flow statement and related notes;
- The effect of new, but not yet effective, IFRSs;
- Disclosures in respect of the compensation of key management personnel;
- Disclosures in respect of capital management;
- Related party disclosures; and
- Share based payments disclosures.

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

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

Going concern

The Company made a loss for the year ending 31 December 2020 and has net liabilities. The financial statements have been prepared on a going concern basis.

The Directors believe that preparing the financial statements on the going concern basis is appropriate due to the continued financial support of the parent company OVO Group Ltd. The Directors have received confirmation that OVO Group Ltd intend to support the Company for at least one year after these financial statements were signed.

The wholesale energy market is currently experiencing extremely high and volatile prices. The Group manages commodity price risk by securing gas and electricity under forward contracts. Cash flow and liquidity risks are managed through a combination of short and long range forecasting tools.

In the event of a severe downside scenario, the Group had a range of mitigating factors under their direct control to protect the Group's earnings and liquidity. The Group also has a number of arrangements with its creditors which allow for extended payment terms through the seasonal cycle in order to manage working capital commitments.

The Directors have reasonable expectation that the Group has adequate liquidity and resources to continue operating for a period of at least 12 months from the date of approval of these financial statements.

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

Exemption from preparing group financial statements

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

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

Changes in accounting policy

New and amended standards adopted by the Company

The Company has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2020:

- Definition of Material - amendments to IAS 1 and IAS 8
- Definition of a Business - amendments to IFRS 3
- Interest Rate Benchmark Reform - amendments to IFRS 9, IAS 39 and IFRS 7
- Revised Conceptual Framework for Financial Reporting

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.

Revenue recognition

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

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

Installation and rental of smart meters

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

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

Revenue recognition (continued)

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

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

Transaction price

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

(i) Variable consideration

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

(ii) Consideration payable to a customer

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

Accrued income and receivables

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

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

Deferred revenue

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

Net basis of measurement of contract balances

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

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

Revenue recognition (continued)

Capitalisation of costs to obtain or fulfil a contract

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

Exceptional items

Exceptional items are those 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.

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

Finance income and costs policy

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the profit and loss account on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

Foreign currency transactions and balances

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

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

Tax

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

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

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

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

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

Tangible assets

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

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

Depreciation

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

Asset class	Depreciation method and rate
Leasehold property	Period of the lease
Fixtures, fittings and office equipment	3 years straight line

Intangible assets

a) Trademarks and industry accreditation

Separately acquired trademarks and licenses are shown at historical cost. Trademarks and licenses have a indefinite useful life and are carried at cost less accumulated impairment losses.

b) Internally developed software costs

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

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

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

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

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

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

Intangible assets (continued)

c) Contractual customer relationships

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

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

Amortisation

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

Asset class	Amortisation method and rate
Internally developed software costs	3 years straight line
Trademarks and industry accreditation	Indefinite life
Contractual customer relationships	5 years straight line

Impairment of non-financial assets

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

Investments

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

Cash at bank and in hand

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

Trade debtors

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

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

Deferred income

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

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

Stocks

Under the provisions of the Utilities Act 2000, all electricity suppliers are required to procure a set percentage of their supplies from accredited renewable electricity generators. This obligation can be fulfilled by the purchase and surrender of Renewables Obligation Certificates (ROCs) originally issued to generators, or, by making payment to Ofgem who then recycle the payments to purchasers of ROCs. In addition to the regulatory requirements, the Company surrenders additional ROCs to demonstrate its environmental credentials transparently. The accounting policy distinguishes between the cost of the Company's obligations within the regulatory regime and the tactical disposition towards purchasing and holding ROCs. The cost obligation is recognised as it arises and is charged to the profit and loss account for the year to which the charge relates as a reduction in gross margin. Gains or losses on disposal of ROCs are included in the profit and loss account as and when they crystallize. The stock of ROCs carried forward is valued at the lower of cost and estimated net realisable value. Cost is based on the first-in first-out (FIFO) principle.

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

Trade creditors

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

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

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 profit and loss account over the period of the relevant borrowing.

Interest expense is recognised on the basis of the effective interest method and is included in interest payable and similar charges. Borrowings are classified as amounts falling due within one year unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

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

Provisions

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

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

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

Share based payments

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

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

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

At the end of each reporting period, OVO Group Ltd revises their estimates of the number of options that are expected to vest based on the non-market vesting conditions. The impact of the revision to original estimates, if any, is recognised in the profit and loss account, with a corresponding adjustment to equity.

Leases

Definition

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

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

Initial recognition and measurement

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

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

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

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

Leases (continued)

Subsequent measurement

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

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

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

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

Lease modifications

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

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

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

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

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

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

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

Leases (continued)

Short term and low value leases

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

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

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

Share capital

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

Financial instruments

Initial recognition

Financial assets and financial liabilities comprise all assets and liabilities reflected in the balance sheet, although excluding property, plant and equipment, investment properties, intangible assets, deferred tax assets, prepayments and deferred tax liabilities.

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

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

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

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

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

Financial instruments (continued)

Classification and measurement

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

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

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

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

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

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

As at 31 December 2020, the Company had no financial assets or liabilities measured at FVTPL or FVOCI.

Financial assets at amortised cost

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

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

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

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

Financial 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.

Commodity derivatives

Within its regular course of business, the Company 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.

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

Defined contribution pension obligation

A defined contribution plan is a pension plan under which fixed contributions are paid into a separate entity and 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.

Employee benefits

The Company operates a flexible benefit scheme for qualifying employees whereby in addition to their salary, those employees are invited to select certain benefits with a value of up to 4% of their base pay. All costs related to the scheme are expensed in the profit and loss account in the years which services are rendered by employees. One of the available benefits is payment to a defined contribution pension plan. This is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. The Company has enrolled in the automatic pension scheme since November 2013.

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

3 Critical accounting judgements and key sources of estimation uncertainty

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

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

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

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

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

This estimate is subject to an internal validation process which compares calculated unbilled volumes to a theoretical real-time billing benchmark measure of unbilled volumes with reference to historical consumption patterns adjusted for seasonality/weather and aggregated metering data used in industry reconciliation processes. Unbilled revenue recognised on the Company's Balance Sheet was £49m (2019: £51m). A 1% change in variable unit unbilled revenue would have an approximate impact of £0.4m (2019: £0.9m) on the unbilled revenue recognised.

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

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

Impairment of trade debtors (estimation uncertainty)

Impairments against trade debtors are recognised where the loss is expected. The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected credit loss allowance for all trade debtors and accrued income. 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 profit and loss account in future years.

The assumption that future performance of customer debt settlement will be a reflective of past performance is the most significant assumption within the expected credit loss provisioning model. To address this risk, the Company reviews the provision rates for each segment on a regular basis to ensure they include the most up to date assumptions and use forward looking information. In order to test the sensitivity of the impairment of the Company's trade debtors balance, the Company has considered the impact of an additional ageing of trade debtors which requires an extra 0.5% of Revenue being provided for. This would lead to a £1.4m (2019: £2.3m) increase in the expected credit loss provision.

Deferred tax assets (accounting judgement and uncertainty)

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

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

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

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

Derivative financial instruments (accounting judgement)

Within its regular course of business, the Company routinely enters into sale and purchase derivative contracts for electricity and gas. Where the contract was entered into and continues to be held for the purpose of receipt or delivery in accordance with the Company's expected sale, purchase or usage requirements, the contracts are designated as "own use" contracts and are measured at cost.

During the course of the year the Company has assessed all forward contracts for securing gas and electricity and determined that all such contracts were entered into for the purpose of "own use". As such, no derivatives have been accounted for in relation to these contracts.

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

4 Turnover

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

	2020 £ m	2019 £ m
Sale of gas and electricity	909	1,106
Installation of smart meters	20	36
Other revenue	3	2
	<u>932</u>	<u>1,144</u>

Other revenue relates to payments received from customers to secure green energy of £2m (2019: £2m) and Smart Home solutions of £1m (2019: £nil).

5 Other operating income

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

	2020 £ m	2019 £ m
Research and development tax credit	<u>1</u>	<u>2</u>

6 Other gains

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

	2020 £ m	2019 £ m
Gain on bargain purchase	<u>-</u>	<u>1</u>

7 Operating loss

Arrived at after charging

	2020 £ m	2019 £ m
Expected credit loss	137	12
Depreciation expense - property, plant and equipment	2	1
Depreciation expenses - right-of-use assets	2	2
Amortisation expense - intangible assets	<u>5</u>	<u>6</u>

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

8 Exceptional items

	2020 £ m	2019 £ m
Acquisition related costs	22	-
Integration costs	5	-
Restructuring costs	1	-
Exceptional included within operating loss	28	-
Exceptional included within loss before tax	28	-
Net taxation on exceptional items	(1)	-

Acquisition related costs

This relates to transaction costs related to the acquisition of SSE Energy Services Group Limited and consists of legal, due diligence, merger and acquisition advisory, tax advisory and stamp duty tax.

Integration costs

This primarily relates to costs incurred for consultancy on the integration of SSE Energy Services Group Limited following its acquisition.

Restructuring

Following the acquisition of SSE Energy Services Group Limited, the Group has initiated an integration programme which has resulted in the redundancy of a number of employees. The restructuring plan was announced to the employees of the affected group companies in May 2020. The restructuring is expected to be completed by 2021.

Adjusted EBITDA

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

Adjusted EBITDA is a non-GAAP measure and is not defined by IFRS. The presentation of APMs is a judgment and policy choice made by management and therefore, not comparable. Adjusted EBITDA is reported the first time in the current period as a result of the acquisition of SSE Energy Services Group Limited. Following the acquisition, the Company incurred a significant amount of non-operating expenses and management considers the inclusion of these items do not reflect the underlying business performance and trends.

Adjusted EBITDA is defined as operating loss, after adjusting for depreciation and amortisation and items that are deemed unusual in nature and of significance.

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

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

8 Exceptional items (continued)

	2020 £m	2019 £m
Operating loss	(238)	(57)
Exceptional items	28	-
Depreciation and impairment of property, plant and equipment and right-of-use assets	4	3
Amortisation and impairment of intangible assets	5	6
Adjusted EBITDA	(201)	(48)

9 Interest receivable and similar income

	2020 £ m	2019 £ m
Interest on intercompany borrowings	1	-

10 Interest payable and similar expenses

	2020 £ m	2019 £ m
Interest on bank overdrafts and borrowings	1	-
Interest on intercompany borrowings	53	2
Interest expense on leases	1	1
Total interest payable and similar expenses	55	3

11 Staff costs

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

	2020 £ m	2019 £ m
Wages and salaries	53	38
Social security costs	4	4
Pension costs	2	1
	59	43

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

	2020 No.	2019 No.
Administration and support	402	368
Sales, marketing and distribution	713	663
	1,115	1,031

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

12 Directors' remuneration

The Directors' remuneration for the year was as follows:

	2020 £ 000	2019 £ 000
Directors' remuneration	1,308	-
Company contributions to defined contribution pension schemes	51	-
	<u>1,359</u>	<u>-</u>

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

	2020 £ 000	2019 £ 000
Directors' remuneration	313	-
Company contributions to defined contribution pension schemes	14	-
	<u>327</u>	<u>-</u>

During the year, retirement benefits were accruing to 5 Directors (2019: nil) in respect of defined contribution pension schemes.

The number of Directors in respect of whose qualifying services shares were received or receivable under long-term incentive schemes is 4 (2019: none). No shares were received or receivable in the year by the highest-paid director in respect of qualifying services under the Company's long-term incentive scheme.

The above value includes one of the Directors who was remunerated via another OVO group company in the year until 30 June 2020. The Director's compensation was paid by OVO Group Ltd, which made no recharge to the entity.

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

In 2019, the Directors' remuneration and salary cost was recognised in OVO Group Ltd. The Directors' compensation was paid by OVO Group Ltd, which makes no recharge to the entity. The Directors were additionally Directors of the parent entity and a number of fellow subsidiaries, and it is not possible to make a reasonable apportionment of their compensation in respect of each of the subsidiaries. Accordingly, the total compensation of the Directors are included in the aggregate of key management personnel compensation disclosed in the consolidated financial statements of OVO Group Ltd.

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

13 Auditors' remuneration

	2020 £ 000	2019 £ 000
Audit of Company	100	117
Audit of subsidiaries	290	-
	<u>390</u>	<u>117</u>

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

14 Tax on loss

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

	2020 £ m	2019 £ m
Deferred taxation		
Arising from origination and reversal of temporary differences	(33)	2
Arising from changes in tax rates and laws	(2)	-
Adjustments in respect of prior periods	(2)	2
Total deferred taxation	<u>(37)</u>	<u>4</u>

The tax on loss for the year is lower than the standard rate of corporation tax in the UK (2019 - lower than the standard rate of corporation tax in the UK) of 19% (2019 - 19%).

The differences are reconciled below:

	2020 £ m	2019 £ m
Loss before tax	<u>(292)</u>	<u>(60)</u>
Corporation tax at standard rate	(55)	(11)
Adjustments in respect of prior periods	(2)	2
Increase from effect of expenses not deductible in determining tax loss	22	-
Deferred tax expense from unrecognised tax loss or credit	-	13
Deferred tax credit relating to changes in tax rates or laws	(2)	-
Total tax (credit)/charge	<u>(37)</u>	<u>4</u>

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

14 Tax on loss (continued)

A change to the main UK corporation tax rate announced in the Budget on 11 March 2020 was substantively enacted on 17 March 2020 by a Budget resolution. The rate effective from 1 April 2020 now remains at 19% rather than the previously enacted reduction to 17%. Deferred balances are now remeasured to 19% from the previous rate of 17%.

In the Spring Budget 2021, the UK Government announced that the UK corporation tax rate will increase to 25% from 1 April 2023. The net deferred tax asset has been calculated at 19% as this rate has been substantively enacted at the Balance Sheet date. Had the 25% rate been substantively enacted on or before 31 December 2020 it would have had the effect of increasing the net deferred tax asset by £16m.

Deferred tax

Deferred tax assets and liabilities

	Asset £ m	Liability £ m	Net deferred tax £ m
2020			
Tax losses carry-forwards	39	-	39
Accelerated tax depreciation	1	-	1
Restricted interest deductions carried forward	13	-	13
Revaluation of intangible assets	-	(2)	(2)
	<u>53</u>	<u>(2)</u>	<u>51</u>
2019			
Tax losses carry-forwards	16	-	16
Accelerated tax depreciation	1	-	1
Restricted interest deductions carried forward	-	-	-
Revaluation of intangible assets	-	(3)	(3)
	<u>17</u>	<u>(3)</u>	<u>14</u>

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

14 Tax on loss (continued)

Deferred tax movement during the year:

	At 1 January 2020 £ m	Recognised in income £ m	At 31 December 2020 £ m
Tax losses carry-forwards	16	23	39
Accelerated tax depreciation	1	-	1
Restricted interest deductions carried forward	-	13	13
Revaluation of intangible assets	(3)	1	(2)
Net tax assets/(liabilities)	<u>14</u>	<u>37</u>	<u>51</u>

Deferred tax movement during the prior year:

	At 1 January 2019 £ m	Recognised in income £ m	Recognised through acquisition £ m	At 31 December 2019 £ m
Tax losses carry-forwards	21	(5)	-	16
Accelerated tax depreciation	1	-	-	1
Restricted interest deductions carried forward	-	-	-	-
Revaluation of intangible assets	-	1	(4)	(3)
Net tax assets/(liabilities)	<u>22</u>	<u>(4)</u>	<u>(4)</u>	<u>14</u>

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

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

Deferred tax of £14m (2019: £14m) has not been recognised in relation to an element of tax losses for which it is not considered probable that the losses will be utilised based on assessment of available evidence.

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

15 Intangible assets

	Contractual customer relationships £ m	Internally generated software development costs £ m	Total £ m
Cost or valuation			
At 1 January 2019	-	20	20
Additions	22	1	23
At 31 December 2019	22	21	43
At 1 January 2020	22	21	43
At 31 December 2020	22	21	43
Accumulated amortisation			
At 1 January 2019	-	16	16
Amortisation charge	4	2	6
At 31 December 2019	4	18	22
At 1 January 2020	4	18	22
Amortisation charge	4	1	5
At 31 December 2020	8	19	27
Carrying amount			
At 31 December 2020	14	2	16
At 31 December 2019	18	3	21
At 1 January 2019	-	4	4

The amortisation charge of £5m (2019: £6m) is recognised in administrative expenses.

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

16 Tangible assets

	Leasehold property £ m	Fixtures, fittings and office equipment £m	Total £ m
Cost or valuation			
At 1 January 2019	7	4	11
Additions	2	2	4
At 31 December 2019	9	6	15
At 1 January 2020	9	6	15
Additions	-	3	3
Disposals	-	(2)	(2)
At 31 December 2020	9	7	16
Accumulated depreciation			
At 1 January 2019	6	4	10
Charge for year	1	-	1
At 31 December 2019	7	4	11
At 1 January 2020	7	4	11
Charge for the year	1	1	2
At 31 December 2020	8	5	13
Carrying amount			
At 31 December 2020	1	2	3
At 31 December 2019	2	2	4
At 1 January 2019	1	-	1

The depreciation charge of £2m (2019: £1m) is recognised in administrative expenses.

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

17 Right-of-use assets

	Property £ m	Total £ m
Cost or valuation		
At 1 January 2019	18	18
Disposals	(2)	(2)
At 31 December 2019	16	16
At 1 January 2020	16	16
Modification	2	2
At 31 December 2020	18	18
Accumulated depreciation		
At 1 January 2019	-	-
Charge for year	2	2
At 31 December 2019	2	2
At 1 January 2020	2	2
Charge for the year	2	2
At 31 December 2020	4	4
Carrying amount		
At 31 December 2020	14	14
At 31 December 2019	14	14

18 Investments

Subsidiaries	£ m
Cost or valuation	
At 1 January 2020	-
Additions	428
At 31 December 2020	428
Carrying amount	
At 31 December 2020	428

Additions during the year are described in Note 19 Acquisition of subsidiary.

Details of the subsidiaries as at 31 December 2020 are as follows:

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

18 Investments (continued)

Name of subsidiary	Principal activity	Registered office	Proportion of ownership interest and voting rights held at 31 December	
			2020	2019
OVO Electricity Ltd*	Procurement and sale of electricity from the wholesale markets and renewable sources	1 Rivergate, Temple Quay, Bristol, England, BS1 6ED UK	100%	100%
OVO Gas Ltd*	Supply of gas and related services	1 Rivergate, Temple Quay, Bristol, England, BS1 6ED UK	100%	100%
Lumo Ltd*	Online Dissolved	140-142 Kensington Church Street, London, England, W8 4BN UK	0%	100%
Spark Limited*	Energy Supporting the sale of electricity and gas to customers in the UK	Grampian House, 200 Dunkeld Road, Perth, Scotland, PH1 3GH UK	100%	100%
Spark Shipping Ltd	Gas Supply of gas and related services	1 Rivergate, Temple Quay, Bristol, England, BS1 6ED UK	100%	100%
Spark Finance Plc	Energy Dissolved	Ettrick Riverside, Dunsdale Road, Selkirk, Scotland, TD7 5EB UK	0%	100%
Home Limited	Telecom Disposed	1 Rivergate, Temple Quay, Bristol, England, BS1 6ED UK	0%	100%
Kaluza Ltd*	Information technology	140-142 Kensington Church Street, London, England, W8 4BN UK	100%	0%
OVO (S) Services Limited*	Energy Intermediate holding company	1 Rivergate Temple Quay, Bristol, England, BS1 6ED UK	100%	0%
OVO Electricity Limited	(S) Supply of electricity to domestic customers in the UK	1 Rivergate Temple Quay, Bristol, England, BS1 6ED UK	100%	0%

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

18 Investments (continued)

Name of subsidiary	Principal activity	Registered office	Proportion of ownership interest and voting rights held at 31 December	
			2020	2019
OVO (S) Gas Limited	The licensed marketing and sale of natural gas to domestic customers in the UK	1 Rivergate Temple Quay, Bristol, England, BS1 6ED UK	100%	0%
OVO (S) Energy Solutions Limited	Manages the installation of energy efficiency measures in domestic properties, mainly social housing	1 Rivergate Temple Quay, Bristol, England, BS1 6ED UK	100%	0%
OVO (S) Home Services Limited	Provision of a range of boiler, central heating and electrical wiring services, breakdown cover and installation services	Grampian House, 200 Dunkeld Road, Perth, Scotland, PH1 3GH UK	100%	0%
OVO (S) Metering Limited	Meter reading operations and meter operator work throughout the UK	Grampian House, 200 Dunkeld Road, Perth, Scotland, PH1 3GH UK	100%	0%
OVO (S) Telecoms Limited	The sale of telephone and broadband connectivity and associated services to consumers in the UK	1 Rivergate Temple Quay, Bristol, England, BS1 6ED UK	100%	0%

* indicates direct investment of the Company.

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

19 Acquisition of subsidiary

Acquisition of SSE Energy Services Group Limited

On 15 January 2020, OVO Energy Ltd acquired 100% of the issued share capital in SSE Energy Services Group Limited for a net consideration of £407.0m. A further £20.8m investment relates to capital contribution in SSE Energy Services Group Limited in the year. The principal activity of SSE Energy Services Group and its subsidiaries is the supply of domestic energy and energy-related services in the UK. SSE Energy Services Group was acquired to increase OVO group's market share and reduce costs through economies of scale.

20 Acquisition of trade and assets

Economy Energy

On 12 January 2019, OVO Energy Ltd, acquired the customer base and associated liabilities of Economy Energy Ltd through Ofgem's Supplier of Last Resort process. The principal activity of Economy Energy Ltd is the supply of gas and electricity. Economy Energy Ltd was acquired to grow the Company's domestic energy customer base, with the customer base and associated liabilities transferred to OVO Energy Ltd.

There is significant judgement required for the fair value for the acquired assets and liabilities, and the best available data has therefore been used. The amounts recognised in respect of the customer base and associated liabilities as at 12 January 2019 are as follows:

	Fair value of assets and liabilities acquired £ m
Assets and liabilities acquired	
Identifiable intangible assets	22
Deferred tax liability	(4)
Financial liabilities	(17)
Total identifiable assets	<u>1</u>
Satisfied by:	
Total consideration transferred	<u>-</u>

As the consideration transferred was £nil, a resulting gain on bargain purchase of £1m has been recognised as a result of the acquisition.

Intangible assets of £22m have been recognised on the acquisition of Economy Energy Ltd's customer base. This was for the recognition of existing relationships with approximately 360,000 customer connections.

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

21 Stocks

	31 December 2020 £ m	31 December 2019 £ m
Finished goods and goods for resale	-	1

The cost of ROCs recognised as an expense in the year amounted to £71m (2019: £89m). This is included within cost of sales.

22 Debtors

	31 December 2020 £ m	31 December 2019 £ m
Trade debtors and accrued income	132	114
Provision for impairment of trade debtors and accrued income	(96)	(63)
Net trade debtors	36	51
Amounts owed by Group undertakings	658	76
Prepayments	10	4
Other debtors	41	20
Income tax asset	2	2
Deferred tax assets	51	14
	<u>798</u>	<u>167</u>

23 Cash at bank and in hand

	31 December 2020 £ m	31 December 2019 £ m
Cash at bank	<u>35</u>	<u>20</u>

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

24 Creditors: amounts falling due within one year

	31 December 2020 £ m	31 December 2019 £ m
Trade creditors	179	99
Accruals	370	127
Amounts owed to Group undertakings	1,047	69
Social security and other taxes	2	1
Lease liabilities - Current	2	1
Other creditors	20	18
Deferred income	98	81
	<u>1,718</u>	<u>396</u>

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

25 Creditors: amounts falling due after more than one year

	31 December 2020 £ m	31 December 2019 £ m
Long term lease liabilities	<u>16</u>	<u>16</u>

26 Leases

Leases included in creditors

	31 December 2020 £ m	31 December 2019 £ m
Lease liabilities - Current	2	1
Long term lease liabilities	<u>16</u>	<u>16</u>

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

26 Leases (continued)

Lease liabilities maturity analysis

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

	31 December 2020 £ m	31 December 2019 £ m
Less than one year	3	2
Between two and five years	13	15
Greater than five years	5	5
Total lease liabilities (undiscounted)	21	22

The Company leases various offices. The balance sheet amounts relating to leases are shown within Note 16 Right-of-use assets.

The current period interest expense on lease liabilities (included in interest payable and similar expenses) was £1m (2019: £1m).

The total cash outflow for leases for the year ended 31 December 2020 was £2m (2019: £1m).

27 Provisions for liabilities

	Facility agreement exit fee provision £ m	Restructuring provision £ m	Dilapidation provisions £ m	Total £ m
At 1 January 2020	2	-	1	3
Additional provisions	-	1	-	1
Provisions used	-	(1)	-	(1)
At 31 December 2020	2	-	1	3

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

27 Provisions for liabilities (continued)

Facility agreement exit fee provision

Upon the occurrence of an exit event for a fully repaid facility agreement, the Company is required to make an exit fee payment based on the enterprise value of the Company at the date of the event. The recognised provision reflects the Directors' best estimates of the fair value of this fee at 31 December 2020.

Dilapidation provisions

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

Restructuring provision

Following the acquisition of SSE Energy Services Group Limited, OVO Group has initiated an integration programme which has resulted in the redundancy of a number of employees. The restructuring plan was announced to the employees of the affected group companies in May 2020. The restructuring is expected to be completed by 2021.

28 Called up share capital

Allotted, called up and fully paid shares

	31 December 2020		31 December 2019	
	No.	£	No.	£
Ordinary share capital of £0.01 each	<u>12,500</u>	<u>125.00</u>	<u>12,500</u>	<u>125.00</u>

Rights, preferences and restrictions

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

29 Reserves

Called up share capital

The balance classified as share capital includes the total net proceeds on issue of the Company's equity share capital, comprising £0.01 ordinary shares.

Other reserves

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

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

30 Pension and other schemes

The Company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the Company to the scheme and amounted to £2m (2019 - £1m).

31 Share-based payments

Scheme description

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

B shares ('Employee Shareholder Scheme') are free shares awarded to employees in line with the UK government's employee shareholder status rules. B shares initially had a three year vesting period, however this has been changed to a four year "rolling vesting" period, with a portion of the shares vesting annually, rather than all at the end of the scheme. The vesting period has been modified to give greater control and flexibility to employees.

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

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

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

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

32 Contingent liabilities

The UK Government has set out a requirement for energy suppliers to take all reasonable steps to roll out smart meters to all of their domestic customers by 31 December 2021 (previously 30 June 2021). Failure to achieve the annual installation targets will be a breach of a supplier's licence which could subject OVO to financial penalties imposed by Ofgem. OVO continues to install smart meters in all regions in line with regulations and has not recognised any contingent liability in regards to non-compliance with this requirement.

OVO Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

33 Related party transactions

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

Transactions with parent entities

Imagination Industries Ltd

During the year, the Company incurred costs of £5m payable to Imagination Industries Ltd (2019: £7m). As at 31 December 2020, the Company owed £4m to Imagination Industries Ltd (2019: £3m).

Transactions with entities controlled by the same ultimate controlling party

Imagine Just 3 Things Ltd

During the year, the Company incurred costs of £36,000 payable to Imagine Just 3 Things Ltd (2019: £nil). No amounts were outstanding to Imagine Just 3 Things Ltd as at 31 December 2020 or 31 December 2019.

Transactions with associates

Indra Renewable Technologies Limited

During the year, the Company incurred costs of £1m payable to Indra Renewable Technologies Limited (2019: £150,000). No amounts were outstanding to Indra Renewable Technologies Limited as at 31 December 2020 (2019: £167,000).

34 Parent and ultimate parent undertaking

The Company's immediate parent is OVO Finance Ltd.

The ultimate parent is Imagination Industries Ltd. These financial statements are available upon request from the registered office 140-142 Kensington Church Street, London, England, W8 4BN.

The smallest consolidated statements that incorporate OVO Energy Ltd are those of OVO Finance Ltd, which are available upon request from the registered office shown in Note 1.

The largest consolidated statements that incorporate OVO Energy Ltd are those of Imagination Industries Ltd, which are available upon request from the registered office 140-142 Kensington Church Street, London, England, W8 4BN.

The ultimate controlling party is Stephen Fitzpatrick.