

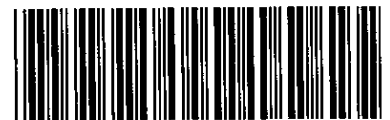
Registration number: 08862063

# OVO Group Ltd

Annual Report and Consolidated Financial Statements

for the Year Ended 31 December 2020

WEDNESDAY



\*AAE24J0G\*

A40

29/09/2021

#137

COMPANIES HOUSE

## **OVO Group Ltd**

### **Contents**

	page(s)
Company Information	1
Strategic Report	2 to 14
Directors' Report	15 to 17
Independent Auditors' Report	18 to 20
Consolidated Income Statement	21
Consolidated Statement of Comprehensive Income	22
Consolidated and Company Statements of Financial Position	23 to 24
Consolidated Statement of Changes in Equity	25
Company Statement of Changes in Equity	26
Consolidated Statement of Cash Flows	27 to 28
Company Statement of Cash Flows	29
Notes to the Financial Statements	30 to 88

## **OVO Group Ltd**

### **Company Information**

<b>Chairman</b>	Stephen Murphy
<b>Directors</b>	Stephen Fitzpatrick Stephen Murphy Daniel Sasaki Vincent Casey Adrian Letts Atsushi Suzuki Stacey Cartwright William Castell
<b>Company secretary</b>	Vincent Casey
<b>Registered office</b>	1 Rivergate Temple Quay Bristol BS1 6ED
<b>Independent Auditors</b>	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 2 Glass Wharf Temple Quay Bristol BS2 0FR

## OVO Group Ltd

### Strategic Report for the Year Ended 31 December 2020

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

#### 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 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

2020 has been a transformational year for OVO, achieving a 221% growth in our customer base from 1.4m to 4.5m due to the acquisition of SSE Energy Services.

During the period, Group turnover increased by 208% from £1,449m to £4,459m and our gross margin increased by 4% from 10% to 14%.

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

#### 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.

## OVO Group Ltd

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

#### 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 smart batteries*.

With the UK Government agreeing to ban the sale of new Internal Combustion Engine (ICE) vehicles from 2035, 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.

#### International

The global energy market is moving rapidly towards a new era of digitisation, and decentralised clean power generation will place more control in the hands of consumers. More specifically, energy retail markets are deregulating and becoming more competitive, creating enormous opportunities for OVO.

OVO has established business units supplying energy to customers in France, Spain and Australia. Each business has continued to grow well, delivering green energy to thousands of customers at low cost, and with exceptional customer service ratings. We have also begun to offer innovative new technology offerings adapted to each market, such as OVO Spain's solar + battery proposition. We have also started to develop international partnerships, with ENI's investment in OVO France, and AGL's investment in OVO Australia (described below).

#### Key Financial and Performance Indicators

The Group made a loss of £141m for the year ended 31 December 2020 (2019: loss of £106m) and has net liabilities of £196m (2019: net liabilities of £47m).

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

	Unit	2020	2019
Customer numbers	No.	4,500,000	1,377,000
Cash	£m	49	23
Annualised gross profit margin	%	14	10
Adjusted EBITDA*	£m	97	(77)

\* Adjusted EBITDA is defined as operating profit, after adjusting for depreciation, amortisation, impairment and exceptional items (i.e. expenses or credits that are deemed unusual by nature and/or scale and significance). See below for reconciliation of adjusted EBITDA to statutory results. Refer to Note 7 for details of exceptional items.

## OVO Group Ltd

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

Reconciliation to statutory results	2020	2019
	£m	£m
Group operating loss	(117)	(103)
Add: Exceptional items*	110	-
Add: Depreciation and non-exceptional impairment of property, plant and equipment and right-of-use assets	23	6
Add: Amortisation and impairment of intangible assets	81	20
<b>Adjusted EBITDA</b>	<b>97</b>	<b>(77)</b>

\* Refer to Note 7 for details of exceptional items.

#### Subsequent events since the end of the reporting period

##### *Sale of Large Power Metering business*

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

The sale completed on 6 April 2021, within a year from the reporting date. At 31 December 2020, the Large Power Metering business was classified as a disposal group held for sale. See Note 20.

##### *Partnership with AGL Energy*

In March 2021 we announced a joint venture with AGL, Australia's largest energy retailer and generator to bring digital energy services to Australia.

As part of the agreement, AGL will invest in OVO Energy Australia to adapt the Kaluza platform for Australia and serve a growing customer base with innovative products and services. The companies will work together, drawing on their expertise in low-carbon innovation and energy retail, to develop digital customer experiences that may ultimately help support AGL's customers who are looking to reduce their costs and carbon emissions through innovative products and services.

## OVO Group Ltd

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

#### Streamlined Energy and Carbon Reporting Framework Regulations

OVO Group is subject to the Streamlined Energy and Carbon Reporting Framework Regulations (SECR). We therefore report our energy consumption and associated greenhouse gas emissions figures for the year ended 31 December 2019 (prior year) and the year ended 31 December 2020 (current year), an intensity ratio and information relating to our energy and greenhouse gas emissions reduction actions.

#### Energy consumption figures

Area	Energy source	Unit	2019 energy consumption		2020 energy consumption	
			UK	Group*	UK	Group*
Building energy consumption	Natural gas	kWh	5,930,884	5,944,536	5,713,972	5,717,284
	Diesel	kWh	628,063	628,063	527,471	527,710
	Electricity	kWh	11,458,112	11,493,165	9,184,680	9,199,692
	District heating and cooling	kWh	-	5,741	-	-
Fleet energy consumption	Diesel	kWh	38,752,377	38,752,377	22,158,509	22,158,509
	Petrol	kWh	2,218,608	2,218,608	2,079,611	2,079,611
	Electric	kWh	82,693	82,693	178,170	178,170
Business travel energy consumption**	Diesel	kWh	N/A	N/A	750,801	750,801
	Petrol	kWh	N/A	N/A	544,129	544,129
	Hybrid	kWh	N/A	N/A	4,083	4,083
	Plug-in hybrid	kWh	N/A	N/A	80	80
	Unspecified	kWh	N/A	N/A	210,391	210,391
Total energy consumption		Kwh	59,070,737	59,125,183	41,351,897	41,370,460

During the 2020 reporting period, OVO Group Ltd underwent a significant structural change following the acquisition of OVO (S) Energy Services Ltd (trading as 'SSE Energy Services'). In line with GHG protocol guidance, the base year (2018) energy data were recalculated to include SSE Energy Services for the entire year. The prior year (2019) and current year (2020) energy data were also recalculated for the entire year to maintain consistency with the base year recalculation.

\* Group inclusive of UK and International.

\*\* Business travel data was collected from 1st January 2020 onwards.

# OVO Group Ltd

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

### Greenhouse gas emissions figures

Emissions scope	Area	Emissions source	Unit	2019 greenhouse gas emissions		2020 greenhouse gas emissions	
				UK	Group*	UK	Group*
Scope 1 emissions	Building energy consumption	Natural gas	Tonnes CO2e	1,090	1,093	1,051	1,051
		Diesel	Tonnes CO2e	159	159	133	133
	Fugitive emissions	R410A	Tonnes CO2e	14	14	124	124
		R407C	Tonnes CO2e	4	4	8	8
	Fleet energy consumption	Diesel	Tonnes CO2e	9,502	9,502	5,332	5,332
		Petrol	Tonnes CO2e	518	518	477	477
	Total Scope 1 emissions		Tonnes CO2e	11,287	11,290	7,125	7,125
Scope 2 emissions	Building energy consumption	Electricity (location-based)	Tonnes CO2e	2,933	2,948	2,141	2,144
		Electricity (market-based)	Tonnes CO2e	424	442	275	277
		District heating and cooling (location-based)	Tonnes CO2e	-	3	-	-
		District heating and cooling (market-based)	Tonnes CO2e	-	3	-	-
		Fleet energy consumption	Electricity	21	21	42	42
	Total Scope 2 emissions (location-based)		Tonnes CO2e	2,954	2,972	2,183	2,186
	Total Scope 2 emissions (market-based)		Tonnes CO2e	445	465	317	319
Scope 1 and Scope 2 emissions	Total Scope 1 and Scope 2 emissions (location-based)		Tonnes CO2e	14,241	14,261	9,308	9,311^
	Total Scope 1 and Scope 2 emissions (market-based)		Tonnes CO2e	11,732	11,755	7,442	7,444^
	Total Scope 1 and Scope 2 emissions intensity relative to revenue (location-based)		Tonnes CO2e/£m	N/A	N/A	2.09	2.09
	Total Scope 1 and Scope 2 emissions intensity relative to revenue (market-based)		Tonnes CO2e/£m	N/A	N/A	1.67	1.67



## OVO Group Ltd

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

Emissions scope	Area	Emissions source	Unit	2019 greenhouse gas emissions		2020 greenhouse gas emissions	
				UK	Group*	UK	Group*
Scope 3 emissions	Business travel energy consumption**	Diesel	Tonnes CO2e	N/A	N/A	191	191
		Petrol	Tonnes CO2e	N/A	N/A	131	131
		Hybrid	Tonnes CO2e	N/A	N/A	1	1
		Plug-in hybrid	Tonnes CO2e	N/A	N/A	-	-
		Unspecified	Tonnes CO2e	N/A	N/A	52	52
	Total Scope 3 emissions		Tonnes CO2e	N/A	N/A	376	376
Revenue	OVO Group Ltd revenue***		£m	N/A	N/A	4,455	4,459

During the 2020 reporting period, OVO Group Ltd underwent a significant structural change following the acquisition of OVO (S) Energy Services Ltd (trading as 'SSE Energy Services'). In line with GHG protocol guidance, the base year (2018) emissions data were recalculated to include SSE Energy Services for the entire year. The prior year (2019) and current year (2020) emissions data were also recalculated for the entire year to maintain consistency with the base year recalculation.

\* Group inclusive of UK and International.

\*\* Business travel data was collected from 1st January 2020 onwards.

\*\*\* 2019 revenue and carbon intensity data have not been reported due to a lack of comparable SSE Energy Services revenue data for reporting periods prior to the acquisition.

^ PricewaterhouseCoopers LLP (PwC) was engaged to provide independent limited assurance over selected information in the Annual Accounts for the year ended 31 December 2020. Information that is within PwC's limited assurance scope is marked with the symbol ^. See PwC's Assurance Statement here: [www.ovo.com/sustainability-assurance-report/](http://www.ovo.com/sustainability-assurance-report/).

#### Performance

Our absolute Scope 1 and Scope 2 market-based emissions and location-based emissions decreased by 37% and 35% respectively between 2019 and 2020.

## OVO Group Ltd

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

#### Energy and greenhouse gas emissions reduction actions

2020 was a challenging year in which we had to rapidly adjust our operations as a result of the SSE Energy Services acquisition and coronavirus pandemic.

Our operations grew significantly with the acquisition of SSE Energy Services in January 2020. In 2020, our main focus was integrating SSE Energy Services operations into our operations and establishing a complete energy consumption and greenhouse gas data set including our newly acquired business. We have recalculated our 2018 baseline, 2019 and 2020 data and started updating our energy and science-based carbon reduction targets to include SSE Energy Services operations. Now that we have a view of SSE Energy Services' energy and greenhouse gas emissions impact, we are developing a roadmap for improvement.

Our operations were further impacted by the coronavirus pandemic. Due to the national lockdown restrictions, we moved the vast majority of our people to remote working from home and temporarily closed some of our offices, resulting in changes in building energy use patterns. Energy reductions from site closures and low occupancy were partially offset by energy use to maintain temperatures and meet coronavirus CIBSE ventilation guidance. During the year, we also reduced smart-meter installations and field engineering operations to emergency works only to keep our customers and our people safe, resulting in a decrease in fleet energy use.

Although disruption to our operations had a knock-on effect on our ability to roll out some of our energy efficiency and vehicle electrification initiatives (which are part of our Plan Zero sustainability strategy), we took some important steps forward in developing our strategies and building capacity to reinvigorate action in 2021.

#### Property

We have continued shifting our offices where we have control over supply to renewable electricity tariffs. We also rolled out a new building energy management platform, which provides us with active and continuous building energy use data to help us identify and drive efficiencies.

We joined The Climate Group's EP100 initiative, a coalition of companies committed to improving energy productivity. We have set ourselves an ambitious target to double energy productivity across our operations by 2030.

#### Fleet

In 2020 our fleet grew from approximately 300 to 2,000 vehicles with the acquisition of SSE Energy Services. All the vehicles inherited from SSE were diesel, which has significantly expanded the scale of our electrification challenge - something that we're determined to make progress on, in line with our goal to fully electrify the fleet by 2025. Despite disruption to field operations caused by the pandemic, we made solid progress on electrifying OVO Energy's fleet, with the addition of 40 new electric vehicles (EVs), bringing OVO Energy's fleet to 43% electric by the end of 2020. In our combined OVO SSE fleet, we have 8.6% EVs.

In parallel, we introduced enhanced telematics tracking across both our OVO Energy and SSE Energy Services fleet. Our new telematics system gives us visibility of vehicle analytics data such as utilisation and mileage - which will help us identify drivers who would benefit from fuel-efficient driver training or switching to an EV.

We also joined two important industry initiatives to help accelerate the shift from internal combustion engines to EVs. We became a signatory of The Climate Group's EV100 initiative, joining over 100 other companies worldwide who are committed to going fully electric in their vehicle fleet. As part of our EV100 commitment, we also committed to installing EV charging points at all of our offices by 2030 to enable more of our people to commute using their own electric vehicles. We also became a member of the UK Electric Fleets Coalition - a group of leading companies advocating for accelerating the transition to EVs in the UK.

#### Business travel

There has been a significant reduction in business travel in 2020 and 2021 as a result of the coronavirus pandemic. As the lockdown eases, we will ensure that business travel resumes in a sustainable way, in line with the sustainability clause in our Travel and Expenses Policy.

## OVO Group Ltd

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

#### Customers

Our most significant source of carbon emissions is the energy we sell to customers. We will include an update on our emissions from customer home energy use in our Plan Zero 2020 progress report due to be published in late 2021.

#### Reporting methodology

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

#### Assurance

PricewaterhouseCoopers LLP (PwC) was engaged to provide independent limited assurance over selected information in the Annual Report and Accounts for the year ended 31 December 2020. Information that is within PwC's limited assurance scope is marked with the symbol <sup>^</sup>. See PwC's Assurance Statement here: [www.ovo.com/sustainability-assurance-report/](http://www.ovo.com/sustainability-assurance-report/).

#### Corporate governance statement

In early 2020, OVO Group Ltd acquired OVO (S) Electricity Limited as part of the acquisition of SSE's household retail business. In this reporting period, OVO (S) Electricity Limited met the qualifying conditions for providing a statement of corporate governance arrangements as set out in The Companies (Miscellaneous Reporting) Regulations 2018. As the parent company of the Group in which consolidated financial statements of OVO (S) Electricity Limited are prepared, this statement sets out the corporate governance arrangements of OVO Group Ltd, which also apply to those subsidiaries whose financial statements are consolidated within its Group.

Prior to the acquisition of OVO (S) Electricity Limited, the approach to corporate governance taken by OVO Group Ltd was felt to be appropriate for its size and scope. As part of the steps to integrate SSE's household retail business, the Group corporate governance approach has been reviewed.

The OVO Group Ltd Board (the "OVO Group Board") recognises the need to develop and enhance its corporate governance framework to reflect the changes to the business following the SSE acquisition, and the Board will apply The Wates Corporate Governance Principles For Large Private Companies from 2021 and in subsequent years.

#### Purpose and leadership

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

OVO has a set of three values which underpin our culture and that help our business grow, prosper and successfully deliver on the ambitions set out in Plan Zero.

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

## OVO Group Ltd

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

#### Board composition

The OVO Group Board is chaired by Stephen Murphy, also Chairman of GYG plc, London & Capital Ltd, and a Non-Executive Director at The Business Growth Fund. The role of Chairman is separate from Chief Executive. The Board consists of 7 directors, 4 non-executive Directors (including the Chair) and 3 executive Directors. In 2020, there were no changes to the Directors on the Board.

We acknowledge that there is room for improvement with diversity on our Board, in particular when compared to the Diversity and Inclusion targets that were approved by the Board this year. The OVO Group Board is committed to developing a more diverse workforce, including at the most senior levels.

In 2020, the OVO Group Board met 6 times and the Directors attended as follows:

<b>Director</b>	<b>% meetings attended</b>
Stephen Murphy (Chair)	100%
Stephen Fitzpatrick (CEO/Founder)	100%
Adrian Letts (OVO Retail CEO)	100%
Atsushi Suzuki (Director)	100%
Daniel Sasaki (Director)	100%
Niall Wass (Director)	50%
Vincent Casey (Director and Secretary)	100%

## OVO Group Ltd

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

The OVO Group business consists of OVO Retail (our UK retail energy business), Kaluza (our intelligent energy technology business), and International (active in France, Spain and Australia). The OVO Retail and Kaluza businesses have separate Boards.

Following the acquisition of SSE Energy Services at the start of 2020, Stacey Cartwright, former Deputy Chairman and Chief Executive Officer of Harvey Nichols Group, was appointed to chair the OVO Retail Board and was appointed as a statutory Director of OVO Group Limited on 18 January 2021.

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

#### Director responsibilities

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

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

During 2020, to promote good governance across OVO, the OVO Group Board established a Combined Risk and Audit Committee attended by 5 non-executive Directors and chaired by Stacey Cartwright, the OVO Retail Chair. The work of the Combined Risk and Audit Committee is focused on the soundness of financial statements and the effectiveness of risk management and internal controls. The committee oversees the relationship with our external auditors and receives regular reports on the risk management and internal controls across all OVO companies from our Risk & Compliance and Internal Audit teams. In 2020, the committee reviewed OVO's principal risks, received detailed assessments on OVO's management of Information Security, Energy Regulation, Tax, and Health and Safety, and reviewed OVO's approach to whistleblowing and investigations. The committee also reviewed internal and external assurance reports on Financing, Financial Reporting and Energy Trading and the external audit approach for 2020.

In 2020, a steering committee was established to oversee progress against OVO's Plan Zero strategy, chaired by the CEO of OVO Retail, with progress reported to the Board on a quarterly basis. This provided the Board with oversight of key elements of OVO's performance relating to Plan Zero and management of environmental, social and governance risks, opportunities and impacts.

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

## **OVO Group Ltd**

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

#### **Opportunity and risk**

The OVO Group Board is responsible for OVO's strategic direction and making sure risk is effectively managed. The Combined Risk and Audit Committee has considered OVO's key operational risks and identified seven principal risks:

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

These principal risks are those which could stop OVO from offering the best customer service, delivering Plan Zero and staying financially healthy. OVO's Leaders are responsible for setting the tolerable level of risk which OVO are willing to take for each principal risk.

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

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

#### **Financial risks**

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

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

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

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

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

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

## OVO Group Ltd

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

#### 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.

#### 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 Promote 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.

## OVO Group Ltd

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

#### Stakeholders (continued)

##### *Our communities*

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

##### *Our suppliers*

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.

Approved by the Board on 29 June 2021 and signed on its behalf by:



William Castell  
Director



## OVO Group Ltd

### Directors' Report for the Year Ended 31 December 2020

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

#### Directors

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

Stephen Fitzpatrick

Stephen Murphy - Chairman

Daniel Sasaki

Vincent Casey

Adrian Letts

Atsushi Suzuki

Niall Wass (resigned 12 January 2021)

The following Directors were appointed after the year end:

Stacey Cartwright (appointed 18 January 2021)

William Castell (appointed 18 January 2021)

#### Principal activity

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

#### Dividends

The Directors do not propose a dividend for the year (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 Group to price risk, credit risk, interest rate risk, liquidity risk and cash flow risk. This is discussed in Note 30 of the financial statements.

#### Charitable donations

During the year the Group made charitable donations of £812,000.

The OVO Charitable Foundation

£  
812,000

#### Employee engagement

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

#### Other stakeholder engagement

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

#### Employment of disabled persons

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

## OVO Group Ltd

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

#### Future developments

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

#### Going concern

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

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

The Directors have performed a detailed assessment of the Group's ability to continue as a going concern. As part of this assessment they considered both the liquidity position and compliance with financial covenants. The forecast takes account of the following:

- The Directors expectation of the continued effect of COVID-19 on the Group,
- Unemployment due to COVID-19 rising above 6.5% in Q4 2021 impacting expected credit losses expense, and
- Localised restrictions and requirements for social distancing being in place up to H1 2021 impacting our ability to mobilise parts of our workforce.

However, the forecast includes uplifted variable unit revenue, in line with Ofgem's revised SVT rates, allowing for recovery of COVID related incremental bad debt.

In addition, the forecast has been subject to a set of plausible downside stress tests, including a further increase in bad debt, a reduction in smart meter installs, an increase in customer churn, and cold/ warm weather scenarios. In the case of downside stress tests the Directors took into account the potential mitigating factors (within their direct control) to protect the Group's earnings and liquidity.

Under the forecast, and the severe downside scenarios considered, the Group has sufficient liquidity to continue as a going concern, and is compliant with all financial covenants throughout 2021 to at least September 2022. Accordingly the Directors have a 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 the financial statements, and therefore the financial statements have been prepared on a going concern basis.

Having considered these matters, the Directors do not believe there are any material uncertainties to disclose in relation to the Group's ability to continue as a going concern.

#### Directors' liabilities

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

#### Disclosure of information to the auditors

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

## OVO Group Ltd

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

#### Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the 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 then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

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

Approved by the Board on 29 June 2021 and signed on its behalf by:



William Castell  
Director

## **Independent Auditor's Report to the Members of OVO Group Ltd**

### **Report on the audit of the financial statements**

#### **Opinion**

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

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2020 and of the group's loss and the group's and company's cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Consolidated Financial Statements (the "Annual Report"), which comprise: the Consolidated and Company Statements of Financial Position as at 31 December 2020; the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statements of Changes in Equity and the Consolidated and Company Statements of Cash Flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

#### **Basis for opinion**

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

#### **Independence**

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

#### **Conclusions relating to going concern**

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

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

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

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

#### **Reporting on other information**

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform

## **Independent Auditor's Report to the Members of OVO Group Ltd (continued)**

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

## **Responsibilities for the financial statements and the audit**

### *Responsibilities of the directors for the financial statements*

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

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

### *Auditors' responsibilities for the audit of the financial statements*

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

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

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to Ofgem licence conditions, the Coronavirus Job Retention Scheme 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;
- Assessing the risk that amounts claimed under the Coronavirus Job Retention Scheme were inappropriate;

## **Independent Auditor's Report to the Members of OVO Group Ltd (continued)**

- 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

### **Use of this report**

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

## **Other required reporting**

### **Companies Act 2006 exception reporting**

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

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

We have no exceptions to report arising from this responsibility.

**KE Km**

.....  
Katharine Finn (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Bristol  
29 June 2021

# OVO Group Ltd

## Consolidated Income Statement for the Year Ended 31 December 2020

	Note	Underlying 2020 £m	Exceptional 2020* £m	Total 2020 £ m	2019 £ m
Revenue	4	4,459	-	4,459	1,449
Cost of sales		<u>(3,821)</u>	<u>(15)</u>	<u>(3,836)</u>	<u>(1,303)</u>
<b>Gross profit/(loss)</b>		<b>638</b>	<b>(15)</b>	<b>623</b>	<b>146</b>
Administrative expenses		(594)	(95)	(689)	(230)
Impairment of financial assets		(68)	-	(68)	(25)
Other operating income	5	17	-	17	3
Other gains		<u>-</u>	<u>-</u>	<u>-</u>	<u>3</u>
<b>Operating loss</b>	6	<b><u>(7)</u></b>	<b><u>(110)</u></b>	<b><u>(117)</u></b>	<b><u>(103)</u></b>
Finance income		2	-	2	1
Finance costs		<u>(61)</u>	<u>-</u>	<u>(61)</u>	<u>(4)</u>
Net finance cost	8	(59)	-	(59)	(3)
Share of loss of associates accounted for using the equity method		<u>-</u>	<u>-</u>	<u>-</u>	<u>(1)</u>
<b>Loss before tax</b>		<b>(66)</b>	<b>(110)</b>	<b>(176)</b>	<b>(107)</b>
Income tax credit	12	<u>18</u>	<u>17</u>	<u>35</u>	<u>1</u>
<b>Loss for the year</b>		<b><u>(48)</u></b>	<b><u>(93)</u></b>	<b><u>(141)</u></b>	<b><u>(106)</u></b>
<b>Loss attributable to:</b>					
Owners of the parent		<u>(48)</u>	<u>(93)</u>	<u>(141)</u>	<u>(106)</u>
Loss for the year		<u>(48)</u>	<u>(93)</u>	<u>(141)</u>	<u>(106)</u>

The above results were derived from continuing operations.

\* There were no exceptional items recognised in 2019. Refer to Note 7 for details of current year exceptional items.

# OVO Group Ltd

## Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2020

	Note	2020 £ m	2019 £ m
Loss for the year		<u>(141)</u>	<u>(106)</u>
<b>Other comprehensive expense</b>			
<b>Items that will not be reclassified subsequently to profit or loss</b>			
Remeasurements of post-employment benefit obligations	26	(10)	-
Deferred tax on defined benefit pension obligations	12	<u>2</u>	<u>-</u>
Total other comprehensive expense		<u>(8)</u>	<u>-</u>
Total comprehensive expense for the year		<u>(149)</u>	<u>(106)</u>
<b>Total comprehensive expense attributable to:</b>			
Owners of the company		<u>(149)</u>	<u>(106)</u>
		<u>(149)</u>	<u>(106)</u>



# OVO Group Ltd

(Registration number: 08862063)

## Consolidated and Company Statements of Financial Position as at 31 December 2020

		Group		Company	
	Note	2020 £ m	2019 £ m	2020 £ m	2019 £ m
<b>Assets</b>					
<b>Non-current assets</b>					
Property, plant and equipment	13	8	4	-	-
Right of use assets	14	49	18	-	-
Intangible assets	15	566	126	5	5
Deferred tax assets	12	99	11	-	1
Investments in subsidiaries	16	-	-	198	196
Investments accounted for using the equity method	16	1	1	-	-
Defined benefit pension asset	26	13	-	-	-
		<u>736</u>	<u>160</u>	<u>203</u>	<u>202</u>
<b>Current assets</b>					
Inventories	18	18	10	-	-
Trade and other receivables	19	1,118	143	112	123
Income tax asset		14	4	-	-
Cash and cash equivalents	21	49	23	6	-
		<u>1,199</u>	<u>180</u>	<u>118</u>	<u>123</u>
Assets classified as held for sale	20	8	-	-	-
<b>Total assets</b>		<u>1,943</u>	<u>340</u>	<u>321</u>	<u>325</u>
<b>Current liabilities</b>					
Trade and other payables	22	(832)	(266)	(24)	(20)
Deferred income	22	(677)	(89)	-	-
Loans and borrowings	23	(91)	-	-	-
Lease liabilities	24	(14)	(2)	-	(1)
Provisions	25	(76)	(12)	-	(9)
		<u>(1,690)</u>	<u>(369)</u>	<u>(24)</u>	<u>(30)</u>
<b>Non-current liabilities</b>					
Loans and borrowings	23	(405)	-	-	-
Lease liabilities	24	(44)	(18)	-	-
		<u>(449)</u>	<u>(18)</u>	<u>-</u>	<u>-</u>
<b>Total liabilities</b>		<u>(2,139)</u>	<u>(387)</u>	<u>(24)</u>	<u>(30)</u>
<b>Net (liabilities)/assets</b>		<u>(196)</u>	<u>(47)</u>	<u>297</u>	<u>295</u>
<b>Equity</b>					
Share capital	27	-	-	-	-
Share premium		133	133	133	133
Other reserves		-	-	80	80
(Accumulated losses)/Retained earnings		(329)	(180)	84	82
<b>Total equity, attributable to owners of the parent</b>		<u>(196)</u>	<u>(47)</u>	<u>297</u>	<u>295</u>

The notes on pages 30 to 88 form an integral part of these financial statements.

**OVO Group Ltd**

**(Registration number: 08862063)**

**Consolidated and Company Statements of Financial Position as at 31 December 2020  
(continued)**

No income statement is presented for the Company as permitted by section 408 of the Companies Act 2006. The Company made a profit for the financial year of £2m (2019 - loss of £19m).

The financial statements on pages 21 to 88 were approved by the Board on 29 June 2021 and signed on its behalf by:



William Castell  
Director

# **OVO Group Ltd**

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

	<u>Attributable to owners of the parent</u>		Total equity £ m
	Share premium £ m	Accumulated losses £ m	
At 1 January 2019	30	(74)	(44)
Loss for the year	-	(106)	(106)
New share capital subscribed	103	-	103
At 31 December 2019	<u>133</u>	<u>(180)</u>	<u>(47)</u>

	<u>Attributable to owners of the parent</u>		Total equity £ m
	Share premium £ m	Accumulated losses £ m	
At 1 January 2020	133	(180)	(47)
Loss for the year	-	(141)	(141)
Other comprehensive expense	-	(8)	(8)
At 31 December 2020	<u>133</u>	<u>(329)</u>	<u>(196)</u>

The notes on pages 30 to 88 form an integral part of these financial statements.

# **OVO Group Ltd**

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

	Share premium £ m	Merger & other reserves £ m	Retained earnings £ m	Total equity £ m
At 1 January 2019	30	80	-	110
Loss for the year	-	-	(19)	(19)
Unrealised gain on corporate restructure	-	-	101	101
New share capital subscribed	103	-	-	103
At 31 December 2019	<u>133</u>	<u>80</u>	<u>82</u>	<u>295</u>

	Share premium £ m	Merger & other reserves £ m	Retained earnings £ m	Total equity £ m
At 1 January 2020	133	80	82	295
Profit for the year	-	-	2	2
At 31 December 2020	<u>133</u>	<u>80</u>	<u>84</u>	<u>297</u>

# OVO Group Ltd

## Consolidated Statement of Cash Flows for the Year Ended 31 December 2020

	Note	2020 £ m	2019 £ m
<b>Cash flows from operating activities</b>			
Loss for the year		(141)	(106)
Adjustments for non-cash items			
Depreciation of property, plant and equipment	13	9	2
Amortisation & impairment of intangible assets	15	81	20
Depreciation & impairment of right of use assets	14	23	4
Defined benefit pension transactions		3	-
Finance income	8	(2)	(1)
Finance costs	8	61	4
Income tax credit	12	(35)	(1)
Other movements		2	(5)
		<u>1</u>	<u>(83)</u>
Working capital adjustments			
Increase in inventories		(8)	(5)
Decrease/(increase) in trade and other receivables		107	(50)
(Decrease)/increase in trade and other payables		(155)	45
Decrease in deferred income		(42)	(23)
(Decrease)/increase in provisions		<u>(19)</u>	<u>9</u>
Cash used in operations		(116)	(107)
Income taxes paid		<u>-</u>	<u>(1)</u>
Net cash flows generated from operating activities		<u>(116)</u>	<u>(108)</u>
<b>Cash flows from investing activities</b>			
Interest received		2	1
Acquisitions of property plant and equipment	13	(3)	(3)
Acquisition of intangible assets	15	(54)	(11)
Acquisition of subsidiary (net of cash acquired)	17	<u>(227)</u>	<u>-</u>
Net cash flows used in investing activities		<u>(282)</u>	<u>(13)</u>
<b>Cash flows from financing activities</b>			
Proceeds from bank borrowings		400	-
Proceeds from other borrowings		100	-
Repayment of bank borrowing		-	(34)
Capitalised financing costs		(37)	-
Interest paid		(18)	(4)
Lease liability repayments		(21)	(2)
Proceeds from issue of ordinary shares, net of issue costs		<u>-</u>	<u>103</u>
Net cash flows generated from financing activities		<u>424</u>	<u>63</u>
Net increase/(decrease) in cash and cash equivalents		26	(58)
Cash and cash equivalents at 1 January		<u>23</u>	<u>81</u>
Cash and cash equivalents at 31 December		<u><u>49</u></u>	<u><u>23</u></u>

The notes on pages 30 to 88 form an integral part of these financial statements.

# OVO Group Ltd

## Consolidated Statement of Cash Flows for the Year Ended 31 December 2020 (continued)

### Reconciliation of liabilities arising from financing activities

	At 1 January 2020 £ m	Financing cash flows £ m	Non-cash changes New finance leases £ m	Other changes £ m	At 31 December 2020 £ m
Long term borrowings	-	445	-	(40)	405
Short term borrowings	-	-	-	91	91
Lease liabilities	20	(21)	38	21	58
	<u>20</u>	<u>424</u>	<u>38</u>	<u>72</u>	<u>554</u>

The 'Other changes' column includes the effect of accrued but not yet paid interest on interest-bearing loans and borrowings, including lease liabilities, and reclassification of amounts between long term and short term borrowings.

# OVO Group Ltd

## Company Statement of Cash Flows for the Year Ended 31 December 2020

	2020 £ m	2019 £ m
<b>Cash flows from operating activities</b>		
Profit/(loss) for the year	2	(19)
Adjustments for non-cash items		
Finance income	(6)	(5)
Finance costs	1	2
Income tax charge/(credit)	2	(1)
	(1)	(23)
Working capital adjustments		
Increase in trade and other receivables	(2)	(59)
Decrease in trade and other payables	-	(30)
(Decrease)/increase in provisions	(9)	9
<b>Net cash flow used in operating activities</b>	(12)	(103)
<b>Cash flows from investing activities</b>		
Interest received	-	5
Proceeds from sale of subsidiaries	-	2
Acquisition of intangible assets	-	(5)
<b>Net cash flows from investing activities</b>	-	2
<b>Cash flows from financing activities</b>		
Interest paid	-	(2)
Proceeds from issue of ordinary shares, net of issue costs	-	103
Cash inflows from intercompany financing	19	-
Lease liability repayments	(1)	-
<b>Net cash flows generated from financing activities</b>	18	101
<b>Net increase in cash and cash equivalents</b>	6	-
Cash and cash equivalents at 1 January	-	-
<b>Cash and cash equivalents at 31 December</b>	6	-

### Reconciliation of liabilities arising from financing activities

	At 1 January 2020 £ m	Financing cash flows £ m	At 31 December 2020 £ m
Lease liabilities	1	(1)	-

The 'Other changes' column includes the effect of accrued but not yet paid interest on interest-bearing loans and borrowings, including lease liabilities.

## OVO Group 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 and domiciled in the United Kingdom.

The address of its registered office is:

1 Rivergate  
Temple Quay  
Bristol  
BS1 6ED  
UK

These financial statements were authorised for issue by the Board on 25 June 2021.

#### 2 Accounting policies

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

##### Summary of significant accounting policies and key accounting estimates

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

##### Basis of preparation

The Group financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 ("IFRS").

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

- assets held for sale - measured at fair value less costs to sell, and
- defined benefit pension plans - plan assets measured at fair value.

No income statement is presented for the Company as permitted by section 408 of the Companies Act 2006. The Company made a profit for the financial year of £2m (2019: loss of £19m).

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

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

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



## OVO Group Ltd

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

#### 2 Accounting policies (continued)

##### Going concern

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

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

The Directors have performed a detailed assessment of the Group's ability to continue as a going concern. As part of this assessment they considered both the liquidity position and compliance with financial covenants. The forecast takes account of the following:

- The Directors expectation of the continued effect of COVID-19 on the Group,
- Unemployment due to COVID-19 rising above 6.5% in Q4 2021 impacting expected credit losses expense, and
- Localised restrictions and requirements for social distancing being in place up to H1 2021 impacting our ability to mobilise parts of our workforce.

However, the forecast includes uplifted variable unit revenue, in line with Ofgem's revised SVT rates, allowing for recovery of COVID related incremental bad debt.

In addition, the forecast has been subject to a set of plausible downside stress tests, including a further increase in bad debt, a reduction in smart meter installs, an increase in customer churn, and cold/ warm weather scenarios. In the case of downside stress tests the Directors took into account the potential mitigating factors (within their direct control) to protect the Group's earnings and liquidity.

Under the forecast, and the severe downside scenarios considered, the Group has sufficient liquidity to continue as a going concern, and is compliant with all financial covenants throughout 2021 to at least September 2022. Accordingly the Directors have a 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 the financial statements, and therefore the financial statements have been prepared on a going concern basis.

Having considered these matters, the Directors do not believe there are any material uncertainties to disclose in relation to the Group's ability to continue as a going concern.

## OVO Group Ltd

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

#### 2 Accounting policies (continued)

##### Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 31 December 2020.

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

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

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

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

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

##### Changes in accounting policy

##### New and amended standards adopted by the Group

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

##### New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

## OVO Group Ltd

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

#### 2 Accounting policies (continued)

##### **Revenue recognition**

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

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

##### *Installation and rental of smart meters*

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

##### *Voiceline and broadband revenue*

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

##### *Sale of home and emergency cover*

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

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

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

##### *Transaction price*

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

##### *(i) Variable consideration*

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

##### *(ii) Consideration payable to a customer*

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

## OVO Group Ltd

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

#### 2 Accounting policies (continued)

##### *Accrued income and receivables*

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

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

##### *Contract liabilities*

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

##### *Net basis of measurement of contract balances*

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

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

##### **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.

##### **Government grants**

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

##### **Finance income and costs policy**

Finance expense comprises interest payable on loans and leases. Finance income comprises interest receivable on funds invested and on loans to Group undertakings.

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 income statement on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

## OVO Group Ltd

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

#### 2 Accounting policies (continued)

##### Foreign currency transactions and financial statements of foreign operations

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

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

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

##### Tax

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

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

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

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

##### Property, plant and equipment

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

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

##### Depreciation

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

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

## OVO Group Ltd

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

#### 2 Accounting policies (continued)

##### Goodwill

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

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

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

##### Intangible assets

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

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

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

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

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

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

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

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

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

##### Amortisation

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

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

## OVO Group Ltd

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

#### 2 Accounting policies (continued)

##### **Impairment of non-financial assets**

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

##### **Investments**

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

##### **Cash and cash equivalents**

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

##### **Trade receivables**

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

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

##### **Inventories**

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 Group surrenders additional ROCs to demonstrate its environmental credentials transparently. The accounting policy distinguishes between the cost of the Group'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 income statement 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 income statement 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 principle.

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

##### **Trade payables**

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

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

## OVO Group Ltd

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

#### 2 Accounting policies (continued)

##### **Borrowings**

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

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

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

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

##### **Provisions**

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

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



## OVO Group 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. They recognise the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When the options are exercised, OVO Group Ltd issue new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

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

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

## OVO Group Ltd

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

#### 2 Accounting policies (continued)

##### Leases

###### Definition

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

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

###### Initial recognition and measurement

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

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

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

###### Subsequent measurement

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

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

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

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

## OVO Group Ltd

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

#### 2 Accounting policies (continued)

##### Lease modifications

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

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

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

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

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

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

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

##### Short term and low value leases

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

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

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

##### Share 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 cash and cash equivalents, certain trade and other receivables, certain trade and other payables and borrowings.

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

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

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

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

## OVO Group Ltd

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

#### 2 Accounting policies (continued)

##### Classification and measurement

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

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

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

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

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

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

At 31 December 2020 the Group had no assets 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 group may choose to designate the financial asset at FVTPL. Such an election is irrevocable and applicable only if the FVTPL classification significantly reduces a measurement or recognition inconsistency.

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

##### Defined contribution pension obligation

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

For defined contribution plans contributions are paid 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.

## OVO Group Ltd

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

#### 2 Accounting policies (continued)

##### Defined benefit pension obligation

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

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

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

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

##### 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 up to 4% of their base pay. All costs related to the scheme are expensed in the income statement in the year 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 obligations 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 receivables, 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 receivables) and unbilled revenue (accrued income) and is calculated with reference to the tariffs and contractual rates applicable to customers against estimated customer consumption. Estimated customer consumption takes into account various factors including usage patterns, weather trends and notified aggregated volumes supplied to the customers from national settlements bodies.

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

This estimate is subject to an internal validation process which compares calculated unbilled volumes to a theoretical real-time billing benchmark measure of unbilled volumes with reference to historical consumption patterns adjusted for seasonality/weather and aggregated metering data used in industry reconciliation processes. Unbilled revenue recognised on the Group Balance Sheet was £543m. A 1% change in variable unit unbilled revenue would have an approximate impact of £5m on the unbilled revenue recognised.

## OVO Group 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 receivables (estimation uncertainty)**

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

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

##### **Deferred tax assets (accounting judgement and uncertainty)**

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

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

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

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

##### **Derivative financial instruments (accounting judgement)**

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

During the course of the year the Group 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.

##### **Business combinations (accounting judgement)**

There is significant judgement in relation to the fair value of a company's assets on acquisition.

Management perform valuations of assets acquired and liabilities assumed on each acquisition accounted for as a business combination and allocate the purchase price to the tangible and intangible assets acquired and liabilities assumed based on the best estimates and data available. In making these determinations, management are required to make estimates and assumptions that affect the recorded amounts, including future revenue growth, customer attrition rates, and discount rates impacting the valuation of intangible assets. Management engage third party valuation specialists to assist in making these fair value determinations, when deemed necessary.

## OVO Group Ltd

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

#### 4 Revenue

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

	2020	2019
	£ m	£ m
Sale of gas and electricity	4,178	1,362
Installation and rental of smart meters	133	47
Sale of home and emergency cover	43	17
Voiceline and broadband revenue	51	-
Other revenue	54	23
	<u>4,459</u>	<u>1,449</u>

Revenue generated outside of the UK in 2020 was £4m (2019: £nil), and is included within 'Sale of gas and electricity'.

Other revenue relates primarily to Home Energy Solutions services of £26m (2019: £nil), Metering services of £6m (2019: £nil), Insurance Claims and Boiler Install services of £7m (2019: £6m) and line rental income £3m (2019: £4m).

#### 5 Other operating income

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

	2020	2019
	£ m	£ m
Government grants	17	-
Research and development expenditure credit	-	3
	<u>17</u>	<u>3</u>

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

#### 6 Operating loss

Arrived at after charging/(crediting)

	2020	2019
	£ m	£ m
Depreciation expense - property, plant and equipment	9	2
Depreciation expense - right of use assets	14	4
Impairment - right of use assets	9	-
Amortisation - intangible assets	78	17
Impairment - intangible assets	3	3
Government grants	<u>(17)</u>	<u>-</u>

## OVO Group Ltd

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

#### 7 Exceptional items

	2020	2019
	£m	£m
Restructuring costs	55	-
Acquisition related costs	22	-
Integration costs	15	-
Right-of-use asset impairment	9	-
Onerous lease costs	9	-
<b>Exceptional items included within Group operation profit/(loss)</b>	<b>110</b>	<b>-</b>
<b>Exceptional items included within Group profit/(loss) before tax</b>	<b>110</b>	<b>-</b>
<b>Net taxation on exceptional items</b>	<b>(17)</b>	<b>-</b>

#### *Restructuring costs*

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 during 2021.

#### *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.

#### *Right-of-use asset impairment*

In May 2020, OVO announced the closure of several offices alongside its redundancy programme. Certain right-of-use assets were impaired as a result of office closures.

#### *Onerous lease costs*

The property leases for the closed offices have not terminated and the Group continues to incur business rates and service charges relating to the property leases. A provision has been recognised for the unavoidable costs under the leases.

#### *Income statement classification*

£15m of the exceptional restructuring costs related to items classified in cost of sales. The remaining total of £95m exceptional costs related to items classified in administrative expenses.



## OVO Group Ltd

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

#### 7 Exceptional items (continued)

##### EBITDA

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

EBITDA is a non-GAAP measure and is not defined by IFRS. The presentation of alternative performance measures is a judgement and policy choice made by management and therefore, not comparable. Adjusted EBITDA is reported for the first time in the current period as a result of the acquisition of SSE Energy Services Group Limited. Following the acquisition, the Group 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 profit, 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 Group operating profit is shown below.

	2020	2019
	£m	£m
Group operating loss	(117)	(103)
Exceptional items	110	-
Depreciation and non-exceptional impairment of property, plant and equipment and right-of-use assets	23	6
Amortisation and impairments of intangible assets	81	20
<b>Adjusted EBITDA</b>	<b>97</b>	<b>(77)</b>

#### 8 Net finance income/(costs)

	2020	2019
	£ m	£ m
<b>Finance income</b>		
Interest income on bank deposits	2	1
<b>Finance costs</b>		
External finance interest and charges	(57)	(3)
Interest expense on leases	(4)	(1)
<b>Total finance costs</b>	<b>(61)</b>	<b>(4)</b>
<b>Net finance costs</b>	<b>(59)</b>	<b>(3)</b>

## OVO Group Ltd

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

#### 9 Staff costs

##### Group:

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

	2020 £ m	2019 £ m
Wages and salaries	232	72
Social security costs	17	6
Pension costs, defined contribution scheme	11	2
Pension costs, defined benefit scheme	10	-
Other employee expense	6	6
	<u>276</u>	<u>86</u>

Payroll costs of £28m have been capitalised in the current year (2019: £5m).

##### Company:

The aggregate payroll costs included in the Company accounts during the year was £3m (2019: £9m).

##### Group:

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

	2020 No.	2019 No.
Administration and support	3,564	1,047
Sales, marketing and distribution	4,827	1,024
	<u>8,391</u>	<u>2,071</u>

##### Company:

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	23	26
Sales, marketing and distribution	4	-
	<u>27</u>	<u>26</u>

# OVO Group Ltd

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

### 10 Directors' remuneration

The Directors' remuneration for the year was as follows:

	2020 £ m	2019 £ m
Remuneration	<u>1</u>	<u>1</u>

The highest paid Director in the year received remuneration of £366,407 (2019 - £599,440) and contributions to the pension scheme of £12,808 (2019 - £10,850). Six of the Group Directors received benefits through long-term incentive schemes.

### 11 Auditors' remuneration

	2020 £'000	2019 £000
Audit of company	170	112
Audit of subsidiaries	1,020	139
<b>Total audit fees</b>	<b>1,190</b>	<b>251</b>
Audit related assurance services	63	10
Tax compliance services	138	-
Services related to corporate finance transactions	949	3,010
Other non-audit services	431	-
<b>Total non-audit services</b>	<b>1,581</b>	<b>3,020</b>
<b>Total auditor's remuneration</b>	<b>2,771</b>	<b>3,271</b>

## OVO Group Ltd

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

#### 12 Taxation

Tax charged/(credited) in the income statement

	2020 £ m	2019 £ m
<b>Current taxation</b>		
UK corporation tax	-	(1)
UK corporation tax adjustment to prior periods	-	2
	<u>-</u>	<u>1</u>
<b>Deferred taxation</b>		
Arising from origination and reversal of temporary differences	(26)	(4)
Adjustment in respect of prior periods	(1)	1
Arising from changes in tax rates and laws	(8)	1
	<u>(35)</u>	<u>(2)</u>
Total deferred taxation	<u>(35)</u>	<u>(2)</u>
Tax credit in the income statement	<u>(35)</u>	<u>(1)</u>

The tax on loss before tax for the current and prior year is different to 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>(176)</u>	<u>(107)</u>
Corporation tax at standard rate	(33)	(20)
Increase from effect of expenses not deductible in determining taxable profit (tax loss)	4	4
Adjustments in respect of prior periods	-	2
Increase from deferred tax not recognised	2	15
Decrease from effect of revenues exempt from taxation	-	(3)
Deferred tax (credit)/expense relating to changes in tax rates or laws	(8)	1
	<u>(35)</u>	<u>(1)</u>
Total tax credit	<u>(35)</u>	<u>(1)</u>

# OVO Group Ltd

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

### 12 Taxation (continued)

#### Deferred tax

#### Group

Deferred tax movement during the year:

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

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

Deferred tax movement during the prior year:

	At 1 January 2019 £ m	Recognised in income £ m	Recognised on business combinations £ m	At 31 December 2019 £ m
Accelerated tax depreciation	1	-	-	1
Tax losses carry-forwards	23	(1)	-	22
Revaluation of intangible assets	(11)	3	(4)	(12)
Pension benefit obligations	-	-	-	-
Other items	-	-	-	-
Net tax assets/(liabilities)	13	2	(4)	11

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 judgements, for further discussion on the basis for recognition of deferred tax assets.

Deferred tax of £16m 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.

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 tax 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 £31m.

# **OVO Group Ltd**

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

### **13 Property, plant and equipment**

#### **Group**

	Leasehold property £ m	Fixtures and fittings £ m	Office equipment £ m	Meter assets and miscellaneous equipment £ m	Total £ m
<b>Cost or valuation</b>					
At 1 January 2019	7	2	4	-	13
Additions	2	-	1	-	3
At 31 December 2019	9	2	5	-	16
Additions	-	-	3	-	3
Acquired through business combinations	-	-	-	19	19
Transfers to assets held for sale (see Note 20)	-	-	-	(8)	(8)
Disposals	-	-	(2)	-	(2)
At 31 December 2020	9	2	6	11	28
<b>Accumulated depreciation</b>					
At 1 January 2019	6	1	3	-	10
Charge for year	1	1	-	-	2
At 31 December 2019	7	2	3	-	12
Charge for the year	1	-	1	7	9
Transfers to assets held for sale (see Note 20)	-	-	-	(1)	(1)
At 31 December 2020	8	2	4	6	20
<b>Carrying amount</b>					
At 31 December 2020	1	-	2	5	8
At 31 December 2019	2	-	2	-	4

The depreciation charge of £9m (2019: £2m) is recognised in administrative expenses.

# **OVO Group Ltd**

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

### **14 Right of use assets**

#### **Group**

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

	Property £ m	Fleet £ m	Total £ m
<b>Cost or valuation</b>			
At 1 January 2019	20	2	22
At 31 December 2019	20	2	22
At 1 January 2020	20	2	22
Acquired through business combinations	33	22	55
Modifications	-	(1)	(1)
At 31 December 2020	53	23	76
<b>Accumulated depreciation</b>			
At 1 January 2019	-	-	-
Charge for year	3	1	4
At 31 December 2019	3	1	4
At 1 January 2020	3	1	4
Charge for the year	8	6	14
Impairment	9	-	9
At 31 December 2020	20	7	27
<b>Carrying amount</b>			
At 31 December 2020	33	16	49
At 31 December 2019	17	1	18

# **OVO Group Ltd**

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

### **15 Intangible assets**

#### **Group**

	Goodwill £ m	Contractual customer relationships £ m	Other intangible assets £ m	Total £ m
<b>Cost or valuation</b>				
At 1 January 2019	46	57	36	139
Additions	-	-	11	11
Acquired through business combinations	-	22	-	22
Disposals	(2)	-	-	(2)
At 31 December 2019	44	79	47	170
Additions	-	-	54	54
Acquired through business combinations	109	259	99	467
At 31 December 2020	153	338	200	691
<b>Accumulated amortisation</b>				
At 1 January 2019	-	3	21	24
Amortisation charge	-	13	4	17
Impairment	-	3	-	3
At 31 December 2019	-	19	25	44
Amortisation charge	-	46	32	78
Impairment	3	-	-	3
At 31 December 2020	3	65	57	125
<b>Carrying amount</b>				
At 31 December 2020	150	273	143	566
At 31 December 2019	44	60	22	126

*An impairment charge of £3m was recognised in the year (2019: £3m).*



## **OVO Group Ltd**

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

#### **15 Intangible assets (continued)**

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

#### Impairment assessment

At the balance sheet date, the non-financial assets of the Group were tested for impairment.

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

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

- the combined UK energy retail business has been considered to be a single CGU;
- cash flows for the business for the following year derived from budgets for 2021. The Directors believe these to be reasonably achievable;
- subsequent cash flows for four additional years increased in line with growth expectations of the business;
- cash flows beyond the five-year period extrapolated using a long-term nominal growth rate of 2.0%; and
- a post-tax discount rate of 12.3% and a pre-tax discount rate of 15.2%.

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

## OVO Group Ltd

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

#### 16 Investments

##### Group subsidiaries

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

Name of subsidiary	Principal activity	Registered office	Proportion of ownership interest and voting rights held	
			2020	2019
Ovo Holdings Ltd*	Holding company	1 Rivergate Temple Quay, Bristol, England, BS1 6ED, UK	100%	100%
Ovo Finance Ltd	Holding company	1 Rivergate Temple Quay, Bristol, England, BS1 6ED, UK	100%	100%
OVO Energy Ltd	Supporting the sale of electricity and gas to customers in the UK	1 Rivergate, Temple Quay, Bristol, BS1 6ED, UK	100%	100%
OVO Electricity Ltd	Procurement and sale of UK electricity from the wholesale markets and renewable sources	1 Rivergate, Temple Quay, Bristol, BS1 6ED, UK	100%	100%
OVO Gas Ltd	Supply of gas and UK related services	1 Rivergate, Temple Quay, Bristol, BS1 6ED, UK	100%	100%
Spark Energy Limited	Supporting the sale of electricity and gas to customers in the UK	Granpian House, 200 Dunkeld Road, Perth, PH1 3GH	100%	100%
Spark Gas Shipping Limited	Supply of gas and related services	1 Rivergate, Temple Quay, Bristol, BS1 6ED	100%	100%
Kaluza Ltd	Information technology	140-142 Kensington Church Street, London, W8 4BN	100%	100%
Ovo Field Force Ltd	Smart meter installation business	1 Rivergate, Temple Quay, Bristol, BS1 6ED	100%	100%
Corgi Homeplan Ltd	Provider of boiler and home care cover	1 Masterton Park, South Castle Drive, Dunfermline, Fife, KY11 8NX	100%	100%
Corgi Homeheat Limited	Installation of boilers	1 Masterton Park, South Castle Drive, Dunfermline, Fife, KY11 8NX	100%	100%
Kantan Ltd.*	Information technology	140 – 142 Kensington Church Street, London, W8 4BN	93.15% 100%	/ 100% 100%
Intelligent Energy Technology Ltd*	Product development and provision of trading services	1 Rivergate, Temple Quay, Bristol, BS1 6ED, UK	100%	100%

## OVO Group Ltd

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

#### 16 Investments (continued)

Name of subsidiary	Principal activity	Registered office	Proportion of ownership interest and voting rights held	
			2020	2019
OVO Insurance Services Ltd.	Insurance services	PO Box 155, Mill Court, La Charroterie, St Peter Port, Guernsey, GY1 4ET	100%	100%
OVO Energy Pty Ltd*	Sale of electricity and gas to customers in Australia	19/181 William Street, Melbourne, VIC 3000, Australia	100%	100%
OVO Energy (France) SAS*	Sale of electricity and gas to customers in France	231 rue Saint-Honore 75001 Paris, France	75%	100%
OVO Energy (Netherlands) B.V.*	Dormant	Netherlands	100%	100%
OVO Energy (Italy) S.r.l.*	Dormant	Via dell'Annunciata n. 23/4, Avv. Francesco Dagnino c/o LEXIA Avvocati, 20121, Milan, Italy	100%	100%
OVO Energy Spain S.L.L.*	Sale of electricity and gas to customers in Spain	C. Muntaner 328 Entresuelo 1a, 08021 Barcelona, España	100%	100%
OVO Energy Japan GK*	Dormant	Level 11, Aoyama Palacio Tower 3-6-7 Kita-Aoyama Minato-ku, Tokyo	100%	100%
OVO Energy Germany GmbH*	Dormant	CO23 Berlin UG, Stresemannsr. 23, 10963 Berlin, Germany	100%	100%
OVO (S) Energy Services Limited	Intermediate holding company	1 Rivergate, Temple Quay, Bristol, BS1 6ED	100%	0%
OVO (S) Electricity Limited	Supply of electricity to domestic customers in the UK	1 Rivergate, Temple Quay, Bristol, BS1 6ED	100%	0%
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	100%	0%
OVO (S) Energy Solutions Limited	Manages the installation of energy efficiency measures in domestic properties, mainly social housing	Grampian House, 200 Dunkeld Road, Perth, PH1 3GH	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, PH1 3GH	100%	0%
OVO (S) Metering Limited	Meter reading operations and meter operator work throughout the UK	Grampian House, 200 Dunkeld Road, Perth, PH1 3GH	100%	0%

## OVO Group Ltd

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

#### 16 Investments (continued)

Name of subsidiary	Principal activity	Registered office	Proportion of ownership interest and voting rights held	
			2020	2019
OVO (S) Retail Telecoms Limited	The sale of telephone and broadband connectivity and associated services to consumers in the UK	1 Rivergate, Temple Quay, Bristol, BS1 6ED	100%	0%

\* indicates direct investment of the company

For the year ended 31 December 2020 the following subsidiaries were entitled to exemption from audit under section 479A of the Companies Act 2006 relating to subsidiary companies:

OVO Holdings Ltd

Spark Energy Limited

Spark Gas Shipping Limited

OVO Field Force Ltd

Corgi Homeplan Ltd

Corgi Homeheat Limited

Kantan Ltd.

Intelligent Energy Technology Ltd

OVO Insurance Services Ltd.

OVO (S) Energy Services Limited

OVO (S) Energy Solutions Limited

OVO (S) Home Services Limited

OVO (S) Metering Limited

OVO (S) Retail Telecoms Limited

OVO Group Limited has guaranteed the liabilities of the above subsidiaries in order for them to qualify for the exemption from audit under Section 479A of the Companies Act 2006 for the year ended 31 December 2020.

## OVO Group Ltd

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

#### 16 Investments (continued)

##### Group associates

Details of the group associates as at 31 December 2020 are as follows:

Name of associate	Principal activity	Registered office	Proportion of ownership interest and voting rights held by the group	
			2020	2019
Indra Renewable Technologies Limited	Engineering design activities for industrial process and production	140 - 142 Kensington Church Street, London, W8 4BN	24.9%	24.9%
Chaddenwyth Services Limited	Energy information technology service activities	86-90 Paul Street, London, EC2A 4NE	29%	29%
The Renewable Exchange Limited	Trade of renewable energy	The Waterfront Ground Floor, Welsh Back, Bristol, BS1 4SB	44%	44%

Following the year end, Intelligent Energy Technology Limited increased its shareholding in Indra Renewable Technologies Limited by 15.1%, taking the proportion of ownership interest and voting rights held by the Group to 40%.

##### Summary of the company investments

	31 December 2020 £ m	31 December 2019 £ m
Investments in subsidiaries	<u>198</u>	<u>196</u>

Subsidiaries	£ m
<b>Cost</b>	
At 1 January 2019	88
Transfer resulting from corporate restructure	109
Disposals	<u>(1)</u>
At 31 December 2019	196
Additions	<u>2</u>
At 31 December 2020	<u>198</u>
<b>Carrying amount</b>	
At 31 December 2020	<u>198</u>
At 31 December 2019	<u>196</u>

Additions of £2m reflects the increase in the value of the investment held by OVO Group Limited in OVO Energy France SAS.

## OVO Group Ltd

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

#### 17 Acquisition of subsidiary

##### Acquisition of SSE Energy Services Group Limited

On 15 January 2020, OVO Energy Limited, an indirect subsidiary of OVO Group Limited, acquired 100% of the issued share capital in SSE Energy Services Group Limited. 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 the Group's market share and reduce costs through economies of scale.

The acquisition was financed through a combination of a new £400m term loan between OVO Finance Limited and Barclays Bank plc, and £100m in loan notes issued by OVO Holdings Limited. The term loan has subsequently been syndicated into two separate instruments, a £300m term loan and a secondary loan of £100m. Further detail on borrowings is included in Note 23.

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

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

	31 December 2020 £ m
<b>Assets and liabilities acquired</b>	
Identifiable intangible assets	358
Property, plant and equipment	19
Right-of-use assets	55
Defined benefit pension asset	26
Inventory	1
Cash and cash equivalents	180
Trade and other receivables	1,085
Income tax asset	9
Deferred tax asset	52
Trade and other payables	(722)
Deferred income	(630)
Lease liabilities	(55)
Provisions	(80)
Total identifiable assets	298
Goodwill	109
Total consideration	407
<b>Satisfied by:</b>	
Cash	407
<b>Cash flow analysis:</b>	
Cash consideration	407
Less: cash and cash equivalent balances acquired	(180)
Net cash outflow arising on acquisition	227

## OVO Group Ltd

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

#### 17 Acquisition of subsidiary (continued)

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

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

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

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

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

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

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

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

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

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

## OVO Group Ltd

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

#### 17 Acquisition of subsidiary (continued)

##### Prior year acquisition of customer base of Economy Energy Limited

On 12 January 2019, the Group entered into a transaction via the Supplier of Last Resort ("SOLR") which resulted in the acquisition of the customer base of Economy Energy Ltd ("Economy Energy"), along with a commitment to repay other liabilities to its customers. The principal activity of Economy Energy was the supply of gas and electricity.

The amounts recognised in 2019 in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below:

	31 December 2019 £ m
<b>Assets and liabilities acquired</b>	
Identifiable intangible assets	22
Deferred tax liability	(4)
Financial liabilities	(17)
<b>Total identifiable assets</b>	<u>1</u>

The total consideration transferred was £nil.

This business combination resulted in a bargain purchase transaction because the provisional fair value of assets acquired and liabilities assumed exceeded the total of the fair value of consideration paid by £1m.

Intangible assets of £22m were recognised in 2019 on acquisition of Economy Energy Ltd's customer base. This was for the recognition of existing relationships with approximately 360,000 customer accounts.

#### 18 Inventories

	Group		Company	
	31 December 2020 £ m	31 December 2019 £ m	31 December 2020 £ m	31 December 2019 £ m
Finished goods and goods for resale	<u>18</u>	<u>10</u>	<u>-</u>	<u>-</u>

The costs of ROCs recognised as an expense in the year amounted to £322m (2019: £109m). This is included within cost of sales.



## OVO Group Ltd

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

#### 19 Trade and other receivables

	Group		Company	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
	£ m	£ m	£ m	£ m
Trade receivables and accrued income	1,155	187	-	-
Provision for impairment of trade receivables and accrued income	(257)	(78)	-	-
Net trade receivables and accrued income	898	109	-	-
Receivables from related parties	5	5	106	119
Prepayments	40	8	4	-
Other receivables	175	21	2	4
	<u>1,118</u>	<u>143</u>	<u>112</u>	<u>123</u>

Accrued income of £543m (net of provision for impairment) included in the trade receivables and accrued income disclosed above, has increased from £39m (net of provision for impairment) in 2019, driven primarily by the impact of the acquisition of the SSE Energy Services Group in the current year.

The fair value of those trade and other receivables classified as financial assets are disclosed in Note 29.

The Group's exposure to credit and market risks, including impairments and allowances for credit losses, relating to trade and other receivables is disclosed in Note 30.

#### 20 Assets held for sale

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

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

# OVO Group Ltd

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

### 20 Assets held for sale (continued)

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

	2020	2019
	£m	£m
Property, plant and equipment	5	-
Inventories	1	-
Trade receivables and accrued income	3	-
Trade payables	(1)	-
<b>Assets held for sale</b>	<b>8</b>	<b>-</b>

### Write-down of property, plant and equipment

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

### 21 Cash and cash equivalents

	Group		Company	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
	£ m	£ m	£ m	£ m
Cash at bank	49	23	6	-

### 22 Trade and other payables

	Group		Company	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
	£ m	£ m	£ m	£ m
Trade payables	221	103	1	-
Accrued expenses	528	139	-	-
Amounts due to related parties	14	3	20	19
Social security and other taxes	10	2	-	-
Corporation tax payable	-	-	1	-
Other payables	59	19	2	1
	<b>832</b>	<b>266</b>	<b>24</b>	<b>20</b>

## OVO Group Ltd

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

#### 22 Trade and other payables (continued)

Deferred income of £677m has increased from £89m in 2019, driven primarily by the impact of the acquisition of the SSE Energy Services Group in the current year.

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

The Group's exposure to market and liquidity risks, including maturity analysis, related to trade and other payables is disclosed in Note 30.

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

#### 23 Loans and borrowings

The balance sheet includes the following amounts relating to loans and borrowings:

	Group		Company	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
	£ m	£ m	£ m	£ m
<b>Loans and borrowings</b>				
Bank borrowings	383	-	-	-
Other borrowings	113	-	-	-
	<u>496</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

	Group		Company	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
	£ m	£ m	£ m	£ m
<b>Current loans and borrowings</b>				
Bank borrowings	91	-	-	-

	Group		Company	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
	£ m	£ m	£ m	£ m
<b>Non-current loans and borrowings</b>				
Bank borrowings	292	-	-	-
Other borrowings	113	-	-	-
	<u>405</u>	<u>-</u>	<u>-</u>	<u>-</u>

## OVO Group Ltd

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

#### 23 Loans and borrowings (continued)

##### Bank borrowings

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

The term loan facilities were restructured in the current period and the original term loan facility of £400m was syndicated into two separate instruments. Prior to the loan syndication interest was payable at 7.75% plus LIBOR on the £400m facility. Following syndication, interest is payable at 8.25% plus LIBOR on the first lien facility and at 0% plus LIBOR from 1 October 2020 to 14 January 2021; 8.625% plus LIBOR from 15 January 2021 to 14 January 2022; and 9.75% plus LIBOR from 15 January 2022 on the second lien facility. Interest on the second lien is capitalised, compounded and added to the unpaid principal amount of the Loan.

Costs incurred in raising finance of £39m are being amortised over the life of the facilities.

##### Other borrowings

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

The Group's exposure to market and liquidity risk; including maturity analysis, in respect of loans and borrowings is disclosed in Note 30.

#### 24 Leases

##### Group

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

	31 December 2020 £m	31 December 2019 £m
Lease liability - Current	14	2
Lease liability - Non-current	44	18
Total lease liability	58	20

## OVO Group Ltd

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

#### 24 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	17	4
Between one and five years	35	18
Greater than five years	16	5
Total lease liabilities (undiscounted)	<u>68</u>	<u>27</u>

The Group leases various offices and vehicles. The balance sheet amounts relating to leases are shown within Note 13 - *Right of use assets*.

The current period interest expense on lease liabilities (included in finance cost) was £4m (2019: £1m).

The total cash outflow for leases for the year ended 31 December 2020 was £21m (2019: £2m).

#### 25 Provisions

##### Group

	Ofgem settlement provision £ m	Restructuring provision £ m	Onerous contracts provision £ m	Other provisions £ m	Total £ m
At 1 January 2020	9	-	-	3	12
Additional provisions	-	50	8	1	59
Increase through business combinations	-	-	76	4	80
Provisions used	(9)	(42)	(23)	(4)	(78)
Increase due to passage of time or unwinding of discount	-	-	3	-	3
At 31 December 2020	<u>-</u>	<u>8</u>	<u>64</u>	<u>4</u>	<u>76</u>

##### Ofgem settlement provision

Ofgem's investigation into OVO Electricity Limited's and OVO Gas Limited's compliance with Standard Licence Condition(s) 0, 22C, 25C, 26, 27, 28A and 31A of their gas and electricity supply licence was concluded in April 2020. OVO Group Limited agreed a settlement with Ofgem in accordance with which a Penalty and Consumer Redress package totalling £9m was provided for in full at 31 December 2019. This was settled in 2020.

##### Restructuring provision

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 during 2021.

## OVO Group Ltd

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

#### 25 Provisions (continued)

##### Onerous contracts provision

###### *Master Services Agreement:*

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

###### Other provisions

Other provisions comprise £2m relating to a facility agreement exit fee provision, £1m dilapidation provision and £1m other provisions.

###### *Facility agreement exit fee provision*

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

###### *Dilapidation provision*

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

#### Company

	Ofgem settlement provision £ m	Total £ m
At 1 January 2020	9	9
Provisions used	(9)	(9)
At 31 December 2020	-	-

##### Ofgem settlement provision

Ofgem's investigation into OVO Electricity Limited's and OVO Gas Limited's compliance with Standard Licence Condition(s) 0, 22C, 25C, 26, 27, 28A and 31A of their gas and electricity supply licence was concluded in April 2020. OVO Group Limited agreed a settlement with Ofgem in accordance with which a Penalty and Consumer Redress package totalling £9m was provided in full at 31 December 2019. This was settled in 2020.

## OVO Group Ltd

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

#### 26 Pension and other schemes

##### Defined contribution pension scheme

The Group operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the Group to the scheme and amounted to £11m (2019: £2m).

##### Defined benefit pension schemes

The Group sponsors a funded defined benefit pension plan for qualifying UK employees – the Ovo Energy Group of the ESPS. The scheme was established on 14 January 2020 following the acquisition of SSE Energy Services Group by the Ovo Group in order to provide retirement benefits for eligible company employees.

The scheme is sectionalised with separate sections for former members of the Southern Electricity Group of the ESPS and former members of the Scottish Hydro-Electric Pension Scheme. The assets in each section are ringfenced to provide benefits solely for the members of that section.

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

##### Profile of the scheme

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

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

##### Funding requirements

UK legislation requires that pension schemes are funded prudently. The first funding valuation of the scheme since inception on 14 January 2020 has an effective date of 31 March 2020. The Group and the trustees are using this funding valuation to review the funding arrangements for the scheme.

The Group and the members are paying contributions to meet the expected cost of the benefits being built up by the members. These contributions are being reviewed as part of the funding valuation at 31 March 2020.

## OVO Group Ltd

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

#### 26 Pension and other schemes (continued)

##### Risks associated with the scheme

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

##### Asset volatility

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

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

##### Changes in bond yields

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

##### Inflation risk

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

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

##### Life expectancy

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

##### Risk management

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

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

##### Reconciliation of scheme assets and liabilities to assets and liabilities recognised

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

	31 December 2020 £ m	31 December 2019 £ m
Fair value of scheme assets	108	-
Present value of scheme liabilities	(95)	-
Defined benefit pension scheme surplus	13	-



# OVO Group Ltd

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

### 26 Pension and other schemes (continued)

#### *Scheme assets*

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

	31 December 2020 £ m	31 December 2019 £ m
Net increase in assets from bulk transfers		
Fair value at start of year	-	-
Interest income on scheme assets	1	-
Remeasurement gains on scheme assets	16	-
Net increase in assets from bulk transfers	87	-
Employer contributions	7	-
Net benefits paid out	(3)	-
Fair value at end of year	<u>108</u>	<u>-</u>

#### *Analysis of assets*

The major categories of scheme assets are as follows:

	31 December 2020 £ m	31 December 2019 £ m
Equities	35	-
Index-linked gilts	35	-
Corporate bonds	37	-
Cash/net current assets	1	-
	<u>108</u>	<u>-</u>

#### *Actual return on scheme's assets*

	31 December 2020 £m	31 December 2019 £m
Actual return on scheme assets	<u>17</u>	<u>-</u>

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

# OVO Group Ltd

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

### 26 Pension and other schemes (continued)

#### *Scheme liabilities*

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

	31 December 2020 £ m	31 December 2019 £ m
Present value at start of year	-	-
Current service cost	(6)	-
Past service cost (including curtailments)	(4)	-
Actuarial losses arising from changes in financial assumptions	(26)	-
Net increase in liabilities from bulk transfers	(61)	-
Interest expense	(1)	-
Net benefits paid out	3	-
Present value at end of year	(95)	-

#### *Principal actuarial assumptions*

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

	31 December 2020 %	31 December 2019 %
Discount rate	1.40	-
RPI inflation	2.80	-
CPI inflation	2.40	-
Rate of general long-term increase in salaries	2.90	-
Pension increases in payment (RPI max 5% pa)	2.70	-
Pension increases in payment (RPI max 3% pa)	2.20	-

#### *Post retirement mortality assumptions*

	31 December 2020 Years	31 December 2019 Years
Life expectancy for males currently aged 60	26.30	-
Life expectancy for females currently aged 60	27.80	-
Life expectancy at 60 for males currently aged 40	28.20	-
Life expectancy at 60 for females currently aged 40	29.80	-

# OVO Group Ltd

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

### 26 Pension and other schemes (continued)

31 December 2020

Mortality base table adopted	<p>SAPS S3 Tables</p> <p>"All" for males and "Middle" for females</p> <p>Scaled by 105% for the SSE Section and by 109% for the SSE Hydro Section</p>
Mortality future improvements adopted	<p>CMI 2019 projections model with Sk parameter of 7.0 and A parameter of 0.25, and long-term improvement rate of 1.25% pa</p>
GMP equalisation	<p>Cost of equalising benefits for differences in GMPs between males and females taken to be around 0.2% of liabilities</p>
Cash commutation	<p>Allowance made for members to take maximum permitted lump sum at retirement by commuting pension based on current commutation terms</p>

### Amounts recognised in the income statement

	31 December 2020 £ m	31 December 2019 £ m
<b>Amounts recognised in operating profit</b>		
Current service cost	6	-
Past service cost (including curtailments)	4	-
Recognised in arriving at operating profit	10	-
<b>Amounts recognised in finance income or costs</b>		
Recognised in other finance cost	-	-
Total recognised in the income statement	10	-

### Amounts taken to the Statement of Comprehensive Income

	31 December 2020 £ m	31 December 2019 £ m
Return on scheme assets in excess of that recognised in net interest	(16)	-
Actuarial gains and losses arising from changes in financial assumptions	26	-
Amounts recognised in the Statement of Comprehensive Income	10	-

## OVO Group Ltd

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

#### 26 Pension and other schemes (continued)

##### Sensitivity analysis

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

	Change £m	Value £m
DBQ at 31 December 2020	-	95
0.25% pa decrease in the discount rate	5	100
0.25% pa increase in the inflation assumptions	5	100
One-year increase in life expectancy	4	99

#### 27 Share capital and reserves

##### Allotted, called up and fully paid shares

	31 December 2020		31 December 2019	
	No.	£	No.	£
A Ordinary of £0.00001 each	14,598,927	146	14,598,927	146
B1 Ordinary of £0.00001 each	22,222	-	22,222	-
B2 Ordinary of £0.00001 each	59,914	1	52,651	1
B3 Ordinary of £0.00001 each	52,817	1	-	-
C Ordinary of £0.00001 each	27,321	-	27,321	-
D1 Ordinary of £0.00001 each	221,401	2	221,401	2
D2 Ordinary of £0.00001 each	36,038	-	36,038	-
D3 Ordinary of £0.00001 each	67,674	1	67,674	1
D4 Ordinary of £0.00001 each	28,215	-	28,215	-
D5 Ordinary of £0.00001 each	54,302	1	54,302	1
E1 Ordinary of £0.00001 each	528,390	5	529,972	5
Preferred Shares of £0.00001 each	1,869,749	19	1,869,749	19
Deferred Shares of £0.00001 each	48,045	-	39,319	-
	<u>17,615,015</u>	<u>176</u>	<u>17,547,791</u>	<u>176</u>

The B, C, D and E shares have been issued as part of Employee Share Schemes as discussed in Note 28.

## OVO Group Ltd

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

#### 27 Share capital and reserves (continued)

Current year movements in issued capital are as follows:

	1 January 2020	Newly Issued	Converted / cancelled	31 December 2020
A Ordinary	14,598,927	-	-	14,598,927
B1 Ordinary	22,222	-	-	22,222
B2 Ordinary	52,651	14,407	(7,144)	59,914
B3 Ordinary	-	52,817	-	52,817
C Ordinary	27,321	-	-	27,321
D1 Ordinary	221,401	-	-	221,401
D2 Ordinary	36,038	-	-	36,038
D3 Ordinary	67,674	-	-	67,674
D4 Ordinary	28,215	-	-	28,215
D5 Ordinary	54,302	-	-	54,302
E1 Ordinary	529,972	-	(1,582)	528,390
Preference	1,869,749	-	-	1,869,749
Deferred	39,319	-	8,726	48,045
<b>Total</b>	<b>17,547,791</b>	<b>67,224</b>	<b>-</b>	<b>17,615,015</b>

#### Nature and purpose of reserves

##### Share premium (Group and Company)

In the prior year, 1,658,282 A Ordinary shares were issued to Mitsubishi Corporation for consideration of £109m. Share premium of £103m was recognised in the prior year, representing the excess consideration received above the nominal value of the shares issued, less £7m of associated transaction costs.

##### Merger & other reserves (Company)

Merger & other reserves primarily comprise a merger reserve of £78m (2019: £78m), which arose as part of a business combination in 2014.

## OVO Group Ltd

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

#### 28 Share-based payments

##### Ovo Group Ltd Share Scheme

##### Scheme details and movements

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

B shares ('Employee Shareholder Scheme') are free shares awarded to employees in line with the UK government's employee shareholder status rules. B shares 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 a one year vesting period.

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

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

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

##### Analysis of charge to the consolidated income statement

£000	2020	2019
'B' Shares	350	166
'C' Shares	-	-
'D' Shares	-	-
'E' Shares	-	48
	350	214

## OVO Group Ltd

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

#### 28 Share-based payments (continued)

##### Reconciliation of movements in awards

<i>Thousands of shares</i>	'B' Shares	'C' Shares	'D' Shares	'E' Shares
As at 1 January 2020	75	27	408	530
Issued January 2020	7	-	-	-
Forfeited June 2020	(1)	-	-	-
Issued August 2020	59	-	-	-
Issued September 2020	2	-	-	-
Issued at 31 December 2020	136	27	408	530
Weighted average vesting period (months)	4	-	-	-

<i>Thousands of shares</i>	'B' Shares	'C' Shares	'D' Shares	'E' Shares
As at 1 January 2019	85	87	1,845	605
Issued March 2019	-	-	-	-
Issued June 2019	75	-	-	-
Issued December 2019	-	-	-	-
Cancelled / converted	(85)	(60)	(1,437)	(75)
Issued at 31 December 2019	75	27	408	530
Weighted average vesting period (months)	36	-	-	12

#### Pricing

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

##### 'B' Shares

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

##### 'C' Shares

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

##### 'D' Shares

Upon issuance, the 'D' Shares awarded in June 2017 were valued at £0.31 per share and September 2017 shares were valued at £0.31 per share. There were no 'D' Shares awarded in 2018.

##### 'E' Shares

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

# OVO Group Ltd

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

### 29 Financial instruments

#### Group

#### Financial assets

	Carrying value		Fair value	
	31 December 2020 £ m	31 December 2019 £ m	31 December 2020 £ m	31 December 2019 £ m
Cash and cash equivalents	49	23	49	23
Trade and other receivables	1,071	135	1,071	135
	<u>1,120</u>	<u>158</u>	<u>1,120</u>	<u>158</u>

#### Valuation methods and assumptions

##### Financial Assets

The fair value of financial assets is based on the expectation of recovery of balances. Impaired receivables mainly relate to customers from whom it is unlikely that full payment will ever be received. The primary inputs used to impair the receivable balances are not based on observable market data.

#### Financial liabilities

#### Financial liabilities at amortised cost

	Carrying value		Fair value	
	31 December 2020 £ m	31 December 2019 £ m	31 December 2020 £ m	31 December 2019 £ m
Trade and other payables	822	264	822	264
Loans, borrowings and leases	554	20	571	20
	<u>1,376</u>	<u>284</u>	<u>1,393</u>	<u>284</u>

#### Valuation methods and assumptions

##### Financial liabilities at amortised cost

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

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



## OVO Group Ltd

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

#### 29 Financial instruments (continued)

##### Forward Contracts

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

##### Company

##### Financial assets

	Carrying value		Fair value	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
	£ m	£ m	£ m	£ m
Cash and cash equivalents	6	-	6	-
Trade and other receivables	108	123	108	123
	<u>114</u>	<u>123</u>	<u>114</u>	<u>123</u>

##### Valuation methods and assumptions

##### Financial Assets

The fair value of financial assets is based on the expectation of recovery of balances. There have been no historic defaults over the other receivables balance, therefore the full balance is expected to be received. The primary inputs used to impair the receivable balances are not based on observable market data.

##### Financial liabilities

##### Financial liabilities at amortised cost

	Carrying value		Fair value	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
	£ m	£ m	£ m	£ m
Trade and other payables	24	20	24	20
Loans, borrowings and leases	-	1	-	1
	<u>24</u>	<u>21</u>	<u>24</u>	<u>21</u>

##### Valuation methods and assumptions

##### Financial liabilities at amortised cost

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

## OVO Group Ltd

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

#### 30 Financial risk management and impairment of financial assets

##### Group

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

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

##### Credit risk and impairment

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and from security deposits held by suppliers as collateral (totalling £52m) and distributors and deposits with the Group's bank.

*The carrying amount of financial assets represents the maximum credit exposure. Therefore, the maximum exposure to credit risk at the balance sheet date was £1,071m (2019: £135m) being the total of the carrying amount of financial assets, excluding equity investments and cash, which include trade receivables and accrued income.*

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

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

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

##### COVID-19

As a result of the pandemic, management evaluates that the credit risk on the trade receivables and accrued income have increased since recognition. Management has taken into account unemployment and other economic factors when measuring expected credit losses.

# OVO Group Ltd

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

### 30 Financial risk management and impairment of financial assets (continued)

#### Allowances for impairment by credit losses

	Trade receivables £ m
<b>2020</b>	
At start of year	78
Additional impairment for credit losses recognised in the year	116
Amounts written off	(48)
Increase arising via acquisition of subsidiary	111
At end of year	257
<b>2019</b>	
At start of year	53
Additional impairment for credit losses recognised in the year	25
At end of year	78

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

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

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

2019		Days past due				
	Accrued income & non-customer receivables £m	Current £m	31-60 days £m	61-90 days £m	>90 days £m	Total £m
Expected credit loss rate	8%	38%	45%	55%	77%	42%
Estimated total gross carrying amount at default	77	38	11	8	53	187
Expected credit loss	35	3	8	3	29	78

## OVO Group Ltd

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

#### 30 Financial risk management and impairment of financial assets (continued)

##### Market risk

##### Interest rate risk

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

##### *Sensitivity analysis*

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

	Increase/ decrease in basis points	Effect on loss before tax
		£m
Term loan facilities	+100	3
	-100	(3)

##### Commodity price risk

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

The Group's exposure to commodity risk is managed through the use of derivative financial instruments. The Group does not use derivatives and other financial instruments for speculative purposes.

The Group manages this risk by entering into forward contracts for a variety of periods. Energy procurement contracts are entered into and continue to be held for the purpose of the receipt of a non-financial item which is in accordance with the Group's expected purchase and sale requirements and are therefore out of scope of IFRS 9. Energy contracts that are not financial instruments under IFRS 9 are accounted for as executory contracts and changes in fair value do not immediately impact profit or equity, and as such, are not exposed to commodity price risk as defined by IFRS 7. So, whilst the risk associated with energy procurement contracts outside the scope of IFRS 9 is monitored for internal risk management purposes, only those energy contracts within the scope of IFRS 9 are within the scope of the IFRS 7 disclosure requirements.

##### Liquidity risk

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

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

## OVO Group Ltd

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

#### 30 Financial risk management and impairment of financial assets (continued)

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

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

#### Maturity analysis

	Within 1 year £ m	Between 1 and 5 years £ m	After more than 5 years £ m	Total £ m
<b>2020</b>				
Trade and other payables	822	-	-	822
Lease liabilities	17	35	16	68
Loans and borrowings	-	-	513	513
	<u>839</u>	<u>35</u>	<u>529</u>	<u>1,403</u>
<b>2019</b>				
Trade and other payables	264	-	-	264
Lease liabilities	4	18	5	27
	<u>268</u>	<u>18</u>	<u>5</u>	<u>291</u>

## OVO Group Ltd

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

#### 30 Financial risk management and impairment of financial assets (continued)

##### Capital risk management

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

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

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

	31 December 2020
	£m
Loans and borrowings	496
Lease liabilities	58
Less: cash and cash equivalents	(49)
Net debt	505
Total equity (deficit)	(196)
Total capital	309
Gearing ratio	163%

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

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2020 and 2019.

#### 31 Related party transactions

##### Key management personnel

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

##### Key management compensation

	31 December 2020 £'000	31 December 2019 £000
Salaries and other short term employee benefits	1,148	2,106
Post-employment benefits	37	-
Share-based payments	109	-
	<u>1,294</u>	<u>2,106</u>

##### Summary of transactions with key management

Stephen Fitzpatrick directly controls 1.8% of the voting shares of the Company, he also owns 100% of the share capital of Imagination Industries Ltd, which owns a further 66.3% of the Company's shares.

## OVO Group Ltd

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

#### 31 Related party transactions (continued)

##### Transactions with Directors

##### Loans, transactions and guarantees with Directors

2020	At 1 January 2020 £'000	Advances to directors £'000	At 31 December 2020 £'000
Loans to Directors	100	400	500

2019	At 1 January 2019 £'000	Advances to directors £'000	At 31 December 2019 £'000
Loans to Directors	-	100	100

Loans to Directors are subject to interest at a rate of 2.5% per year and will accrue on a daily basis on the principal amount of the loan outstanding. Interest is payable upon the repayment of the loan amount.

##### Summary of transactions with parent entities

###### Company

###### *Imagination Industries*

During the year, the Company incurred costs of £21m payable to Imagination Industries Limited (2019: £nil), and was repaid loan funds by Imagination Industries Limited of £nil (2019: £148,000). The loan incurred no interest charge on the capital balance. As at 31 December 2020, the Company owed £14m to Imagination Industries Limited (2019: £nil).

###### *Mayfair Equity Partners*

During the year, the Company incurred costs of £100k payable to Mayfair Equity Partners LLP (2019: £100k). No amounts were outstanding to/from Mayfair Equity Partners as at 31 December 2020 or 31 December 2019.

###### *Mitsubishi Corporation*

During the year, the Company incurred costs of £105k payable to Mitsubishi Corporation International (Europe) plc (2019: £nil). No amounts were outstanding to Mitsubishi Corporation as at 31 December 2020 or 31 December 2019.

# OVO Group Ltd

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

### 31 Related party transactions (continued)

#### Summary of transactions with subsidiaries

##### Company

##### 2020

Subsidiary	Loan provided to/ (received from)	Loan repaid to/ (from)	Management recharge	Interest received	Interest paid	Amounts owed by/ (to) as at 31 December 2020
	£m	£m	£m	£m	£m	£m
OVO Holdings Limited	-	-	-	2	-	35
OVO Energy Limited	-	(9)	3	2	-	27
Intelligent Energy Technology Limited	8	-	-	1	-	17
Corgi Homeplan Limited	-	-	-	1	-	11
Kaluza Limited	5	-	-	-	-	5
OVO Energy Pty Limited	2	-	-	-	-	3
Kantan Limited	2	-	-	-	-	3
OVO Energy France SAS	1	-	-	-	-	3
OVO Energy Spain S.L.L.	1	-	-	-	-	2
OVO Finance Limited	-	(31)	-	-	-	-
OVO Field Force Limited	-	-	-	-	(1)	(20)

##### 2019

Subsidiary	Loan provided to/ (received from)	Loan repaid to/ (from)	Management recharge	Interest received	Interest paid	Amounts owed by/ (to) as at 31 December 2019
	£m	£m	£m	£m	£m	£m
OVO Holdings Limited	-	-	-	2	-	33
OVO Finance Limited	32	-	-	-	-	31
OVO Energy Limited	17	-	-	2	-	31
Corgi Homeplan Limited	7	-	-	1	-	10
Intelligent Energy Technology Limited	-	(7)	-	1	-	8
OVO Energy France SAS	1	-	-	-	-	1
OVO Energy Pty Limited	1	-	-	-	-	1
Kantan Limited	1	-	-	-	-	1
OVO Energy Spain S.L.L.	1	-	-	-	-	1
OVO Field Force Limited	-	31	1	-	(2)	(19)



## OVO Group Ltd

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

#### 31 Related party transactions (continued)

Loans to/from subsidiaries are repayable/receivable on demand. Interest was charged on loans at 7% except for OVO Energy France SAS, OVO Energy Spain S.L.L., OVO Energy Pty Limited and OVO Energy Germany GmbH, which were at 8.55%, and Kaluza Limited and Kantan Limited, which had no interest charged.

#### Summary of transactions with associates

##### Company

2020

Associate	Loan provided to/ (received from)	Loan repaid to/ (from)	Management recharge	Interest received	Interest paid	Amounts owed by/ (to) as at 31 December 2020
	£m	£m	£m	£m	£m	£m
Indra Renewable Technologies Limited	-	-	-	-	-	3
The Renewable Exchange Limited	-	-	-	-	-	2

#### 32 Parent and ultimate parent undertaking

The ultimate parent is Imagination Industries Ltd.

The most senior parent entity producing publicly available financial statements is Imagination Industries Ltd. These financial statements are available upon request from the registered office shown in note 1.

The ultimate controlling party is Stephen Fitzpatrick.

#### 33 Contingent liabilities

##### Group

The Group has no material contingent liabilities as at 31 December 2020.

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 30 June 2021. 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 Group Ltd

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

#### 34 Non adjusting events after the financial year

##### *Sale of Large Power Metering business*

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

The sale completed on 6 April 2021, within a year from the reporting date. At 31 December 2020, the Large Power Metering business was classified as a disposal group held for sale. See Note 20.

##### *Partnership with AGL Energy*

In March 2021 we announced a joint venture with AGL, Australia's largest energy retailer and generator to bring digital energy services to Australia.

As part of the agreement, AGL will invest in OVO Energy Australia to adapt the Kaluza platform for Australia and serve a growing customer base with innovative products and services. The companies will work together, drawing on their expertise in low-carbon innovation and energy retail, to develop digital customer experiences that may ultimately help support AGL's customers who are looking to reduce their costs and carbon emissions through innovative products and services.