E.ON UK plc

Strategic Report, Directors' Report and Financial Statements

for the Year Ended 31 December 2019

Company number: 02366970

E.ON UK PLC
STRATEGIC REPORT
for the Year Ended 31 December 2019

The directors present their strategic report of the Company for the year ended 31 December 2019.

Fair review of the business

The Company's turnover during the year was £721 million (2018: £605 million), an increase of £116 million in comparison with the prior year, with an operating loss of £40 million (2018: operating profit of £99 million). The decrease in the operating profit is mainly due to the one-off pension scheme past service credit of £168 million in 2018 following changes to the scheme.

During the year, the Company made a profit before taxation of £2,074 million (2018: profit before taxation of £54 million). The increase in profit before taxation is primarily due to the Company's sale of its investment in E.ON Climate & Renewables UK Limited as part of the wider E.ON SE and RWE AG asset and business exchange.

At 31 December 2019, the Company had net assets of £4,814 million (2018: net assets of £2,866 million). This position was as expected following the gain on sale of the Company's investment in E.ON Climate & Renewables UK Limited.

Key developments during the year

During 2019, the Company continued to buy and sell renewable energy and Renewable Obligation Certificates ('ROCs') and Renewable Energy Guarantees of Origin ('REGOs') through power purchase arrangements and to act as a holding company for E.ON's Customer Solutions activities in the UK.

On 1 January 2019, the Company sold its biomass plant at Steven's Croft to its wholly owned subsidiary, E.ON UK Steven's Croft Limited, for its book value. The Company also hived up IT activities from its wholly owned subsidiary, E.ON IT UK Limited, for their book value.

On 12 March 2018, E.ON SE and RWE AG announced a proposed asset and business exchange, whereby the E.ON group ('E.ON') would acquire RWE's 76.8% stake in Innogy and receive a cash payment, and RWE would receive substantially all of E.ON's renewables activities, Innogy's renewables business, a minority stake of 16.67% in the enlarged E.ON and certain other assets. On 17 September 2019, approval by the relevant antitrust and regulatory authorities was received.

As part of the asset and business exchange, on 27 September 2019 the Company injected £597 million share capital into a new intermediate holding company, Rampion Renewables Limited, which subsequently purchased and became the holding company for E.ON's 50.1% investment in Rampion Offshore Wind Limited.

On 30 September 2019, the Company sold its entire investment in E.ON Climate & Renewables UK Limited and a 60.07% investment in Rampion Renewables Limited to RWE Renewables International Participations B.V. for a consideration of £2,530 million. The Company also received £870 million in repayment of inter-company debt owed by E.ON Climate & Renewables UK Limited, with total cash of £3,400 million received.

Business & Community Solutions ('B&CS')

The Company's B&CS segment consisted of a district heating project in London and, during 2018 only, a biomass plant at Steven's Croft. On 1 January 2019, the Company sold its biomass plant to its wholly owned subsidiary, E.ON UK Steven's Croft Limited.

The turnover of the B&CS segment during the year was £3 million (2018: £50 million), a decrease of £47 million. The decrease was due to the sale of the biomass plant during the year. The B&CS segment made a loss on ordinary activities before taxation during the year of £1 million (2018: profit before taxation of £15 million). The deterioration in the performance of the B&CS segment is mainly due to the sale of the biomass plant during the year.

Renewables

The Company's Renewables segment (which formed part of E.ON's Climate & Renewables global unit until the sale to RWE AG), consists of purchasing power generated by wind farm operators and renewable related trading activities. These activities have been retained by the Company and will form part of the Customer Solutions UK division from 1 January 2020 onwards.

The turnover of the Renewables segment was £718 million (2018: £582 million), an increase of £136 million. The increase was mainly due to increased revenue from the provision of ROCs to the E.ON UK group. The Renewables segment made a profit on ordinary activities before taxation of £17 million (2018: profit of £8 million). The increase in profit is primarily due to a change in the mark-to-market position of the power purchase arrangements.

<u>Other</u>

The Company's Other segment includes central support services delivering facilities management, human resources, procurement, insurance, property, legal, IT and finance support to other E.ON companies operating in the UK and dividend income received from certain of its subsidiaries.

The Other segment generated a profit on ordinary activities before taxation of £2,058 million (2018: profit of £31 million). The increase in profit was primarily due to the sale of the Company's investment in E.ON Climate & Renewables UK Limited in the year.

During 2019, reorganisation and restructuring costs of £9 million were incurred relating primarily to the Quick Wins project, compared to £16 million relating to the Zero Based Budgeting ('ZBB') project in 2018.

Whilst the overall impact of the ongoing COVID-19 pandemic on the Company's business is unknown as at the date of approval of these financial statements, the directors believe that the present level of operational activity for the B&CS, Renewables and Other segments will be generally sustained during 2020.

Principal risks and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks. The key business risks and uncertainties affecting the Company are considered to relate to:

Regulatory and political risk

The political, legal and regulatory environments within which the Company operates are a source of external risk. Changes to these environments can lead to considerable uncertainty. The Company manages these risks by engaging in intensive and constructive dialogue with government agencies and policy makers. Under UK legislation the carrying out of certain electricity and gas activities are prohibited unless authorised by a licence or exemption. A number of the Company's activities are authorised by licence and failure to comply with the requirements of such licences risks a fine of up to 10% of the licence holder's turnover. The Company ensures it has robust compliance measures in place.

Credit risk - financial instruments

The Company is at risk if a counterparty is unable to meet its obligations, resulting in potential losses. The Company is subject to the E.ON group's finance policy which sets a credit limit for every financial institution with which the Company does a significant amount of business. The creditworthiness of the institutions with which the Company does significant business is established by the ratings they receive from external rating agencies including Standard & Poor's. In addition, other counterparty credit risk is subject to the E.ON group's credit risk management policy supported by individual business unit policies to establish internal ratings for limit setting. Credit risk assessment involves quantitative and qualitative criteria including ratings by independent rating agencies where these are available.

Reputational risk

The Company is a prominent energy company in the UK and is frequently mentioned during public discussions of energy policy issues. Trust and credibility are essential for the Company to remain successful over the long term. The foundation for earning trust and credibility is built by clear and consistent communications with the Company's key stakeholders and customers. The Company works hard to engage in dialogue and maintain good relationships with its key stakeholders and customers. This is achieved in part by paying attention to environmental and social issues. The Company's objective is to minimise its reputational risks and garner public support so that it can continue to operate its business successfully.

Commodity prices

During 2019, the Company used E.ON UK Energy Markets Limited ('EEM'), a wholly owned subsidiary, as its primary route to market for all wholesale commodity sales and purchases.

COVID-19

The Company's top priorities during the COVID-19 pandemic are the safety of colleagues and customers and ensuring continuity of energy supply. The Company also continues to focus on ensuring that its heat networks are running stably, even under these difficult conditions. The Company was able to draw on previously prepared pandemic and crisis plans, which it implemented accordingly. This has made it possible to maintain key functions whilst operating within the restrictions put in place by the Government, including strict adherence to hygiene and social-distancing rules. In addition, technicians who do field work, including the operation and maintenance of heat networks and other customer solutions, have special equipment to minimise the risk of infection. In many parts of the business, the Company has made arrangements for a proportion of its employees to work from home, enabling the provision of customer services to continue, with particular focus on our customers in vulnerable situations or customers off supply.

At the end of the first half of 2020, the overall risk situation of the Company's operating business had deteriorated relative to year end 2019 owing to the COVID-19 pandemic. It otherwise remains at the level of year end 2019. The risk profile reflects the business implications of COVID-19 on the basis of a conservative scenario analysis. The main risk factors in the sales business are volume and price effects, including the impact on recovery of third-party industry costs as well as credit losses. Despite the impact of COVID-19, the directors believe that the Company can meet its obligations as they fall due for a period of at least twelve months from the date of approval of these financial statements.

Brexit

Britain left the European Union ('EU') on 31 January 2020 with a transitional period until 31 December 2020. This means that, during the transitional period, the arrangements which applied whilst the UK was a member of the EU and remain in place and the arrangements for the future are being discussed and hopefully agreed prior to the end of the transitional period. The Company has in place a cross functional working group, which meets regularly to consider the impact of Brexit legislative changes on existing and new contracts, as well as other potential implications of Brexit, and to monitor further Brexit developments and their potential impact on the Company's business. Until such time as the transitional arrangements are agreed, the actual impact of Brexit on the Company's business remains uncertain.

Promoting the success of the Company and Section 172 Statement of the Companies Act 2006 ('Act')

The directors' overarching duty is to promote the success of the Company for the benefit of its shareholders, with consideration of stakeholders' interests, as set out in section 172 of the Act. The directors regard a well-governed business as essential for the successful delivery of its principal activity.

The directors are aware of their duty under section 172 of the Act to act in a way which they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole and, in doing so, to have regard (amongst other matters) to the factors detailed in section 172(1) of the Act.

The Company is an indirect subsidiary of E.ON SE, a company listed on the Frankfurt Stock Exchange and which is head-quartered in Essen. The two main operating divisions of the E.ON SE group are Energy Networks and Customer Solutions.

The Company forms part of the Customer Solutions division of E.ON SE. The board of management of E.ON SE manages the group's operations on a global and divisional basis. The E.ON SE group has in place detailed policies and governance frameworks within which its subsidiaries must operate, including the Company. From the perspective of the directors, due to the E.ON SE group governance structure, the matters that they are responsible for considering under section 172(1) of the Act are also considered to an appropriate extent by the E.ON SE group management board in relation both to the E.ON SE group and the Company. The directors consider the factors detailed under section 172(1) of the Act are within the framework of the strategy set by the board of management of E.ON SE.

The Company's directors believe that, to the extent necessary for an understanding of the development, performance and position of the Company, the requirements of section 172(1) are discussed within the E.ON SE Annual Report 2019 on pages 10 to 101, which does not form part of this report. Further detail in relation to the Company's consideration of section 172(1) of the Act is set out in the Directors' Report, for example, its engagement with stakeholders and employees.

Key performance indicators ('KPIs')

The Board of Management of E.ON manages the group's operations on a divisional basis. For this reason, the Company's directors believe that analysis using financial key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of the Company. The development, performance and position of both the Customer Solutions UK and Renewables divisions of E.ON, which include the Company, is discussed within the financial review section of the group's annual report which does not form part of this report.

The Company's non-financial KPIs for the B&CS segment as at 31 December 2018 are disclosed in the table below. Following the sale of the biomass plant on 1 January 2019 these KPIs were no longer relevant at the year end. There are no non-financial KPIs for the Renewables and Other segments. The directors do not believe there are any further relevant financial KPIs, other than a review of the profit and loss account, that are not already disclosed within these financial statements.

	2019	**2018**	
B&CS			
Plant technical availability (taking account of planned and unplanned outages)	-	82.0%	Availability of the Steven's Croft biomass plant was as expected.
Installed generating capacity at year end (MW)	-	44.0	The generation capacity relates solely to the biomass assets at Steven's Croft.
Generation production during the year (TWh)	-	0.3	The Steven's Croft biomass plant generated 0.3 TWh of electricity during 2018.

Approved by the Board of Directors on 10 September 2020 and signed on its behalf on by:

Christian Barr

C Barr
Director

E.ON UK plc
Company No: 02366970
Westwood Way
Westwood Business Park
Coventry
CV4 8LG

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2019.

Directors of the Company

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

C Barr
M D Lewis
C S Norbury
S L Vaughan

Principal activities

The Company's principal activities during the year were the buying and selling of renewable energy, ROCs and REGOs through power purchase arrangements and providing a district heating scheme. In the prior year the Company also generated electricity through a biomass plant. The Company also acts as a holding company and provides central support services to other E.ON companies operating within the UK.

Results and dividends

The Company's profit for the financial year is £2,077 million (2018: profit of £44 million). During 2019, the Company cancelled dividends of £1 million relating to periods prior to 1 July 2002. No interim dividends were paid during the year (2018: £nil). The directors do not recommend the payment of a final dividend (2018: £nil).

Post balance sheet event

At the end of the first half of 2020, the overall risk situation of the Company's operating business had deteriorated relative to year end 2019 owing to the COVID-19 pandemic. The Company was able to draw on previously prepared pandemic and crisis plans, which it implemented accordingly. This has made it possible to maintain key functions whilst operating within the restrictions put in place by the Government. Despite the impact of COVID-19, the directors believe that the Company can meet its obligations as they fall due for a period of at least twelve months from the date of approval of these financial statements.

This has been discussed further within the Strategic Report.

On 1 April 2020, the Company became the principal employer for the Retail Section of the Innogy Group of the Electricity Supply Pension Scheme, a defined benefit pension scheme, for which the Company received £89 million cash consideration.

On 2 June 2020, the Company acquired Npower Direct Limited, subsequently renamed E.ON Next Energy Limited, for £2 million.

Financial risk management

Objectives and policies

The Company, in common with other E.ON subsidiaries, must comply with the E.ON group's finance guidelines that set out the principles and framework for managing group-wide finances. The Company also has its own local operational treasury team which services the treasury requirements of the business. Further information on the E.ON group's policies and procedures is available in the financial statements of the E.ON group.

E.ON has a central department that is responsible for financing and treasury strategy, policies and procedures throughout the E.ON group. Major strategic financing and corporate finance activities are planned and executed by the corporate finance team at E.ON. There is also a central treasury team which co-ordinates currency and interest risk management as well as cash management for the whole E.ON group.

The Company operates its own specific treasury procedures within the overall E.ON treasury framework. The E.ON treasury team liaises closely with the Company's treasury team to ensure that liquidity and risk management needs are met within the requirements of the E.ON group's policies and procedures.

E.ON's central financing strategy

E.ON's financing policy is to centralise external financing at the E.ON level and to reduce external debt in subsidiaries wherever possible. E.ON then funds its subsidiaries with inter-company finance. This finance may be in the form of equity or debt, as appropriate.

The Company's treasury team employs a continuous forecasting and monitoring process to ensure that the Company complies with all its banking and other covenants that apply to the financing of the UK business. The treasury team works in close liaison with other E.ON companies operating within the UK, when considering hedging requirements related to their activities. A group-wide cash forecasting and currency exposure reporting process exists which ensures regular reporting into the Company's treasury team of future positions, both short and medium term. Information is submitted to E.ON for incorporation into the E.ON group's forecasting processes on a weekly and quarterly basis.

The Company does not enter into speculative treasury arrangements. Accordingly, all transactions in financial instruments are matched to an underlying business requirement, such as committed purchases or forecast funding requirements.

Price risk, credit risk, liquidity risk and cash flow risk

Foreign exchange risk management

The Company primarily trades in Sterling, but its principal currency exposure is to the Euro. The Company operates within the framework of the E.ON group's guidelines for foreign exchange risk management. The Company has local policies dealing with operational exposures (typically cash flows arising on construction and maintenance which impact the cash flow and profit and loss account).

The Company's policy is to hedge all contractually committed operational exposures, as soon as the commitment arises. The Company will also partly hedge less certain cash flows when appropriate. The Company determines the hedging of translation exposures (the value of foreign currency liabilities and assets in the balance sheet) on a case by case basis in consultation with the E.ON Treasury department.

Interest rate risk management

The Company operates within the E.ON group's framework for interest rate risk management. The Company has a number of funding arrangements and is exposed to movements in interest rates. These interest rate exposures are managed primarily through the use of a mixture of fixed and floating rate borrowings.

Credit risk management

The Company is subject to the E.ON group's finance policy which sets a credit limit for every financial institution with which the Company does a significant amount of business. The creditworthiness of the institutions with which the Company does significant business is established by the ratings they receive from external rating agencies including Moody's and Standard & Poor's. In addition, other counterparty credit risk is subject to the E.ON group's credit risk management policy supported by individual business unit policies to establish internal ratings for limit setting. Credit risk assessment involves quantitative and qualitative criteria including ratings by independent rating agencies where these are available.

Liquidity planning, trends and risks

The Company has sufficient committed borrowing facilities to meet planned liquidity needs with headroom, through facilities provided by E.ON. The Company also has a bank overdraft facility to support daily liquidity management. The level of operating cash is affected by the performance of the business, market prices and margins amongst other things.

Political donations

It is the Company's policy not to make cash donations to any political party. However, sometimes the Company undertakes activities, such as event sponsorship, which are not designed to support or influence support for any particular political party, but which are covered under the Political Parties, Elections and Referendums Act 2000 and must be disclosed. There were no such activities during the year that are required to be disclosed as political donations (2018: £6,000 sponsorship of a reception at the Labour Party conference).

Equal opportunities

The Company's employment policies are designed to attract, retain and motivate the very best people recognising that this can only be achieved through offering equal opportunities for all, irrespective of sex, race, marital status, age or disability.

Employment practices and procedures are regularly reviewed to ensure that they provide equality of opportunity to all employees within the current legislative framework. The Company encourages the use of flexible working arrangements where practicable.

Employee involvement

Recognising that the success of the Company depends on the quality of performance of its employees, increased emphasis is being put on communication programmes to ensure that employees understand the business strategy and can contribute towards its achievements. Throughout the year, principally through regular team briefings and meetings with employees and their representatives, individual businesses have continued to improve their arrangements for employee consultation and communication on matters relating to business performance and objectives. There are also well established consultative and negotiating arrangements involving employees, employee representatives and trade union officials to ensure that employees' views are considered in relation to employment conditions, safety and health, welfare and training issues.

The Company engages with its employees through regular communications of business strategy via meetings and emails, and use employee feedback to develop a motivational workplace environment to deliver for its customers. Employees are also encouraged to be engaged in the Company's performance through the opportunity to join its Share Incentive Plan, which is a HMRC approved scheme that allows employees to buy shares in E.ON SE out of their pre-tax salary.

The Company also provides appropriate training in order to satisfy business needs and to develop the talents and skills of employees, benefiting the individual, the Company and its customers.

Safety and health

The Company considers that good safety and health performance is an essential part of business activities and the Company aims to achieve the highest standards. All aspects of safe and healthy working practices are promoted by the Company in the interests of employees, customers, suppliers and the wider community.

People with disabilities

The Company fully recognises its responsibility to encourage and assist the recruitment, employment, training and career development of people with disabilities. If employees become disabled during their service with the Company arrangements are discussed to enable continuity of employment and development as appropriate.

Corporate responsibility

Society expects increasingly more of the energy industry, particularly of large energy companies. The Company is committed to providing answers to questions about climate change, energy efficiency and what tomorrow's energy supply will look like. The Company continues to engage in dialogue with its stakeholders and customers and seeks to deal with society's evolving expectations. This is the only way the Company will continue to earn its licence to operate and grow. The Company's ability to remain successful over the long term depends in part on incorporating its stakeholders' and customers' interests and expectations into the way it operates its business. More information on the Company's corporate responsibility efforts is available on the Company's website (www.eonenergy.com). This information is not considered to be part of these financial statements.

Conduct towards customers

The Company offers its customers a wide range of products and services in the energy supply and solutions market. To maintain customer loyalty, it is important for the Company to deal with its customers fairly and to offer them products and services that are suitable to their needs.

Conduct towards shareholders

As a wholly owned indirect subsidiary of E.ON SE, the protection of the shareholders' capital investment and a fair return on this investment is a prerequisite of its business activities. The Company seeks to preserve this capital and achieve fair returns on it in line with market conditions.

Conduct towards business partners

The Company advocates free competition and transparent markets and is against unfair competition and restrictions of competition. This includes complying with requirements regarding tax levies, subsidy grants and procedures for awarding public contracts. Through the Company's activities, it would like to set an example and work towards propagating the set of standards in its Code of Conduct. The Company expects its trading partners to accept the social, environmental and corporate governance standards in its Code of Conduct as the basis for the contractual partnership. If it becomes known that a business partner has violated these responsibilities, the Company will re-examine its business relationship with that partner and take any appropriate measures deemed necessary.

When choosing consultants and agents, the Company focuses on their qualifications and integrity. In all business relationships, the Company observes the applicable national and international laws and regulations as well as any other applicable foreign trade law restrictions. The Company also takes all necessary and appropriate measures to prevent money laundering.

Conduct towards the public

E.ON SE, as a listed entity and the ultimate parent undertaking of the Company, publishes company information in accordance with German and international capital markets provisions in order to enable proper trading in company securities.

At the same time, non-public information that could reasonably be expected to significantly affect the price of E.ON SE's securities must remain confidential until it is officially released and must not be used as the basis for decisions about buying or selling securities. All communications from E.ON SE are full, fair, accurate, timely and understandable. E.ON SE respects the professional independence of journalists and the media.

Only authorised persons are allowed to disclose information to the public, the media or to other third parties that could affect the price of E.ON SE's securities and the value of the E.ON SE group, including information relating to the Company.

Statement of corporate governance arrangements

The Company adheres to the policies and governance frameworks adopted by E.ON SE, which is guided by the principles of the 'Government Commission German Corporate Governance Code'. More information is outlined within the Strategic Report.

Future developments

Further discussion of future developments is included in the Strategic Report.

Directors' indemnities

The Company maintains liability insurance for its directors and officers. This is a qualifying third party indemnity provision for the purposes of the Companies Act 2006. This insurance cover was in force during the year and is still in force at the date of approving the Directors' Report.

Disclosure of information to the auditors

As far as each director is aware, there is no relevant audit information of which the Company's auditors are unaware and each director has taken all the 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.

Statement of directors' responsibilities in respect of these financial statements

The directors are responsible for preparing the Strategic Report, the Directors' Report and these financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared these financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

Under company law the directors must not approve these 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;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that these financial statements comply with the Companies Act 2006.

The directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approved by the Board of Directors on 10 September 2020 and signed on its behalf on by:

Christian Barr

C Barr
Director

E.ON UK plc
Company No: 02366970
Westwood Way
Westwood Business Park
Coventry
CV4 8LG

Independent Auditors' Report to the Members of E.ON UK PLC

Report on the audit of the financial statements

Opinion

In our opinion, E.ON UK plc's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Strategic Report, Directors' Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2019; the profit and loss account, statement of comprehensive income, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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

Reporting on other information

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

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

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

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Independent Auditors' Report to the Members of E.ON UK PLC

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 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Andrew Lyon (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
East Midlands
11 September 2020

E.ON UK PLC
PROFIT AND LOSS ACCOUNT
for the Year Ended 31 December 2019

	Note	**2019 TOTAL £000 000**	2018 Continuing £000 000	2018 Dis-continued £000 000	2018 TOTAL £000 000
Turnover	4	**721**	559	46	605
Cost of sales		**(693)**	(530)	(17)	(547)
Gross profit		**28**	29	29	58
Administrative expenses before exceptional items		***(195)***	*(150)*	*(14)*	*(164)*
Exceptional credit to pension costs	6	-	*168*	-	*168*
Administrative expenses		**(195)**	18	(14)	4
Other operating income		**127**	37	-	37
Operating (loss)/profit	6	**(40)**	84	15	99
Income from shares in group undertakings		**11**	-	-	-
Interest receivable and similar income	10	**33**	26	-	26
Interest payable and similar expenses	11	**(62)**	(71)	-	(71)
Profit on disposal of investments	12	**2,132**	-	-	-
Profit before taxation		**2,074**	39	15	54
Tax on profit	13	**3**	(10)	-	(10)
Profit for the financial year		**2,077**	29	15	44

Discontinued operations in the prior year relate to the results of the Steven's Croft biomass plant which was sold to a subsidiary company on 1 January 2019.

The notes on pages 16 to 51 form an integral part of these financial statements.

E.ON UK PLC
STATEMENT OF COMPREHENSIVE INCOME
for the Year Ended 31 December 2019

	Note	2019 £000 000	2018 £000 000
Profit for the financial year		**2,077**	44
Other comprehensive (expense)/income: Items that will not be reclassified to profit or loss			
Actuarial (losses)/gains on pension schemes	30	**(153)**	112
Tax credit/(charge) on actuarial (losses)/gains	13	**23**	(20)
Total other comprehensive (expense)/income		**(130)**	92
Total comprehensive income for the year		**1,947**	136

The notes on pages 16 to 51 form an integral part of these financial statements.

E.ON UK PLC
BALANCE SHEET
as at 31 December 2019

	Note	**2019 £000 000**	2018 £000 000
Fixed assets			
Intangible assets	14	**40**	37
Tangible assets	15	**19**	24
Right of use assets	16	**12**	-
Tangible assets - held for sale	17	**-**	82
Investment property	18	**16**	18
Investments	19	**2,504**	2,306
		2,591	2,467
Current assets			
Stocks	20	**2**	2
Debtors: amounts falling due after more than one year	21	**116**	41
Debtors: amounts falling due within one year	22	**5,072**	3,534
Cash at bank and in hand		**7**	32
		5,197	3,609
Creditors: amounts falling due within one year	23	**(1,960)**	(2,085)
Net current assets		**3,237**	1,524
Total assets less current liabilities		**5,828**	3,991
Creditors: amounts falling due after more than one year	24	**(941)**	(900)
Provisions for liabilities	27	**(73)**	(225)
Net assets		**4,814**	2,866
Capital and reserves			
Called up share capital	28	**1,325**	1,325
Share premium account		**97**	97
Capital redemption reserve		**85**	85
Special capital reserve		**474**	474
Profit and loss account		**2,833**	885
Total shareholders' funds		**4,814**	2,866

The financial statements on pages 12 to 51 were approved by the Board of Directors on 10 September 2020 and signed on its behalf on by:

Christian Barr

C Barr
Director
E.ON UK plc
Company No: 02366970

The notes on pages 16 to 51 form an integral part of these financial statements.

E.ON UK PLC
STATEMENT OF CHANGES IN EQUITY
for the Year Ended 31 December 2019

	Called up share capital £000 000	Share premium account £000 000	Capital redemption reserve £000 000	Special capital reserve £000 000	Profit and loss account £000 000	Total £000 000
At 1 January 2018	1,325	97	85	474	749	2,730
Profit for the year	-	-	-	-	44	44
Other comprehensive income:						
Actuarial gains on pensions scheme	-	-	-	-	112	112
Tax charge on actuarial gains	-	-	-	-	(20)	(20)
Total other comprehensive income	-	-	-	-	92	92
At 31 December 2018	1,325	97	85	474	885	2,866
Profit for the year	-	-	-	-	2,077	2,077
Cancelled dividends	-	-	-	-	1	1
Other comprehensive (expense):						
Actuarial losses on pensions scheme	-	-	-	-	(153)	(153)
Tax credit on actuarial losses	-	-	-	-	23	23
Total other comprehensive expense	-	-	-	-	(130)	(130)
At 31 December 2019	**1,325**	**97**	**85**	**474**	**2,833**	**4,814**

The share premium account, capital redemption reserve and special capital reserve are not available for distribution. The special capital reserve was determined in accordance with the Transfer Scheme made pursuant to the Electricity Act 1989, under which the Central Electricity Generating Board's ('CEGB') net assets were vested in its successor companies.

1. General information

The Company buys and sells renewable energy, ROCs and REGOs and operates a district heating scheme. In the prior year, the Company also generated electricity using biomass assets. The Company also provides central support services including facilities management, human resources, procurement, insurance, property, legal, IT and finance support to other E.ON companies operating in the UK and acts as a holding company.

The Company is an indirect subsidiary of a listed company, is a public company limited by shares and is incorporated and domiciled in the UK. The address of the Company's registered office is Westwood Way, Westwood Business Park, Coventry, England, CV4 8LG.

2. Accounting policies

Basis of preparation of financial statements

These financial statements are prepared on the going concern basis, under the historical cost convention as modified by revaluation of derivative financial instruments and listed investments, in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The principal accounting policies, which have been applied consistently throughout the year, are set out below.

The values of assets and liabilities vested in the Company on 31 March 1990 under the Transfer Scheme made pursuant to the Electricity Act 1989 are based on their historical cost to the CEGB.

These financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). These financial statements have been prepared under historic cost convention and in accordance with the Companies Act 2006.

The Company has adopted disclosure exemptions in relation to the following:

- The requirements of IAS 1 Presentation of Financial Statements
- The requirements of IAS 7 Statement of Cash Flows
- The requirements of Paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- The requirements of Paragraph 17 of IAS 24 Related Party Disclosures (key management compensation)
- The requirements of Paragraph 17 of IAS 24 Related party disclosures to disclose related party transactions entered into between two or more members of a group
- The requirements of IFRS 7 Financial Instruments: Disclosures
- The disclosures required by IFRS 5 Non-current Assets Held for Sale and Discontinued Operations in respect of the cashflows of discontinued operations
- The requirements of paragraphs 91 to 99 of IFRS 13 Fair value measurement (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
- The requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 Share based payments
- The requirements of the second sentence of paragraph 110 and paragraphs 113 (a), 114, 115, 118, 119 (a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers
- The requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases
- The requirements of paragraph 58 of IFRS 16, provided that the disclosure of details of indebtedness required by paragraph 61(1) of Schedule 1 to the Regulations is presented separately for lease liabilities and other liabilities, and in total

New standards effective in the year

IFRS 16 Leases (which replaced IAS 17 Leases) is a new accounting standard effective for the year ended 31 December 2019. The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The impact of IFRS 16 has been disclosed within note 37. There are no other amendments to accounting standards or IFRIC interpretations that are effective for the year ended 31 December 2019 and which have had a material impact on the Company.

Exemption from preparing group financial statements

The Company is a wholly-owned subsidiary undertaking of E.ON SE, the ultimate parent undertaking, and is included in the publicly available consolidated financial statements of E.ON SE. Consequently, the Company has taken advantage of the exemption from preparing consolidated financial statements under the terms of Section 400 of the Companies Act 2006.

The Company's financial statements present information about it as an individual undertaking and not about its group.

Going concern

In adopting the going concern basis for preparing these financial statements, the directors have considered the business activities as set out on page 1 as well as the Company's principal risks and uncertainties as set out on pages 2 and 3. Based on the Company's cash flow forecasts and projections, the directors are satisfied that the Company will be able to operate within its current facilities for the foreseeable future, being a period of at least twelve months from the date of the approval of these financial statements. For this reason, the Company continues to adopt the going concern basis.

Judgement in applying accounting policies and key sources of estimation uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of incomes and expenses during the reporting year. These judgements are based on management's best knowledge of the relevant facts and circumstances, having regard to prior experience, but actual results may differ from the amounts included in the financial statements.

Areas of significant judgement in application of accounting policies that have a significant risk of a material error or omission are as follows

<u>Lessor - finance leases</u>

Significant judgement is required in determining the fair value of finance lease receivables. Minimum lease payments are calculated based on the initial capital cost of the asset, spread across the lease term, and discounted at the group's cost of capital.

<u>Determination of lease term</u>

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options or periods after termination options are only included in the lease term if the lease is reasonably certain to be extended or not terminated.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Company becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

<u>Incremental borrowing rate</u>

For the incremental borrowing rate of the individual leases, a degree of judgement has been applied in calculating the risk free rate, cost of debt, country risk, company specific and liquidity spread. The estimates are considered reasonable by the Company.

Corporation tax

Significant judgement is required in determining the Company's provision for corporation taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Company recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax assets and liabilities in the period in which such determination is made.

Impairment

Impairments of assets are calculated as the difference between the carrying value of the asset and its recoverable amount, if lower. Recoverable amount is defined as the higher of fair value less costs to sell and estimated value in use at the date the impairment review is undertaken. Significant judgement is required in determining value in use as this represents the present value of expected future cash flows, discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. Where such an asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the income generating unit.

Critical accounting estimates that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Defined benefit pension schemes

The Company has an obligation to pay pension benefits to certain current and ex-employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends. Further details of the defined benefit schemes are disclosed within note 30.

Determination of fair values of derivatives

Derivative contracts are carried in the balance sheet at fair value, with changes in fair value recorded in the profit and loss account. As quoted market prices for certain derivatives used by the Company are not readily available, the fair values of these derivatives have been calculated using common market valuation methodologies and value influencing market data at the balance sheet date. For certain long-term physical commodity contracts, forward looking market data is unavailable. In this case the Company uses other valuation techniques, incorporating estimated cash flows based on the most relevant market data available.

The use of valuation models requires the Company to make assumptions and estimates regarding the volatility of commodity prices and other indices at the balance sheet date and actual results could differ significantly due to fluctuations in value influencing market data. The carrying value of derivatives is disclosed within note 25.

Leases - residual value guarantees

The Company initially estimates and recognises amounts expected to be payable under residual value guarantees as part of the lease liability. The carrying value of lease assets and lease liabilities is disclosed within notes 16, 23 and 24.

Impairment of trade receivables

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected credit loss allowance. The expected loss rates are based on available external and internal rating information as well as historical default ratios. The estimates and assumptions used to determine the level of expected credit losses are reviewed periodically. The carrying value of trade receivables are disclosed within note 22.

Turnover

Turnover from the generation of electricity from renewable and biomass sources represents the value of the sale of electricity from power purchase agreements and the biomass plant and related renewable credits and is recognised when the power is supplied as at this point it is considered that the performance obligation has been met. Turnover excludes value added tax.

A receivable is recognised at the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Accrued income

Income recognised in advance of receipt is debited to an accrued income account and is recognised in the profit and loss account in the period to which it relates.

Current and deferred income tax

The tax (credit)/charge for the year represents the sum of the current and deferred tax. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in shareholders' funds.

The current income tax credit is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in respect of the relevant years, in the countries where the Company operates and generates taxable income.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in these financial statements. Deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; or arise from an initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profits or losses. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Leases - lessee

The Company leases land and buildings, plant and machinery, fixtures and vehicles. Lease contracts may contain both lease and non-lease components. The Company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of buildings, the Company has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Assets and liabilities are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentive receivable
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Company under residual value guarantees
- the exercise price of a purchase option if the Company is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease if the lease term reflects the Company exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the Company's incremental borrowing rate is used, being the rate that the Company would have to pay to borrow the funds necessary to obtain an asset of similar value to the right of use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Company derives benchmark interest rates from maturity-related risk-free interest rates which are increased by a specific credit-risk premium and adjusted for a country-risk premium.

The Company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right of use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to the profit and loss account over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right of use assets are measured at cost comprising the following:

- the amount of the initial measurement of the lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right of use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight line basis. If the Company is reasonably certain to exercise a purchase option, the right of use asset is depreciated over the underlying asset's useful life.

Payments associated with short term and low-value lease assets are recognised on a straight line basis as an expense in the profit and loss account. Short term leases are leases with a lease term of 12 months or less. Low-value assets comprise small items of fixtures and fittings and plant and machinery

Variable lease payments are recognised in the profit and loss account in the period in which the condition that triggers these payments occur.

In the prior year, leases where the Company was the lessee were classified as either finance leases or operating leases. Leases were classified as finance leases whenever the terms of the lease transferred substantially all the risks and rewards of ownership of the asset to the lessee.

All other leases were classified as operating leases. Payments made under operating leases were charged to the profit and loss account evenly over the term of the lease.

Leases - lessor

Assets leased under finance leases where the Company is the lessor are derecognised at the date that asset is operational. A finance lease receivable is recognised within debtors at the present value of minimum lease payments. Minimum lease payments are calculated based on the initial capital cost of the asset, spread across the lease term, and discounted at the group's cost of capital. Lease payments are variable dependent upon the volume of energy used. Minimum lease payment receipts are apportioned between finance income and reduction of the lease receivable so as to achieve a constant rate of return on the lease receivable. Receipts in excess of the minimum lease payments are recognised as contingent-based rents within turnover.

When assets are leased out under an operating lease, the asset is included in the balance sheet based on the nature of the asset. Lease income on operating leases is recognised over the term of the lease on a straight-line basis.

Pensions

Payments to defined contribution schemes are charged against profits as incurred. The Company has no further payment obligation once contributions have been paid. Contributions are recognised in the profit and loss account as employee costs when they are due and prepaid contributions are recognised as an asset to the extent that a cash refund or reduction in the future payments is available.

The Company also contributes to a funded group defined benefit pension scheme operated by the Company, the assets of which are invested in a separate trustee-administered fund. The liability recognised on the balance sheet in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the end of the year less the fair value of the plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of 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 obligation.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to shareholders' funds in other comprehensive income in the period in which they arise.

The amount charged or credited to finance costs is a net interest amount calculated by applying the liability discount rate to the net defined benefit liability or asset.

Past service costs are recognised immediately in the profit and loss account.

Share-based payments

Certain directors and senior management personnel participate in cash settled share-based payment schemes administered by the ultimate parent company, E.ON. Two schemes are currently relevant to the Company – the E.ON Multi-Year Bonus and the E.ON Performance Plan. The Company accounts for these schemes in accordance with IFRS 2 “Share–based payment”. The liability is measured initially and at each reporting date, based on fair value, by applying the Monte Carlo option pricing model, taking into account rights granted and service rendered to date. Costs are recognised in the profit and loss account over the expected vesting period.

Provisions

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

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Future operating costs are not provided for.

A provision for restructuring is recognised when the Company has approved a detailed and formal restructuring plan, and the restructuring has either, commenced or has been announced to those affected by it.

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Company has a contract under which the unavoidable costs of meeting the obligations under contract exceed the economic benefits expected to be received under it.

Intangible assets

Software development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognised as internally generated intangible assets.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed five years.

The Company's asset (representing its accumulating right to be paid for providing district heating services) is classified as an intangible asset (licence to charge users of the infrastructure) during the contracted construction phase of the arrangement. The Company measures the fair value of its consideration received or receivable as equal to the construction costs plus 5% margin, which the Company concludes is consistent with the rate that a market participant would require as compensation for providing the construction services and for assuming the risk associated with the construction costs.

Tangible assets

Tangible assets are stated at original cost less accumulated depreciation and any provision for impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Land and buildings and plant and machinery relate primarily to generating assets.

Major assets in the course of construction are included in tangible assets on the basis of expenditure incurred at the balance sheet date. In the case of assets constructed by the Company, directly related overheads and commissioning costs are included in cost. Where borrowings are used to finance the construction of a major capital project with a long period of development, interest payable is capitalised as part of the cost of the asset and written off over the economic useful life of the asset. Where specific borrowings are used, the amount capitalised is based on actual interest payable. Where general borrowings are used, the amount capitalised is based on the weighted average cost of capital of the E.ON group not exceeding the actual expenditure incurred during the relevant period of construction.

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

Asset class	Depreciation method and rate
Freehold buildings	Straight-line basis over 25-40 years
Long leasehold land and buildings	Straight-line basis over 15-40 years
Plant and machinery	Straight-line basis over 35-40 years
Fixtures and fittings	Straight-line basis over 3-40 years

Estimated useful lives are reviewed annually. No depreciation is provided on freehold land or assets in the course of construction.

Overhaul of generation plant

Major periodic overhaul costs on generation plant are capitalised as part of generating assets and depreciated on a straight-line basis over their useful economic life, typically the period until the next major overhaul.

Investment properties

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties are stated at cost less accumulated depreciation.

Asset class	Depreciation method and rate
Investment properties - buildings	Straight-line basis over 8-28 years

Stock

Stock is valued at the lower of cost and net realisable value, after due regard for obsolete and slow moving stocks. Net realisable value is based on selling price less anticipated costs to completion and selling costs. In general, stocks are recognised in the profit and loss account on a weighted average cost basis. The Companies Act 2006 requires stocks to be categorised between raw materials, work in progress and finished goods. Stores are considered to be raw materials under this definition.

Decommissioning costs

The fair value of a liability arising from the decommissioning of an asset is recognised in the period in which the asset is commissioned and when a reasonable estimate of the fair value can be made. When the provision is recorded, the Company capitalises the costs of the provision by increasing the carrying amount of the tangible fixed assets. In subsequent periods, the provision is accreted to its present value and the carrying amount of the asset is depreciated over its useful life. Changes to estimates arise, particularly when there are deviations from original cost estimates or changes to the payment schedule or the level of relevant obligation. The provision must be adjusted in the case of both negative and positive changes to estimates. Such an adjustment is usually effected through a corresponding adjustment to tangible fixed assets and is not recognised directly in the profit and loss account.

Research and development

Research and development expenditure is written off as incurred only when it does not meet the capitalisation criteria.

Fixed asset investments

Fixed asset investments are stated at historical cost less provision for any diminution in value.

Listed and other investments are treated as available for sale and are carried at fair value. Unrealised gains and losses on available for sale investments are recognised in equity until the investment is disposed of.

Cash and short-term deposits

Short-term deposits include cash at bank and in hand.

Foreign currency

These financial statements are presented in Great British Pounds ('GBP') which is the Company's functional currency. All financial information presented in GBP has been rounded to the nearest million, unless otherwise stated.

Transactions in foreign currencies are recorded at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the closing rates at the balance sheet date.

Financial instruments

The Company's financial risk management policies are consistent with those of the E.ON group and are described in the E.ON group's financial statements.

Debt instruments

All borrowings are initially stated at the fair value of consideration received after deduction of directly attributable transaction costs. The issue costs and interest payable on bonds are charged to the profit and loss account at a constant rate over the life of the bond. Any premium or discount arising on the early repayment of borrowings is written off to the profit and loss account as incurred or received.

Derivative instruments

The Company uses a range of derivative instruments, including foreign exchange contracts and commodity contracts. Derivative instruments are used for hedging purposes. Further details of the fair values of the financial instruments are disclosed within note 25.

Derivative instruments are recorded as either assets or liabilities in the balance sheet and measured at fair value. Changes in the fair value of derivatives that do not qualify for hedge accounting are recognised in the profit and loss account as they arise.

Derivatives embedded within other financial instruments or host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value in their entirety.

Impairment of financial assets

The Company has two types of financial assets that are subject to the expected credit loss model:

- trade receivables largely relating to connection fees on the district heating scheme; and

- amounts owed by group undertakings.

The expected future credit loss is calculated by multiplying the probability of default by the carrying amount of the financial asset (exposure at default) and the expected loss ratio (loss given default). The probability of default describes the probability that a debtor will not meet their payment obligations and the receivable will therefore default. Exposure at default is the amount of the financial asset allocated to the Company at the time of default. Loss given default is the expectation of what portion of a financial asset is no longer recoverable in the event of default and is determined taking into account guarantees, other loan collateral and, if appropriate, insolvency ratios.

Inter-company balances

Inter-company payable and receivable trading balances within the E.ON group are recognised initially at fair value and subsequently measured at amortised cost. Although these transactions are net settled, as there is no legally enforceable right to do so these balances are presented gross. Formal loan balances are settled and presented gross.

For amounts owed by group undertakings, the Company first determines the 12 month expected credit loss, with the lifetime expected credit loss being recognised in the event of a significant increase in default risk. This is assumed if the internally determined counterparty risk has been downgraded at least three risk levels on the ten level counterparty risk scale since initial recognition. If external or internal rating information is available, the expected credit loss is determined on the basis of this data. If no rating information is available, the Company determines default ratios on the basis of historical default rates, taking into account forward-looking information on economic developments. The estimates and assumptions used to determine the level of expected credit losses are reviewed periodically to determine if there is a significant increase in default risk. The carrying value of amounts owed by group undertakings is disclosed within note 22.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the balance sheet, when the Company has a legally enforceable right to set off the recognised amounts and it intends either to settle on a net basis or realise the asset and settle the liability simultaneously.

Dividend distribution

Dividend distribution to the Company's shareholder is recognised as a liability in the financial statements in the period in which the dividends are approved.

3. Non-current assets held for sale and discontinued operations

On 1 January 2019, the Company sold its biomass plant at Steven's Croft to its wholly owned subsidiary, E.ON UK Steven's Croft Limited, for its book value. The related assets and liabilities were classified as held for sale as at 31 December 2018. No gain or loss arose on the measurement to fair value less cost to sell.

	2018 £000 000
Tangible assets	82

4. Turnover

Turnover from the generation of electricity from renewable and biomass sources represents the value of the sale of electricity from wind farms and the biomass plant and related renewable credits and is recognised when the power is supplied.

5. Segmental reporting

The segments derive their turnover from the following sources:

Segment	Description
B&CS	Sale of energy from biomass plant and results relating to one district heating scheme
Renewables	Sale of energy, ROCs and REGOs purchased from renewable sources
Other	Support functions for other segments and other E.ON companies in the UK

Year ended 31 December 2019	B&CS £000 000	Renewables £000 000	Other £000 000	Inter-Segment elimination £000 000	Total £000 000
Turnover:					
UK	3	718	-	-	721
Total turnover	3	718	-	-	721
(Loss)/profit on ordinary activities before taxation	(1)	17	2,058	-	2,074
Net assets	145	526	4,143	-	4,814

Year ended 31 December 2018	B&CS £000 000	Renewables £000 000	Other £000 000	Inter-Segment elimination £000 000	Total £000 000
Turnover:					
UK	50	582	-	(27)	605
Total turnover	50	582	-	(27)	605
Profit on ordinary activities before taxation	15	8	31	-	54
Net assets	146	510	2,210	-	2,866

6. Operating loss/(profit)

Operating (loss)/profit is stated after charging/(crediting):

	2019 £000 000	2018 £000 000
Operating leases	-	10
Depreciation of owned assets (note 15)	4	8
Foreign currency losses/(gains)	5	(5)
Derivative losses	25	23
Impairment of financial assets (note 22)	6	(2)
Profit on sale of investment property assets	-	(11)
Profit on sale of tangible assets	(7)	-
Depreciation of investment property assets (note 18)	1	1
Impairment of intangible assets (note 14)	-	3
Impairment of right of use assets (note 16)	3	-
Amortisation of intangible assets (note 14)	6	4
Depreciation of right of use assets (note 16)	5	-

The impairment of trade receivables, finance lease receivables and amounts owed to group undertakings recognised during the year was £nil, £nil and £6 million (2018: £nil, £nil and credit of £2 million) respectively.

In 2019, the operating profit included costs of £9 million primarily relating to the Quick Wins project (2018: £16 million relating to the ZBB project).

In 2018, a one-off pension scheme past service credit of £168 million was recognised following changes to the scheme. The details of the changes made are disclosed within note 30.

7. Auditors' remuneration

Auditors' remuneration of £334,000 (2018: £319,000) was charged for the audit of these financial statements.

The Company incurred £54,000 (2018: £105,000) in relation to other audit related assurance services, with no costs in relation to tax advisory services (2018: £nil).

The Company also incurred £496,000 (2018: £160,000) in relation to the audit of financial statements and £284,000 (2018: £27,000) in relation to other audit related assurance services for underlying subsidiaries, and none of these amounts were recharged.

8. Employee information

The monthly average number of persons employed by the Company (including directors) and whose costs were not directly recharged to other companies during the year, analysed by category, was as follows:

	2019 No.	2018 No.
Production	**16**	43
Administration and support	**959**	928
	975	971

The following salaries and related costs of employees, including directors and key management, were incurred during the year:

	2019 £000 000	2018 £000 000
Wages and salaries	**50**	50
Social security costs	**5**	4
Other pension costs	**47**	86
	102	140
Less: exceptional credit to pension costs (note 30)	**-**	(168)
Less: pension costs recharged to other companies	**(38)**	(43)
	64	(71)

The confirmed costs of the Guaranteed Minimum Pension equalisation of £7 million have been included within Other pension costs offset by the release of the £11 million provision recognised in 2018.

9. Directors' remuneration

The directors' remuneration for the year was as follows:

	2019 £	2018 £
Aggregate emoluments (including benefits in kind)	**2,302,673**	2,466,281

The above amounts include four (2018: six) directors, who shared their management time between the Company and E.ON Energy Solutions Limited ('EESL'), a fellow group company. Of these costs, £2,072,406 (2018: £2,219,653) was recharged to EESL based on the proportion of time that the directors spent on each company's business.

During the year, the number of directors who were receiving benefits and share incentives was as follows:

	2019 No.	2018 No.
Received or were entitled to receive shares under long term incentive ('LTI') schemes	**4**	6
Accruing benefits under a defined benefit pension scheme	**1**	3
Accruing benefits under a money purchase pension scheme	**3**	1

During the year, three (2018: four) directors exercised Performance Rights over shares in the ultimate parent company, E.ON SE, that they were awarded for services to the E.ON group. Total payments under the LTI schemes were £432,483 (2018: £471,959).

In respect of the highest paid director:

	2019 £	2018 £
Annual salary	**294,251**	288,486
Annual bonus	**240,880**	268,293
LTI schemes	**219,933**	194,166
Other benefits	**272,422**	283,631
Total amount of emoluments and amounts receivable under LTI schemes	**1,027,486**	1,034,576

The highest paid director shared their management time between the Company and EESL. These costs were borne by the Company and recharged to EESL based on the proportion of time that the director spent on EESL's business. Of their emoluments, £924,739 (2018: £931,118) were recharged to EESL.

10. Interest receivable and similar income

	2019 £000 000	2018 £000 000
Interest receivable from group undertakings	**29**	25
Other interest receivable	**4**	1
	33	26

11. Interest payable and similar expenses

	2019 £000 000	2018 £000 000
Interest payable to group undertakings	**59**	60
Interest - lease liabilities	**2**	-
Net cost on post-employment benefits (note 30)	**1**	11
	62	71

12. Profit on disposal of investments

On 30 September 2019, the Company sold its entire investment in E.ON Climate & Renewables UK Limited and a 60.07% investment in Rampion Renewables Limited to RWE Renewables International Participations B.V. The Company received consideration of £2,530 million which, with other proceeds from associated contracts of £32 million, resulted in an overall profit on disposal of £2,132 million (2018: £nil).

13. Tax on profit

	2019 £000 000	2018 £000 000
Current tax		
UK corporation tax on profits for the year at 19% (2018: 19%)	**(7)**	(7)
Adjustments in respect of prior years	**2**	-
Total current tax credit	**(5)**	(7)
Deferred tax		
Origination and reversal of timing differences	**1**	17
Adjustments in respect of prior years	**1**	-
Total deferred tax charge	**2**	17
Total tax (credit)/charge on profit on ordinary activities	**(3)**	10
Current tax in other comprehensive income	**-**	(20)
Deferred tax in other comprehensive income	**(23)**	40
	(23)	20

The tax (credit)/charge for the year is lower than (2018: the same) the standard rate of corporation tax in the UK for the year ended 31 December 2019 of 19% (2018: 19%). The differences are explained below:

	2019	2018
	£000 000	£000 000
Profit before taxation	**2,074**	54
Tax charge on profit before taxation at 19% (2018: 19%)	**394**	10
Effects of:		
Impact of rate changes	**-**	(2)
Income covered by capital losses	**-**	(2)
Impairment of investments	**-**	4
Non-taxable income	**6**	-
Investment disposal	**(406)**	-
Adjustments in respect of prior years - deferred tax	**1**	-
Adjustments in respect of prior years - current tax	**2**	-
Tax (credit)/charge for the year	**(3)**	10

Changes to the UK corporation tax rates were substantively enacted as part of the Finance Bill 2017 (on 6 September 2017). This included a reduction to the UK corporation tax rate to 17% from 1 April 2020. In the Spring Budget 2020, the Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020. As the proposal to keep the rate at 19% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements.

The corporation tax receivable has been reduced by £5 million because of group relief surrendered to a fellow group undertaking for which a payment will be received (2018: reduced by £7 million due to group relief surrendered to a fellow group undertaking for which a payment was received). The Company has current year trading losses carried forward of £232 million upon which a deferred tax asset has been recognised.

14. Intangible assets

	Capitalised software £000 000	**Other intangibles £000 000**	**Total £000 000**
Cost			
At 1 January 2019	38	10	48
Additions	8	1	9
At 31 December 2019	46	11	57
Accumulated amortisation			
At 1 January 2019	11	-	11
Charge for the year	6	-	6
At 31 December 2019	17	-	17
Net book value			
At 31 December 2019	**29**	**11**	**40**
At 31 December 2018	27	10	37

At 31 December 2019, there were several ongoing projects of £12 million (2018: £17 million). Amortisation will commence once the projects are completed. The amortisation and impairment charges are included within Administrative expenses in the profit and loss account.

Other intangibles relate to an asset recognised under IFRIC 12 in relation to the B&CS segment which commenced amortisation during the year.

On 1 January 2019, the Company hived up certain assets of its wholly owned subsidiary E.ON IT UK Limited which resulted in an addition of £1 million in Capitalised software.

15. Tangible assets

	Freehold land and buildings £000 000	Long leasehold land and buildings £000 000	Fixtures and fittings £000 000	Assets in the course of construction £000 000	Total £000 000
Cost					
At 1 January 2019 (restated)	17	6	12	5	40
Additions	1	-	-	1	2
Transfers	3	(6)	8	(5)	-
At 31 December 2019	21	-	20	1	42
Accumulated depreciation					
At 1 January 2019 (restated)	9	3	7	-	19
Charge for the year	1	-	3	-	4
Transfers	-	(3)	3	-	-
At 31 December 2019	10	-	13	-	23
Net book value					
At 31 December 2019	**11**	**-**	**7**	**1**	**19**
At 31 December 2018	8	6	5	5	24

Following the adoption of IFRS 16 a review of all leases was undertaken and the balances of Long leasehold land and buildings at 1 January 2019 have been restated after transferring the Westwood long lease asset to Right of use assets.

Assets relating to other leased sites were transferred from Long leasehold land and buildings to Fixtures and fittings during the year.

16. Right of use assets

	Land and buildings £000 000	Vehicles £000 000	Total £000 000
Cost or valuation			
At 1 January 2019 (see note 37)	7	8	15
Additions	5	2	7
Disposals	(2)	(1)	(3)
At 31 December 2019	10	9	19
Accumulated depreciation			
At 1 January 2019 (see note 37)	-	-	-
Charge for the year	1	4	5
Disposals	-	(1)	(1)
Impairment	3	-	3
At 31 December 2019	4	3	7
Net book value			
At 31 December 2019	6	6	12
At 31 December 2018	-	-	-

The expense during the year relating to short term leases was £135,000.

There were no expenses during the year relating to leases of low-value assets that are not shown above as short term leases or for variable lease payments not included in lease payments.

The total cash outflow for leases in 2019 was £22 million.

17. Tangible assets - held for sale

The assets held for sale relate to the Steven's Croft biomass plant which was disposed of on 1 January 2019 to a subsidiary company for its book value.

18. Investment property

	Total £000 000
Cost	
At 1 January 2019	35
Disposals	(4)
At 31 December 2019	31
Accumulated depreciation	
At 1 January 2019	17
Charge for the year	1
Disposals	(3)
At 31 December 2019	15
Net book value	
At 31 December 2019	**16**
At 31 December 2018	18

The properties that are classified as investment property are predominantly used by other companies within the E.ON group. There are no formal rental agreements and no rent is paid in relation to these properties.

The disposal in the year relates to the sale of part of the site at Hams Hall, Coleshill. The remainder of the site is expected to be sold in future years.

The rent earned from third parties totalled £1 million (2018: £1 million) and there were no expenses relating to these properties (2018: £nil).

	2019 £000 000	2018 £000 000
Fair value	**23**	23

The fair value of investment property was determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued.

The independent valuers provided a fair value of the Company's investment property portfolio on 30 June 2015.

The Company's internal property team have reviewed the fair value at the year end and do not consider it to have moved materially since the last external valuation.

19. Investments

	2019 £000 000	2018 £000 000
Shares in group undertakings and participating interests	**2,466**	2,269
Other investments	**38**	37
	2,504	2,306

Shares in group undertakings and participating interests

	Subsidiary undertakings £000 000	Associated undertakings £000 000	Total £000 000
Cost			
At 1 January 2019	3,377	-	3,377
Additions	23	604	627
Disposals	(71)	(359)	(430)
At 31 December 2019	3,329	245	3,574
Provision for impairment			
At 1 January 2019	1,108	-	1,108
At 31 December 2019	1,108	-	1,108
Net book value			
At 31 December 2019	**2,221**	**245**	**2,466**
At 31 December 2018	2,269	-	2,269

The subsidiary undertakings additions represent an investment in E.ON UK Heat Limited of £19 million and an increased investment in E.ON Energy Installation Services Limited of £4 million.

The investment in E.ON Climate & Renewables UK Limited, with a book value of £71 million, was sold on 30 September 2019 as part of the E.ON SE and RWE AG asset and business exchange.

The investment in associated undertakings represents the overall investment in Rampion Renewables Limited of £245 million. On 27 September 2019, the Company injected £597 million share capital and £7 million for stamp duty into Rampion Renewables Limited. On 30 September 2019, the Company then sold 60.07% of Rampion Renewables Limited to RWE Renewables International Participations B.V for £359 million.

Despite the impact of the ongoing COVID-19 pandemic in 2020, current forecasts of ongoing performance indicate that the carrying value of the investments above is still appropriate.

Other investments	Listed investments £000 000
Cost	
At 1 January 2019	37
Additions	1
At 31 December 2019	38
Net book value	
At 31 December 2019	**38**
At 31 December 2018	37

Details of undertakings

Details of the investments which the Company holds at the year end are as follows:

Undertaking	Holding	Proportion of voting rights and shares held	Principal Activity
Subsidiary undertakings			
E.ON Energy Solutions Limited	Ordinary shares	100%	Sale of electricity, gas and other energy-related products to residential, business and industrial customers throughout Great Britain
E.ON IT UK Limited	Ordinary shares	100%	Transfer of IT services for UK entities to the Company
E.ON UK Blackburn Meadows Limited	Ordinary shares	100%	Operation of biomass plant
E.ON UK CHP Limited	Ordinary shares	100%	Sale of energy and related services, primarily from the operation of combined heat and power plants
E.ON UK Energy Markets Limited	Ordinary shares	100%	Energy procurement business
E.ON UK Heat Limited	Ordinary Shares	100%	Set up phase of district heating business
E.ON UK Steven's Croft Limited	Ordinary Shares	100%	Operation of biomass plant
E.ON Energy Installation Services Limited	Ordinary shares	100%	Hardware installation services for residential customers (e.g. boilers and smart thermostats)
Novo Innovations Limited	Ordinary shares	100%	Non-trading company
Powergen International Limited	Ordinary shares	100%	Investment holding company
Lighting for Staffordshire Holdings Limited	Ordinary shares	60%	Holding company to Lighting for Staffordshire Limited, a subsidiary company established for the financing, organisation and operation of a street lighting scheme in Staffordshire, under the Government's Private Finance Initiative Scheme

Undertaking	Holding	Proportion of voting rights and shares held	Principal Activity
Subsidiary undertakings (continued)			
Avon Energy Partners Holdings	Ordinary shares	100%	Dormant company
CHN Contractors Limited	Ordinary shares	100%	Dormant company
CHN Electrical Services Limited	Ordinary shares	100%	Dormant company
CHN Group Ltd	Ordinary shares	100%	Dormant company
CHN Special Projects Limited	Ordinary shares	100%	Dormant company
E.ON (Cross-Border) Pension Trustees Limited	Limited by guarantee	100%	Dormant company
E.ON UK Directors Limited	Ordinary shares	100%	Dormant company
E.ON UK Energy Services Limited	Ordinary shares	100%	Dormant company
E.ON UK Pension Trustees Limited	Ordinary shares	100%	Dormant company
E.ON UK Property Services Limited	Ordinary shares	100%	Dormant company
E.ON UK PS Limited	Ordinary shares	100%	Dormant company
E.ON UK Secretaries Limited	Ordinary shares	100%	Dormant company
E.ON UK Trustees Limited	Limited by guarantee	100%	Dormant company
East Midlands Electricity Distribution Holdings	Ordinary shares	100%	Dormant company
East Midlands Electricity Share Scheme Trustees Limited	Ordinary shares	100%	Dormant company
Industry Development Services Limited	Ordinary shares	100%	Dormant company
Matrix Control Solutions Limited	Ordinary shares	100%	Dormant company
Midlands Electricity Limited	Ordinary shares	100%	Dormant company
Powergen Power No. 1 Limited	Ordinary shares	100%	Dormant company
Powergen Power No. 2 Limited	Ordinary shares	100%	Dormant company
The Power Generation Company Limited	Ordinary shares	100%	Dormant company

Undertaking	Holding	Proportion of voting rights and shares held	Principal Activity
Associate			
Rampion Renewables Limited	Ordinary Shares	39.93%	Investment holding company
Hams Hall Management Company Limited	Ordinary Shares	39%	Control, supervision, maintenance and management of the premises known as Hams Hall, Coleshill, Birmingham, for the benefit of the tenants

Undertaking	Holding	Proportion of voting rights and shares held	Principal Activity
Subsidiary undertakings in member's voluntary liquidation or dissolved			
Powergen (East Midlands) Loan Notes	Ordinary shares	100%	Dissolved on 29 October 2019

Undertaking	Holding	Proportion of voting rights and shares held	Principal Activity
Indirect holdings			
Citigen (London) Limited	Ordinary shares	100%	Sale of energy services involving the supply of heating hot water and ventilation
E.ON Energy Gas (Eastern) Limited	Ordinary shares	100%	Dormant
E.ON Energy Gas (Northwest) Limited	Ordinary shares	100%	Dormant
E.ON Project Earth Limited	Ordinary shares	100%	Leasing of ground source heating systems
E.ON UK Cogeneration Limited	Ordinary shares	100%	Sale of energy services involving the operation of CHP plants
E.ON UK Industrial Shipping Limited	Ordinary shares	100%	Dormant
Economy Power Limited	Ordinary shares	100%	Dormant
Energy Collection Services Limited	Ordinary shares	100%	Dormant
Ergon Overseas Holdings Limited	Ordinary shares	100%	Dormant
Lighting for Staffordshire Limited	Ordinary shares	60%	Servicing of street lighting
Powergen Holdings B.V.	Ordinary shares	100%	Holding company
Powergen Serang Limited	Ordinary shares	100%	Dormant
Utility Debt Services Limited	Ordinary shares	100%	Dormant
Visioncash	Ordinary A, B and preference shares	100%	Dormant

All of the undertakings disclosed above are incorporated in the United Kingdom and have a registered office of Westwood Way, Westwood Business Park, Coventry, England, CV4 8LG.

The only exceptions to this are Powergen Holdings B.V. which is registered in the Netherlands, Hams Hall Management Company Limited which has a registered office address of Gowling WLG (UK) LLP, Snow Hill, Queensway, Birmingham, B4 6WR and Powergen (East Midlands) Loan Notes which immediately prior to its dissolution had a registered office of KPMG LLP, 15 Canada Square, Canary Wharf, London, England, E14 5GL.

20. Stocks

	2019 £000 000	2018 £000 000
Stores	**2**	2

As at 31 December 2019, there was a provision for the impairment of Stores of £1 million (2018: £1 million).

21. Debtors: amounts falling due after more than one year

	2019 £000 000	2018 £000 000
Amounts owed by group undertakings	**7**	-
Deferred tax	**76**	41
Finance lease receivables (note 26)	**33**	-
	116	41

Amounts owed by group undertakings are unsecured, interest free and repayable on demand.

Deferred tax

The movement in the deferred tax asset in the year is as follows:

	2019 **£000 000**	2018 £000 000
At 1 January	**41**	95
Deferred tax charged to the profit and loss account	**(2)**	(17)
Deferred tax credited/(charged) to other comprehensive income	**23**	(40)
Deferred tax transferred to group undertaking	**14**	-
Deferred tax transferred to equity	**-**	3
Deferred tax asset at 31 December	**76**	41

Analysis of deferred tax

	2019 **£000 000**	2018 £000 000
Accelerated capital allowances	**(2)**	(11)
Pension	**34**	40
Deferred tax asset on trading losses	**39**	-
Other timing differences	**5**	12
Deferred tax asset	**76**	41

Changes to the UK corporation tax rates were substantively enacted as part of the Finance Bill 2017 (on 6 September 2017). These include reductions to the main corporation tax rate, to reduce the rate to 17% from 1 April 2020. In the Spring Budget 2020, the Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17% as previously enacted). This new law was substantively enacted on 17 March 2020. As the proposal to keep the rate at 19% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements. However, it is likely that the overall effect of the change, had it been substantively enacted at the balance sheet date, would be to reduce the tax charge for the year by £9 million and to increase the deferred tax asset by £9 million.

There are unused capital tax losses of £33 million (2018: £33 million) on which a deferred tax asset has not been recognised and which are available to be carried forward indefinitely. A deferred tax asset would only be recognised in the event of a capital gain within the Company or its group which would be expected to crystallise within twelve months from the end of the accounting period.

A deferred tax asset has been recognised on the defined benefit pension provision on the basis of tax planning opportunities within the group.

22. Debtors: amounts falling due within one year

	2019 £000 000	2018 £000 000
Trade receivables	**4**	2
Amounts owed by group undertakings	**5,011**	3,488
Commodity and other derivative financial instruments (note 25)	**9**	9
Corporation tax	**8**	-
Finance lease receivables (note 26)	**13**	-
Other debtors	**2**	3
Other taxation and social security	**21**	27
Prepayments and accrued income	**4**	5
	5,072	3,534

Amounts owed by group undertakings are unsecured, are a combination of interest free and interest bearing, are predominately in Sterling and are repayable on predetermined dates. Interest bearing loans totalling £4,751 million (2018: £2,749 million) are set within the range of LIBOR minus 5 basis points to LIBOR plus 52 basis points.

Trade receivables, finance lease receivables and amounts owed by group undertakings are stated after loss allowances of £nil, £nil and £21 million respectively (2018: £nil, £nil and £15 million).

23. Creditors: amounts falling due within one year

	2019 £000 000	2018 £000 000
Bank loans and overdrafts	**1**	-
Trade payables	**62**	9
Amounts owed to group undertakings	**1,670**	1,976
Other taxation and social security	**9**	9
Accruals and deferred income	**171**	53
Commodity and other derivative financial instruments (note 25)	**24**	38
Lease liabilities	**18**	-
Other creditors	**5**	-
	1,960	2,085

Amounts owed to group undertakings are unsecured, are a combination of interest free and interest bearing, are predominately in Sterling and are repayable on predetermined dates. Interest bearing loans totalling £434 million (2018: £749 million) are set within the range of LIBOR minus 5 basis points to LIBOR plus 52 basis points.

The weighted average interest rate on all short-term bank loans and overdrafts during the year was 1.75% (2018: 1.60%).

24. Creditors: amounts falling due after more than one year

	2019 £000 000	2018 £000 000
Amounts owed to group undertakings	**900**	900
Lease liabilities	**41**	-
	941	900

Amounts owed to group undertakings are unsecured and relate to a long-term loan of £900 million (2018: £900 million) that is repayable in 2037 and incurs interest at a rate of 6.075% (2018: 6.075%). All amounts owed to group undertakings are non-instalment debts and do not contain any material covenant restrictions.

Lease liabilities relate to property and car leases, the lease durations are between 1 and 15 years.

The maturity profile of the carrying amount of the Company's long term borrowings are as follows:

	2019 £000 000	2018 £000 000
In more than one year, but not more than two years	**15**	-
In more than two years, but not more than five years	**19**	-
In more than five years	**907**	900
	941	900

25. Financial instruments

Amounts recognised in respect of derivative financial instruments are as follows:

	Assets		Liabilities	
	2019 £000 000	2018 £000 000	2019 £000 000	2018 £000 000
Foreign currency forward contracts	**3**	6	**(11)**	(1)
Commodity forward contracts	**6**	3	**(13)**	(37)
	9	9	**(24)**	(38)

Derivative financial instruments are classified within current assets and current liabilities.

The Company enters into forward foreign currency contracts to mitigate the exchange rate risk of certain foreign currency payables. At 31 December 2019, the outstanding contracts will all mature within 38 months (2018: 38 months) of the year end.

The Company had a power purchase and sale agreement with an external counterparty which expired on 30 April 2019. The contract was fully hedged and there was no exposure for the Company in relation to commodity forward contracts.

The Company has long term power sale agreements with EEM which are marked to market and which result in a net liability of £7 million (2018: £34 million).

The notional principal amounts of derivatives are as follows:

	2019 £000 000	2018 £000 000
Foreign currency forward contracts	36	39
Commodity forward contracts	308	154
	344	193

26. Additional disclosures on financial instruments

The carrying amounts of cash and cash equivalents, borrowings under short-term credit facilities, trade receivables, other operating assets, trade payables and other operating liabilities are considered reasonable estimates of their fair values because of their short maturity.

	2019 £000 000	2018 £000 000
Gross receivables from finance leases:		
- No later than 1 year	14	-
- Later than 1 year and no later than 5 years	28	-
- Later than 5 years	7	-
	49	-
Unearned finance income	(3)	-
Net investment in finance leases	46	-

Finance lease receivables

The finance leases granted by the Company arise on the provision of property and vehicles. The lease durations are between 1 and 15 years and the lessees do not have the option to purchase the assets at the end of the lease. Further information regarding finance lease receivables at 31 December 2019 is shown below:

	2019 £000 000	2018 £000 000
Debtors: amounts falling due after one year		
Finance leases – gross receivables	35	-
Unearned finance income	(2)	-
	33	-
Debtors: amounts falling due within one year		
Finance leases – gross receivables	14	-
Unearned finance income	(1)	-
	13	-

The net investment in finance leases may be analysed as follows:

	2019 £000 000	2018 £000 000
Within one year	**13**	-
Within two and five years	**26**	-
Over five years	**7**	-
	46	-

Contingent-based rents recognised in the profit and loss account were £nil (2018: £nil).

27. Provisions for liabilities

	Post employment benefits £000 000	Decommiss -ioning provision £000 000	Restructuring /severance provisions £000 000	Contract based provisions £000 000	Other provisions £000 000	Total £000 000
At 1 January 2019	179	5	11	-	30	225
Charged/(credited) to the profit and loss account	55	-	9	8	(6)	66
Utilised during the year	(356)	-	(11)	(2)	(12)	(381)
Acquired from E.ON IT UK Limited	-	-	8	-	7	15
Sold to E.ON UK Steven's Croft Limited	-	(5)	-	-	-	(5)
Transferred to equity	153	-	-	-	-	153
At 31 December 2019	**31**	**-**	**17**	**6**	**19**	**73**

Decommissioning provisions comprise amounts set aside for the estimated costs of terminating power station grid connections, decommissioning and subsequent site restoration costs at the Steven's Croft plant which will be utilised when the plant closes. This provision was transferred to E.ON UK Steven's Croft Limited on 1 January 2019 at book value.

Restructuring provisions relate primarily to the restructuring of the Company following the ZBB and Quick Wins projects, the majority of which will be utilised during 2020.

Other provisions relate primarily to dilapidation provisions and recycled benefit provisions as well as the amounts provided for under the Share Based Payment agreement.

Provisions acquired from the hive up of IT activities from E.ON IT UK Limited have been significantly utilised during the year.

Further details on post-employment benefits are provided in note 30.

28. Called up share capital

Allotted and fully paid

	2019 £000 000	2018 £000 000
2,649,241,799 ordinary shares of £0.50 (2018: 2,649,241,799)	**1,325**	1,325

29 Cancelled dividends

During 2019, the Company cancelled dividends of £1 million relating to periods prior to 1 July 2002.

30. Post-employment benefits

Defined contribution scheme

The Company operates a defined contribution pension scheme for all qualifying employees not already a pension scheme member and for new employees joining the Company. The assets of the scheme are held separately from those of the Company in an independent administered fund held by the individual members. The total cost charged to the profit and loss account of £4 million (2018: £3 million) represents contributions payable to these schemes by the Company at rates specified in the rules of the plan.

The amount outstanding at 31 December 2019, included within other creditors, relating to pensions contributions to this scheme was £328,000 (2018: £283,000). This related to the contributions for December 2019 which were paid in January 2020.

Defined benefit schemes

At 31 December 2019, the Company had three registered pension schemes and one unfunded unregistered pension scheme. The main company pension scheme is the E.ON UK Group of the Electricity Supply Pension Scheme ("the Scheme"). This is a funded scheme with several different benefit categories, largely of the defined benefit type. An actuarial valuation of the Scheme is carried out every three years by the Scheme Actuary, who recommends the rates of contribution payable by participating employers. In intervening years, the actuary reviews the continuing appropriateness of the rates.

The latest actuarial valuation of the Scheme was at 31 March 2018. As part of the agreement of the valuation of the Scheme, a revised deficit repair plan was agreed. The Company agreed to pay £65 million in January 2019 with further payments totalling £233.8 million paid in August 2019. Further payments of £91.5 million may be paid in January of 2022 and 2023 depending on the estimated deficit to be calculated at 31 March 2021. All 2019 payments were made in line with the plan.

In 2018, after a period of member consultation, the following amendments to the Scheme were implemented: for the final salary categories, a pensionable salary cap and a change in the inflationary measure used for pension increases (the latter being with regard to future service only). For the cash balance category, a change to the inflationary measure applied annually to member accounts and an increase in member contribution rates. As a result of these changes a past service credit of £168 million was recognised as an exceptional item in the prior year. This consists of a £96 million curtailment gain and a £72 million past service credit.

The amount outstanding at 31 December 2019, included within other creditors, relating to pension contributions to the Scheme was £6 million (2018: £11 million). This related to the contributions for December 2019 which were paid in January 2020.

The Scheme exposes the Company to a number of risks, the most significant of which are:

<u>Asset volatility</u>

The liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets under perform this yield, this will create a deficit. The Scheme holds a significant proportion of growth assets (equities, diversified growth fund and global absolute return fund) 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.

<u>Changes in bond yields</u>

A decrease in corporate bond yields will increase the value placed on the Scheme's liabilities 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 benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation). However, a significant proportion of the inflation exposures are hedged, reducing the impact from rising inflation on the deficit.

Life expectancy

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

The amounts recognised in the balance sheet are as follows:

	2019 £000 000	2018 £000 000
Fair value of plan assets	**4,947**	4,365
Present value of funded obligations	**(4,938)**	(4,506)
	9	(141)
Present value of unfunded obligations	**(40)**	(38)
Net liability	**(31)**	(179)

Return on plan assets

	2019 £000 000	2018 £000 000
Interest income	**128**	122
Remeasurements	**323**	(209)
Total	**451**	(87)

Plan assets

	2019 £000 000			2018 £000 000		
	Quoted	**Unquoted**	**Total**	Quoted	Unquoted	Total
Equity instruments	765	164	**929**	620	138	758
Government bonds	2,311	-	**2,311**	2,039	-	2,039
Corporate bonds	285	-	**285**	102	-	102
Investment funds	1,403	15	**1,418**	1,462	(4)	1,458
Property	-	2	**2**	-	1	1
Cash and cash equivalents	-	2	**2**	-	7	7
Total	4,764	183	**4,947**	4,223	142	4,365

Movements in the net defined benefit liability:

	Defined benefit obligation		Fair value of plan assets		Net defined liability	
	2019 £000 000	2018 £000 000	**2019 £000 000**	2018 £000 000	**2019 £000 000**	2018 £000 000
Balance at 1 January	**(4,544)**	(5,049)	**4,365**	4,558	**(179)**	(491)
Current service cost	**(25)**	(44)	**-**	-	**(25)**	(44)
Past service cost	**(29)**	(28)	**-**	-	**(29)**	(28)
Exceptional credit to past service cost	**-**	168	**-**	-	**-**	168
Interest (cost)/income	**(129)**	(133)	**128**	122	**(1)**	(11)
Total (cost)/income recognised as an (expense)/income	**(183)**	(37)	**128**	122	**(55)**	85
Included in other comprehensive income						
Remeasurements gain/(loss):						
Actuarial gain/(loss) arising from						
- Changes in demographic assumptions	**5**	128	**-**	-	**5**	128
- Change in financial assumptions	**(477)**	148	**-**	-	**(477)**	148
- Experience adjustment	**(4)**	45	**-**	-	**(4)**	45
Return on plan assets excluding interest income	**-**	-	**323**	(209)	**323**	(209)
Total (loss)/gain	**(476)**	321	**323**	(209)	**(153)**	112
Other						
Contributions paid by the employer	**-**	-	**356**	115	**356**	115
Benefits paid	**225**	221	**(225)**	(221)	**-**	-
Balance at 31 December	**(4,978)**	(4,544)	**4,947**	4,365	**(31)**	(179)

Sensitivity analysis

The calculation of the defined benefit obligation is sensitive to the assumptions set out below. The following table summarises the impact on the defined benefit obligation at the end of the reporting period as a result of a change in the respective assumptions.

	2019 £000 000	2018 £000 000
Current reported figure	**31**	179
Following a 0.2% decrease in the discount rate	**200**	327
Following a 0.25% increase in the salary increase assumption	**44**	192
Following a 10% decrease in the mortality rates	**196**	325
Following a 0.25% increase in the pension increase assumption	**202**	315

The sensitivity information shown above has been prepared using the same method as adopted when adjusting the results of the latest funding valuation to the balance sheet date. This is the same approach as has been adopted in previous years.

The Scheme was valued using the following assumptions:

	2019	2018
Discount rate	**2.0%**	2.9%
Average nominal rate of annual increase in salaries	**1.8%**	2.0%
Average nominal rate of annual increase in pensions	**2.9%**	3.2%
RPI inflation rate	**3.0%**	3.4%
CPI inflation rate	**2.0%**	2.3%

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in the UK. These assumptions translate into an average life expectancy in years for a pensioner retiring at age 60:

	2019 Years	2018 Years
Longevity at age 60 for current pensioners		
- Men	**26**	26
- Women	**29**	29
Longevity at age 60 for future pensioners		
- Men	**27**	27
- Women	**30**	30

31. Share based payments

The directors and certain executives of the Company receive share-based payments as part of their voluntary long-term variable compensation. The purpose of such compensation is to reward their contribution to E.ON's growth and to further the long-term success of the E.ON group. This variable compensation component, comprising a long-term incentive effect along with a certain element of risk, provides for a sensible linking of the interests of shareholders and management.

The following reports on the E.ON Share Matching Plan introduced in 2013 and on the multi-year bonus granted in 2015 and 2016.

E.ON Share Matching Plan

From 2013 to 2016, E.ON granted virtual shares under the E.ON Share Matching Plan. At the end of its four-year term, each virtual share was entitled to a cash pay-out linked to the final E.ON share price established at that time. The calculation inputs for this long-term variable compensation package are equity deferral, base matching and performance matching.

In 2015 and 2016, virtual shares from the third and fourth tranche were granted in the context of base matching and performance matching exclusively to members of the Management Board of E.ON SE. Executives were instead granted a multi-year bonus, the terms of which are described further below.

As at 31 December 2019, no provision was made for the second tranche of the E.ON Share Matching Plan (2018: £nil).

Multi-Year Bonus

In 2015 and 2016, E.ON extended to those executives who in previous years had been granted virtual shares in the context of base matching and performance matching a multi-year bonus extending over a term of four years.

Beneficiaries were informed individually of the target value of the multi-year bonus.

For executives in the E.ON Group, the amount paid out is equal to the target value if the E.ON share price at the end of the term is equal to the E.ON share price after the spinoff of Uniper. If the share price is higher or lower than the share price after the spinoff, the amount paid out relative to the target value will increase or decrease in equal proportion to the change in the share price, but in no event shall the pay-out be higher than twice the target value.

A pay-out generally will not take place until after the end of the four-year term. This is true even if the beneficiary retires beforehand, or if the beneficiary's contract is terminated on operational grounds or expires during the term. A pay-out before the end of the term will take place in the event of a change of control or on the death of the beneficiary. If the service or employment relationship ends before the end of the term for reasons within the control of the beneficiary, there is no entitlement to a multi-year bonus pay-out.

The 60-day average prices are used to determine both the share price after the spinoff and the final price in order to mitigate the effects of incidental, short-lived price movements.

The plan contains adjustment mechanisms to eliminate the effect of events such as interim corporate actions.

The provision for the multi-year bonus as at the balance sheet date is £3 million (2018: £5 million).

E.ON Performance Plan ('EPP')

In 2017 and 2018, E.ON granted the members of the Management Board of E.ON SE and certain executives of the E.ON group virtual shares for the first time under the EPP. The vesting period of each tranche is four years. Vesting periods start on 1 January of each year.

The beneficiary will receive virtual shares in the amount of the agreed target. The conversion into virtual shares will be based on the fair market value on the date when the shares are granted. The fair market value will be determined by applying methods accepted in financial mathematics, taking into account the expected future pay-out and consequently the volatility and risk associated with the EPP. The number of virtual shares allocated may change during the four-year vesting period, depending on the total shareholder return ('TSR') of E.ON stock compared with the TSR of the companies in a peer group ('relative TSR').

The TSR is the return on E.ON stock, which takes into account the stock price plus the assumption of reinvested dividends, adjusted for changes in capital. The peer group used for relative TSR will be the other companies in E.ON's peer index, the STOXX Europe 600 Utilities.

During a tranche's vesting period, E.ON's TSR performance is measured once a year in comparison with the companies in the peer group and set for that year. E.ON's TSR performance in a given year determines the final number of one fourth of the virtual shares granted at the beginning of the vesting period. For this purpose, the TSRs of all companies are ranked, and E.ON's relative position is determined based on the percentile reached. If target attainment in a year is below the threshold defined by the Supervisory Board of E.ON SE upon allocation, the number of virtual shares is reduced by one fourth. If E.ON's performance is at the upper cap or above, the fourth of the virtual shares allocated for the year in question will increase, but to a maximum of 150 per cent. Linear interpolation is used to translate intermediate figures into percentage.

The resulting number of virtual shares at the end of the vesting period is multiplied by the average price of E.ON stock in the final 60 days of the vesting period. This amount is increased by the dividends distributed on E.ON stock during the vesting period and then paid out. The sum of the pay-out is capped at 200 percent of the agreed target.

The virtual shares are cancelled if the employment relationship of the beneficiary ends before the end of the term for reasons within the control of the beneficiary. This shall apply in particular in the event of termination by the beneficiary and in the extraordinary termination for good cause by the Company. If the employment relationship of the beneficiary is terminated before retirement, through the end of a limited term or for operational reasons before the end of the term, the virtual shares do not expire but are settled at maturity.

If the employment relationship ends before maturity due to death or permanent invalidity, the virtual shares are settled before maturity, whereby in this case the average TSR performance of the fiscal years that have already completely ended is used to calculate the payment amount. The same shall apply in the case of a change in control related to E.ON SE and also if the allocating company leaves the E.ON Group before maturity.

The following are the base parameters of the tranches of the EPP active in 2019:

	3rd Tranche	2nd Tranche	1st Tranche
Date of issuance	1 January 2019	1 January 2018	1 January, 2017
Term	4 years	4 years	4 years
Target value at issuance	€6.68	€6.41	€5.84

The provision for the three tranches of the EPP as of the balance sheet date is £1 million (2018: £1 million).

32. Contingent liabilities

The Company has issued guarantees to third parties to support its subsidiaries' activities, particularly around gas and power procurement and banking activities. The amount guaranteed is £966 million (2018: £905 million).

The Company is aware of claims in respect of current and former employees, including former employees of the CEGB, and contractors in respect of industrial illness and injury and other potential claims which involve or may involve legal proceedings against the Company. The directors are of the opinion, having regard to legal advice received, the Company's insurance arrangements and provisions held, as appropriate, that it is unlikely that the matters referred to above will have a material effect on the Company's financial position results of operations or liquidity.

In the normal course of business the Company gives certain other indemnities and guarantees which are not considered to be material in the context of these financial statements and on which no losses are anticipated to arise.

33. Commitments

Capital commitments

There were no amounts contracted for but not provided for in these financial statements (2018: £nil).

Lease commitments

As at 31 December, the Company had annual commitments under non-cancellable leases which expire as follows:

	2019 **£000 000**	2018 £000 000
Land and buildings		
Within one year	-	7
Within two and five years	-	26
Over five years	-	13
Other		
Within one year	-	12
Within two and five years	-	21
	-	79

Other commitments

The Company has committed to sell all power acquired through various agreements to EEM. As the volumes generated are not fixed this commitment cannot be quantified.

The Company is committed to purchasing ROCs and REGOs under various agreements. At 31 December 2019 the estimated commitment under these contracts was £183 million.

The Company has locked in short term fixed sales contracts with EEM, for the power generated as disclosed in note 25.

34. Post balance sheet events

At the end of the first half of 2020, the overall risk situation of the Company's operating business had deteriorated relative to year end 2019 owing to the COVID-19 pandemic. The Company was able to draw on previously prepared pandemic and crisis plans, which it implemented accordingly. This has made it possible to maintain key functions whilst operating within the restrictions put in place by the Government. Despite the impact of COVID-19, the directors believe that the Company can meet its obligations as they fall due for a period of at least twelve months from the date of approval of these financial statements.

This has been discussed further within the Strategic Report.

On 1 April 2020, the Company became the principal employer for the Retail Section of the Innogy Group of the Electricity Supply Pension Scheme, a defined benefit pension scheme, for which the Company received £89 million cash consideration.

On 2 June 2020, the Company acquired Npower Direct Limited, subsequently renamed E.ON Next Energy Limited, for £2 million.

35. Related party transactions

During the year the Company had no related party transactions.

During part of 2018 the Company had related party transactions with companies in the Uniper group by virtue of it then being 47% owned by E.ON SE, the ultimate controlling party of the Company. On 26 June, 2018 E.ON SE sold its remaining shares in the Uniper group and it ceased to be a related party. The following are the related party transactions up to 26 June 2018:

Uniper UK Limited ('UUK')

In 2018, the Company received £155,000 of income under a Country Management Agreement from UUK. The Company also received rental income of £93,000 relating to a site which transferred to Uniper.

Uniper Global Commodities SE

In 2018, the Company received income of £142,000 in relation to NTS Entry Capacity charges and £85,000 in relation to a recharge of the costs of an international expat assignee.

Uniper Technologies Limited

In 2018, Uniper Technologies Limited provided engineering services to the Company amounting to £127,000.

36. Acquisition of business

On 1 January 2019, the Company hived up the IT activities from its wholly owned subsidiary, E.ON IT UK Limited. The Company acquired certain assets and liabilities at book value for the cash consideration of £9,172,000.

The assets and liabilities recognised as a result of the acquisition are as follows:

	£000
Intangible IT systems assets	1,112
Tangible IT assets	52
Amounts owed by group undertakings	25,600
Deferred tax asset	4,816
Other debtors	144
Prepayments	2,739
Accruals	(4,514)
Other creditors	(5,319)
Restructuring and other provisions	(15,458)
Net asset acquired	**9,172**

37. Changes in accounting policies

(a) Transition to IFRS 16

The Company has adopted IFRS 16 Leases (which replaces IAS 17 Leases) retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and adjustments arising from the new leasing standard are therefore recognised in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed in note 1.

On adoption of IFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 2.85%.

For leases previously classified as finance leases, the Company recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date. This resulted in no measurement adjustments for residual value guarantees or for variable lease payments based on an index or rate. The remeasurements to the lease liabilities were recognised as adjustments to the related right of use assets immediately after the date of initial application.

On transition, right of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018.

(i) Practical expedients applied

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- excluding initial direct costs for the measurement of the right of use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Company has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Company relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

(ii) Reconciliation of lease liabilities

	2019 £000 000
Operating lease commitments disclosed as at 31 December 2018	79
Discounted using the incremental borrowing rate at the date of initial application	(3)
(Less): short term leases not recognised as a liability	(4)
Lease liability recognised as at 1 January 2019	72
Of which are:	
Lease liabilities falling due within one year	18
Lease liabilities greater than one year	54
	72

(iii) Adjustments recognised in the balance sheet on 1 January 2019

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- Tangible assets - decrease by £3 million
- Right of use assets - increase by £15 million
- Finance lease receivables - increase by £61 million
- Prepayments - decrease by £1 million
- Lease liabilities - increase by £72 million

There was no net impact on retained earnings and deferred tax on 1 January 2019.

(iv) Lessor accounting

The Company recognised additional finance lease receivables relating to subleases previously recognised as operating leases as a result of the adoption of IFRS 16.

38. Ultimate parent

The Company is controlled by E.ON UK Holding Company Limited. The ultimate controlling party is E.ON SE, which is the parent company of the largest and smallest group to consolidate these financial statements. Copies of E.ON SE's financial statements are available from the offices of E.ON SE at the following address:

E.ON SE
Brüsseler Platz 1
45131 Essen
Germany