

E.ON ENERGY SOLUTIONS LIMITED
STRATEGIC REPORT, DIRECTORS' REPORT AND FINANCIAL STATEMENTS
for the Year Ended 31 December 2019



Registered No: 03407430

E.ON ENERGY SOLUTIONS LIMITED
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 £5,841 million (2018: £6,072 million), a decrease of £231 million compared to the prior year, primarily due to challenging market conditions, including the introduction of the residential statutory price cap for standard variable tariff (SVT), higher market churn resulting in lower customer numbers and continued energy efficiency leading to lower average customer consumption.

The Company's other operating income during the year was £143 million (2018: £68 million), an increase of £75 million compared to the prior year. The increase primarily relates to income received in relation to a specific contract for the installation of meters on a customer's behalf.

The Company's operating loss for the year was £75 million compared to an operating loss of £9 million in the prior year primarily due to the introduction of the statutory price cap for SVT, high market churn, restructuring costs and higher impairments, partially offset by significant savings in the operating cost base following the implementation of zero-based budgeting ('ZBB').

During the year, the Company made a loss after tax of £73 million (2018: loss after tax of £7 million).

The directors believe that the continued challenging market conditions will continue to drive high churn levels in the coming year and put pressure on margin levels.

At 31 December 2019, the Company had net assets of £928 million (2018: net assets of £1,001 million). The reduction in net assets was primarily attributable to the impairments recognised during the year and operational losses.

The Company sells electricity and gas to the residential and business sector; the latter encompassing both Small and Medium Enterprises ('SME') and Industrial and Commercial ('I&C') customers throughout the United Kingdom. As of 31 December 2019, the Company supplied approximately 6,141,000 (2018: 6,577,000) customer accounts, of which 5,693,000 (2018: 6,077,000) were residential customer accounts and 448,000 (2018: 500,000) were SME and I&C accounts.

In addition to the sale of power and gas to consumers and businesses, the Company offers a wide range of innovative services to enhance its customers' energy efficiency, self-sufficiency and comfort, including solar panels, e-mobility propositions, lighting solutions, energy management and heating systems. The Company's strategy will remain focussed on developing new solutions and improving people's lives by ensuring each customer is offered a tailored sustainable energy solution that is right for them.

The Company continues to focus on its Net Promoter Score ('NPS') given by residential customers as a key measure of satisfaction. NPS stood at -18 (2018: -13) (in a scale of -100 to +100) at the year end. This reflects the competitive nature of the market with most larger suppliers experiencing a decline in score during the year.

In the industry as a whole, electricity consumption in England, Scotland and Wales during the year was 294 billion kWh compared to 301 billion kWh in the prior year, a decrease of 2%. Gas consumption (excluding power stations) was 507 billion kWh in 2019 compared with 511 billion kWh in 2018, a decrease of 1%.

2019 saw the introduction of the residential statutory price cap for SVT from 1 January 2019 which had a significant adverse impact on profit compared to 2018. Furthermore, market churn levels reached an all time high as significant price differentials across the market continued and the level of customer switches increased, leading to reorganisation and restructuring measures being undertaken to reduce the Company's cost base.

During 2019, reorganisation and restructuring costs of £65 million were incurred relating primarily to the Transformation UK project and the Quick Wins project, which are expected to be completed by 2022, compared to £23 million relating to the ZBB project in 2018.

In November 2018, the General Court of the European Court of Justice ruled that the European Commission's approval of the introduction of a capacity market in the UK was invalid. This ruling led to the capacity market being temporarily suspended whilst an investigation was performed by the European Commission. During the period of suspension, no capacity market payments were made to market participants holding contracts from previous auctions. However, the Company continued to provide for supplier related capacity market payments over the period in which they arose. In October 2019, the European Commission approved under the EU State Aid rules the UK's capacity market mechanism and it was reinstated with immediate effect. The Company subsequently settled amounts that were provided for during the period of suspension and continues to accrue capacity payments in the normal course of business.

E.ON ENERGY SOLUTIONS LIMITED
STRATEGIC REPORT
for the Year Ended 31 December 2019 (continued)

Residential customers

In the residential sector, the Company sold 12.1 TWh of electricity and 29.2 TWh of gas in 2019, compared with 13.6 TWh of electricity and 32.7 TWh of gas in 2018. The decrease in electricity consumption was driven by the lower number of customer accounts and continued reduction in average consumption volume per customer, which is influenced by continued customer energy efficiency measures. Gas consumption decreased, primarily reflecting the non-recurrence of the adverse weather conditions in the first quarter of 2018, together with lower customer numbers and the trend towards lower consumption.

SME and I&C customers

In the SME and I&C sectors, the Company sold 15.4 TWh of electricity and 11.6 TWh of gas in 2019, compared with 17.8 TWh of electricity and 11.4 TWh of gas in 2018. The decrease in electricity consumption is due to the factors outlined above for the residential sector but also additionally for I&C customers, from changes in the customer portfolio (including relative size and number of sites supplied). Gas consumption increased due to a small increase in the size of the gas portfolio.

Other energy services

Aside from energy supply, the Company is involved in the following activities:

- New Customer Solutions - delivering new, innovative energy solutions to residential and business customers.
- City Energy Solutions - designing, building and operating local, lower carbon energy centres; producing power, heat and hot water for residential and business customers.
- Smart Metering - the roll-out of the next generation of intelligent gas and electricity meters to customers.
- Obligation and Installation Services - designing and installing home energy efficiency and heating measures for customers as part of the government mandated Energy Company Obligation scheme, as well as for 'able to pay' customers.
- Infrastructure Services - offering end to end infrastructure solutions for housing developers, towns and cities.
- Field Operations - encompassing metering activity.

Future developments

In March 2020, the E.ON SE group announced a strategic partnership with Kraken Technologies involving the migration of certain of its UK residential and SME customers to a copy of Kraken's state of the art billing platform within the new E.ON Next business. The Kraken platform will provide a differential, superior customer experience enabled by technology with the customer at the heart of all acting and thinking. The migration of the E.ON SE group's Npower residential and SME customers onto the Kraken platform began in July 2020. Dependent on the execution of that migration, a decision will be made whether to also migrate the Company's residential and SME customers onto the Kraken platform.

Key performance indicators ('KPIs')

The Board of Management of E.ON SE manages the group's operations on a divisional basis. The development, performance and position of the Customer Solutions UK division of E.ON SE, which includes the Company, are discussed within the group's annual report which does not form part of this report.

The Company's non-financial KPIs during the year were as below. The financial KPIs are turnover and operating profit and are discussed at the start of the fair review of the business on page 1. The directors do not believe there are any further relevant financial KPIs that are not already disclosed within these financial statements.

E.ON ENERGY SOLUTIONS LIMITED
STRATEGIC REPORT
for the Year Ended 31 December 2019 (continued)

KPIs	2019	2018	Comment
Volumes of electricity sold (TWh)	27.5	31.4	Electricity sales decreased due to lower average consumption and customer numbers in 2019.
Volumes of gas sold (TWh)	40.8	44.1	Gas sales decreased due to the non re-occurrence of the adverse weather conditions in the first quarter of 2018, together with lower customer numbers.
Residential customer NPS (range of -100 to +100)	-18	-13	NPS has declined during 2019 and is also behind the benchmarked competitor basket average.
Customer account numbers (million)	6.14	6.58	Competitive pressures in the Residential market drove the reduction in accounts from the prior year.
Compliant SMART meters fitted (thousands)	863	782	The volume of SMART meter installations has increased from 2018 as the roll out phase has ramped up.

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 principal risks and uncertainties affecting the Company include both key business and financial related risks. These are considered to relate to:

Price risk

Aside from the usual competitive pressure on prices, there is a price risk that the Company faces from competitors' ability to amend their selling prices in response to movements in wholesale energy markets and the variability of costs in meeting other non-energy commitments such as supporting social and environmental programmes. This ability is a factor of their purchasing strategies and internal structures. The Company's responses are similarly enabled or constrained by the same factors. The Company uses long-term and short-term market based derivative financial instruments to buy its required supply of power and gas from E.ON UK Energy Markets Limited, a related undertaking. These instruments smooth fluctuations in the wholesale cost of power and gas. The Company also strives to meet its social and environmental targets in a timely and cost-effective manner.

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 United Kingdom legislation, the carrying out of certain electricity and gas activities are prohibited unless authorised by a licence or exemption. The majority of the Company's activities are authorised by licence and failure to comply with the requirements of such licences risks incurring fines. The Company ensures it has robust compliance measures in place.

Credit risk

This risk arises due to the impact of economic conditions on the ability of the Company's customers to pay for the energy they consume. There are a number of initiatives underway to mitigate this risk. These include credit vetting and systems investment to manage outstanding customer debts.

Weather risk

This risk arises due to the impact that weather has on the demand for energy and the impact on the Company's sales. The Company uses a demand management system and weather derivatives to manage this risk.

E.ON ENERGY SOLUTIONS LIMITED
STRATEGIC REPORT
for the Year Ended 31 December 2019 (continued)

Market risk

The markets within which the Company operates are subject to strong competition from new market entrants and existing participants. In connection with the ongoing economic uncertainty, the Company faces risks from declining demand, primarily from residential and SME customers who are reducing their energy use. The Company uses a comprehensive sales management system and intensive customer management techniques to minimise these risks.

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, remain in place and the arrangements for the future are being discussed and hopefully agreed prior to the end of the transitional period. A cross functional working group was established, 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.

COVID-19

The Company's top priorities during the COVID-19 pandemic are the safety of colleagues and customers and ensuring the 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 installation of meters and other customer solutions, have special equipment to minimise the risk of infection. In many parts of the business, the E.ON UK group 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.

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.

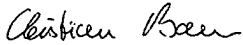
The Company is an indirect subsidiary of E.ON SE, a company listed on the Frankfurt Stock Exchange and which is head-quartered in Essen. The two main operating divisions of the E.ON SE group are Energy Networks and Customer Solutions.

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.

E.ON ENERGY SOLUTIONS LIMITED
STRATEGIC REPORT
for the Year Ended 31 December 2019 (continued)

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 engagement with its stakeholders and its conduct towards others.

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



C Barr
Director

E.ON Energy Solutions Limited
Company No: 03407430
Westwood Way
Westwood Business Park
Coventry
CV4 8LG

**E.ON ENERGY SOLUTIONS LIMITED
DIRECTORS' REPORT
for the Year Ended 31 December 2019**

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 who held office during the year and up to the date of signing these financial statements are given below:

C Barr
M R French
M D Lewis
C J Lovatt
S L Vaughan
A S Ainsworth (appointed 15 June 2020)

Principal activities

The Company's principal activities during the year and at the year end were the supply of electricity, the shipping and supply of natural gas and the provision of other energy related services to residential, SME and I&C customers.

Results and dividends

The Company's loss for the financial year is £73 million (2018: loss of £7 million). 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.

Financial risk management

Objectives and policies

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

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

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

E.ON SE's central financing strategy

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

The E.ON UK plc 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. This 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 UK treasury of future positions, both short and medium term. Information is submitted to E.ON SE for incorporation into the E.ON SE 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 underlying business requirement, such as committed purchases or forecast funding requirements. Treasury activities are reviewed by internal audit on a regular basis.

E.ON ENERGY SOLUTIONS LIMITED
DIRECTORS' REPORT
for the Year Ended 31 December 2019 (continued)

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

Price risk

Further discussion of price risk is included in the Strategic Report.

Credit risk management

Further discussion of credit risk is included in the Strategic Report.

Liquidity and cash flow risks

The Company has sufficient committed borrowing facilities to meet planned liquidity needs with headroom, through facilities provided by E.ON UK plc. 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.

Interest rate risk management

The Company operates within the E.ON SE 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.

Political donations

No political donations were made during the year (2018: £nil).

Employees

The Company has no employees but it is recharged by E.ON UK plc for the services of certain employees. The Company ensures that E.ON UK plc has employment policies which 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. The employment practices and procedures of E.ON UK plc are regularly reviewed to ensure that they provide equality of opportunity to all employees within the current legislative framework. The employment policies of E.ON UK plc are discussed in further detail in the financial statements of E.ON UK plc, which do not form part of this report.

Future developments

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

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. 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.

Statement of corporate governance arrangements

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

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.

E.ON ENERGY SOLUTIONS LIMITED
DIRECTORS' REPORT
for the Year Ended 31 December 2019 (continued)

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.

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 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 regulation.

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:

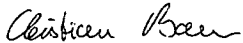
- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates 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.

E.ON ENERGY SOLUTIONS LIMITED
DIRECTORS' REPORT
for the Year Ended 31 December 2019 (continued)

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

The directors are also 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.

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



C Barr
Director

E.ON Energy Solutions Limited
Company No: 03407430
Westwood Way
Westwood Business Park
Coventry
CV4 8LG

Independent Auditors' Report to the Members of E.ON ENERGY SOLUTIONS LIMITED

Report on the audit of the financial statements

Opinion

In our opinion, E.ON Energy Solutions Limited'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 loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the 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, 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 where:

- 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 ENERGY SOLUTIONS LIMITED (continued)

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.

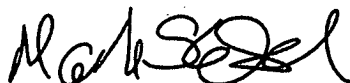
Other required reporting

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.



Mark Skedgel (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
11 September 2020

E.ON ENERGY SOLUTIONS LIMITED
PROFIT AND LOSS ACCOUNT
for the Year Ended 31 December 2019

	<i>Note</i>	2019 £000 000	2018 £000 000
Turnover	2	5,841	6,072
Cost of sales		(5,102)	(5,233)
Gross profit		739	839
<i>Administrative expenses excluding impairments</i>		(826)	(806)
<i>Net impairment losses on tangible assets</i>		(61)	(10)
<i>Net impairment losses on financial assets</i>		(70)	(100)
Administrative expenses		(957)	(916)
Other operating income		143	68
Operating loss	3	(75)	(9)
Interest receivable and similar income	7	3	2
Interest payable and similar expenses	8	(2)	-
Loss before taxation		(74)	(7)
Tax on loss	9	1	-
Loss for the financial year		(73)	(7)

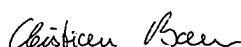
The Company has no other comprehensive income for the year, other than the results above and therefore no separate statement of comprehensive income has been presented.

The notes on pages 15 to 36 form part of these financial statements.

E.ON ENERGY SOLUTIONS LIMITED
BALANCE SHEET
as at 31 December 2019

	Note	2019 £000 000	2018 £000 000
Fixed assets			
Intangible assets	10	1,020	1,038
Tangible assets	11	283	246
Right of use assets	12	70	-
Investments	13	22	22
Other assets	14	61	39
		1,456	1,345
Current assets			
Stocks	15	35	38
Debtors: amounts falling due after more than one year	16	27	29
Debtors: amounts falling due within one year	17	928	1,187
Cash at bank and in hand		81	98
		1,071	1,352
Creditors: amounts falling due within one year	18	(995)	(1,049)
Net current assets		76	303
Total assets less current liabilities		1,532	1,648
Creditors: amounts falling due after more than one year	19	(44)	(4)
Provisions for liabilities	20	(560)	(643)
Net assets		928	1,001
Capital and reserves			
Called up share capital	21	763	763
Share premium account		41	41
Profit and loss account		124	197
Total equity		928	1,001

The financial statements on pages 12 to 36 were approved by the Board of Directors on 10 September 2020 and signed on its behalf by:



C Barr
Director
E.ON Energy Solutions Limited
Company No: 03407430

The notes on pages 15 to 36 form part of these financial statements.

E.ON ENERGY SOLUTIONS LIMITED
STATEMENT OF CHANGES IN EQUITY
for the Year Ended 31 December 2019

	Called up share capital £000 000	Share premium account £000 000	Profit and loss account £000 000	Total equity £000 000
At 1 January 2018	763	41	204	1,008
Loss for the financial year and total comprehensive expense	-	-	(7)	(7)
At 31 December 2018	763	41	197	1,001
Loss for the financial year and total comprehensive expense	-	-	(73)	(73)
At 31 December 2019	<u>763</u>	<u>41</u>	<u>124</u>	<u>928</u>

The notes on pages 15 to 36 form part of these financial statements.

**E.ON ENERGY SOLUTIONS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the Year Ended 31 December 2019**

1. Accounting policies

General information

The Company supplies electricity, ships and supplies natural gas and provides other energy related services to residential, SME and I&C customers in the UK.

The Company is a private 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.

Basis of preparation of financial statements

The Company has prepared these financial statements in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' ('FRS 101'). These financial statements have been prepared under the going concern basis, historical cost convention, as modified by the revaluation of derivative financial assets and financial liabilities measured at fair value, and in accordance with the Companies Act 2006 as applicable to companies using FRS 101. The principal accounting policies, which have been applied consistently throughout the year, are set out below.

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

- The requirements of paragraphs 10(d) (statement of cash flows), 16 (statement of compliance with all IFRS), 111 (cash flow statement information) and 134-136 (capital management disclosures) of IAS 1 Presentation of Financial Statements
- The comparative information requirements of paragraph 38 of IAS 1 Presentation of Financial Statements in respect of paragraph 79(a)(iv) of IAS 1, paragraph 73(e) of IAS 16 Property, Plant and Equipment, paragraph 118(e) of IAS 38 Intangible Assets (reconciliations between the carrying amount at the beginning and the end of the year) and paragraph 134(d-f) of IAS 36 Impairment of Assets.
- 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 18A of IAS 24 Related party disclosures to disclose related party transactions entered into between two or more wholly owned members of a group
- The requirements of IFRS 7 Financial Instruments: Disclosures
- 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 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 24. 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.

E.ON ENERGY SOLUTIONS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
for the Year Ended 31 December 2019

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 entity and not about its group.

Going concern

These financial statements have been prepared on the going concern basis. The directors of the Company believe that there are no material uncertainties that may cast significant doubt about the ability of the Company to continue as a going concern. The directors of the Company also believe that the Company has adequate resources to continue in operational existence for the foreseeable future, being a period of at least twelve months from the date of approval of these financial statements.

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 these financial statements, and the reported amounts of revenues 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 these financial statements.

Judgements

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

Determination of lease term

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.

Incremental borrowing rate

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.

Estimates

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:

Taxation

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It estimates provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. The current year value is disclosed within note 9.

Valuation of goodwill

Positive goodwill is capitalised and classified as an asset on the balance sheet. It is reviewed annually for impairment (on a value in use basis). Goodwill is impaired if events or changes in circumstances indicate that the carrying value may not be recoverable.

The principal assumptions underlying the determination by management of recoverable amount are the respective forecasts for commodity market prices, future electricity and gas prices in the wholesale and retail markets, E.ON's investment activity, changes in the regulatory framework, as well as for rates of growth and the cost of capital. These assumptions are based on external market data from established providers and on internal estimates.

E.ON ENERGY SOLUTIONS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
for the Year Ended 31 December 2019

Valuations are based on the medium-term corporate planning approved by both the directors and the E.ON SE Management Board. The calculations for impairment-testing purposes are generally based on the three planning years of the medium-term plan plus two additional detailed planning years. In certain justified exceptional cases, a longer detailed planning period is used as the calculation basis. The cash flow assumptions extending beyond the detailed planning period are determined using growth rates that generally correspond to the growth rates in each of the currency areas where the cash-generating units are tested. In 2019, the growth rate used for the GBP and EUR areas was 0.5 percent (2018: 1.25 percent). The interest rate used for discounting cash flows in the annual impairment test was calculated using market data and for 2019 was 5.9 percent after taxes (2018: 7.6 percent after taxes).

The carrying value of goodwill is disclosed within note 10.

Revenue recognition - unread gas and electricity meters

Revenue for energy supply activities includes an assessment of energy supplied to customers between the date of the last meter reading and the year end. Unread gas and electricity are estimated using historical consumption patterns taking into account the industry reconciliation process for total gas and total electricity usage by supplier. Unbilled amounts are included in trade receivables within note 17. The industry reconciliation process is required as differences arise between the estimated quantity of gas and electricity the Company deems to have supplied and billed customers, and the estimated quantity the industry system operator deems the individual suppliers, including the Company, to have supplied to customers.

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 the lease assets and liabilities are disclosed within notes 12, 18 and 19 respectively.

Impairment of trade receivables

The Company applies the IFRS 9 simplified approach to measuring expected credit losses for trade receivables, 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 is disclosed within note 17.

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. Value in use represents the present value of expected future cash flows, discounted using a post-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.

Impairments are recognised in the profit and loss account and, where material, are disclosed separately.

Turnover

Turnover comprises revenue from the sale of electricity, gas and energy services to residential, SME and I&C customers. Turnover excludes value added tax.

Revenues are generally recognised when the Company fulfils its performance obligation by transferring a promised good or service to a customer. An asset is deemed to be transferred when the customer obtains control of the asset. The vast majority of the Company's performance obligations are fulfilled over time for the sale of electricity and gas, the provision of metering services and the construction, operation and maintenance of contracts for city energy solutions. The relatively subordinate point-in-time revenue recognition occurs primarily where the Company builds and sells energy related solutions. Revenue is recognised when control is transferred to the customer, which means that no significant discretionary decisions are required.

E.ON ENERGY SOLUTIONS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
for the Year Ended 31 December 2019

For all such revenues, progress is measured using output-based methods. The methods used appropriately reflect the pattern of transfer of goods to customers or provision of services for customers. Revenues from the sale of goods and services are measured using the transaction prices allocated to these goods and services. They reflect the value of the volume supplied, including an estimated value of the volume supplied to customers between the date of the last invoice or meter reading and the end of the period. Both billed and unbilled amounts receivable are included within trade debtors as the point at which the contract asset becomes an accounts receivable can be earlier than the point an invoice is issued, when the Company's right to consideration is unconditional.

Monthly advance payments for Residential customer customers are generally determined on the basis of historical consumption data. In SME and I&C, a bottom-up approach is used to calculate individual rates. The Company's sales transactions generally are not based on any material finance components. The average target payment period is between 14 and 30 days. Refunds to customers are an exception and are only granted if the customer is disconnected from the power supply for an extended period of time. Similarly, as a rule, no warranties are granted in relation to the supply of electricity and gas. Warranties are only granted for certain other energy related services.

Other operating income

Other operating income primarily relates to income received in relation to a specific contract for the installation of meters on a customer's behalf. This has been recognised over time as the meters have been installed.

The balance also includes ancillary customer charges in relation to billing services activities. These are recognised over time as these services are provided. All other remaining operating income is recognised as services are provided or at the point at which control has been transferred to another party.

Fixed asset investments

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

Intangible fixed assets

Positive goodwill is capitalised and classified as an asset on the balance sheet. It is reviewed annually for impairment (on a value in use basis).

The value of Renewables Obligation Certificates ('ROCs') purchased from other group companies and third parties is capitalised at their acquisition cost and classified as an asset on the balance sheet. The consumption of ROCs is recognised at average cost when settled to national authorities on an annual basis.

Other intangibles relate primarily to capitalised contract costs and acquired customer lists. Other intangibles are stated at cost less accumulated amortisation and impairment losses. They are amortised on a straight line basis over their useful economic lives.

Software costs are stated at cost less accumulated amortisation and impairment losses. They are amortised on a straight-line basis over their useful economic lives.

Intangible assets in the course of construction are included in intangible fixed 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. No amortisation is provided on intangible assets in the course of construction.

Amortisation

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

ROCs are surrendered to national authorities on an annual basis and are not amortised. No amortisation is provided on goodwill.

Asset class

Other intangibles
Software

Amortisation method and rate

Straight-line basis over 15 to 40 years
Straight-line basis over 3 to 5 years

E.ON ENERGY SOLUTIONS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
for the Year Ended 31 December 2019

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. Plant and machinery relate primarily to microgeneration assets.

Depreciation is provided on tangible fixed assets so as to write off the cost or valuation, less any estimated residual value, over their expected usefully economic lives as follows:

Asset class	Depreciation method and rate
Plant and machinery	Straight line basis over 15 to 76 years
Fixtures and fittings	Straight line basis over 3 to 10 years
Meter equipment*	Straight line basis over 4 to 15 years

*Meter equipment includes installation costs

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

Other assets

Other assets relate to Third Party Intermediaries ('TPI') commissions representing the cost of non-residential customer acquisition. These are stated initially at cost and subsequently amortised on a straight line basis over the length of the respective customer contract, which can be between 1 to 4 years.

Stocks

Stocks are 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.

Accrued income

Income recognised in advance of billing, excluding electricity and gas related income, is debited to an accrued income account and recognised in the profit and loss account in the period to which it relates.

Financial instruments

Amortised cost assets (including trade receivables and amounts owed by group undertakings) are primarily financial assets with fixed or determinable payments that are not traded in an active market and are reported on the balance sheet under "Debtors: amounts falling due within one year." Initial measurement takes place at fair value plus transaction costs. They are subsequently measured at amortised cost, using the effective interest method. Valuation allowances are provided for identifiable individual risks in addition to the expected credit losses calculated when known.

Financial liabilities (including trade payables and amounts owed to group undertakings) are measured at amortised cost, using the effective interest method. Initial measurement takes place at fair value net of transaction costs incurred. In subsequent periods, the amortisation and accretion of any premium or discount is included in finance costs/income.

Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

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.

E.ON ENERGY SOLUTIONS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
for the Year Ended 31 December 2019

Impairment of financial assets

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

- trade receivables from the sale of electricity, gas and energy related services; 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 SE 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 17.

Foreign currency

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

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. All exchange differences are included in the profit and loss account.

The Company uses a range of derivative instruments, including foreign exchange contracts. Derivative instruments are used for hedging purposes to manage risk.

Derivative instruments accounted for as FVTPL 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. Own use forward contracts are accounted for on an accruals basis.

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.

See the directors' report and notes 16, 17 and 18 for further details of the fair values of the financial instruments.

E.ON ENERGY SOLUTIONS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
for the Year Ended 31 December 2019

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 in the balance sheet as a provision is the best estimate of the expenditure required to settle a 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 risk 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.

Purchased ROCs are recognised as intangible assets. They are capitalised at their acquisition cost when purchased from other group companies or third parties. The consumption of ROCs is recognised at average cost when settled to national authorities on an annual basis. The estimated value of certificates payable to national authorities for the Company's activities during the year is recognised within other provisions. The intangible asset is surrendered and the liability is utilised at the end of the compliance period to reflect the consumption of the economic benefit. The expenses incurred for the provision of ROCs are recognised on an accruals basis and are reported under cost of goods sold.

A provision for TPI commission costs is recognised when the non-residential customer has signed a contract with the Company. This provision is utilised as payments are made to the TPIs. A corresponding other asset is also recognised and amortised over the average customer contract life.

Current and deferred income tax

The tax credit for the year comprises current tax 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 equity. In this case, the tax is recognised in other comprehensive income or directly in equity, respectively.

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. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; or arise from 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 profit 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 tax 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.

E.ON ENERGY SOLUTIONS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
for the Year Ended 31 December 2019

Pensions

The Company has no employees but is recharged by E.ON UK plc for the services of certain of its employees. E.ON UK plc contributes to both defined contribution and defined benefit pension schemes maintained by E.ON UK plc on behalf of its employees. The recharges to the Company from E.ON UK plc for services from certain of its employees include the current pension service cost but no recharges are made for any pension deficit repair payments. It is not possible to identify the share of the underlying assets and liabilities of the E.ON UK plc group defined benefit pension scheme that relate to existing and previous employees recharged to the Company and, therefore, the Company accounts for its contributions to the scheme on a defined contribution basis. Further details of these schemes are available in E.ON UK plc's financial statements.

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 attributes specific to the lease (e.g. term, country, currency and security).

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.

E.ON ENERGY SOLUTIONS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
for the Year Ended 31 December 2019

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. The Company pays charges and maintenance fees in relation to its leased vehicles which are on an ad hoc basis.

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.

2. Turnover

Turnover, which excludes value added tax, primarily represents the value of electricity and gas supplied to residential, SME and I&C customers. The Company's turnover, all of which arises in the course of the Company's principal activity, arises in the UK.

Revenue recognised in the year of £9 million (2018: £6 million) relates to performance obligations satisfied in prior periods.

3. Operating loss

Operating loss is stated after charging/(crediting):

	2019 £000 000	2018 £000 000
Operating lease	-	13
Expenses relating to leases of low-value assets and short term leases	3	-
Depreciation of owned assets (note 11)	27	38
Depreciation of right of use assets (note 12)	14	-
Foreign currency gains	(1)	(3)
Derivative gains	(4)	-
Impairment of financial assets (note 17)	70	100
Loss on sale of intangible fixed assets	1	1
Impairment of tangible fixed assets (note 11)	2	8
Amortisation of intangible assets (note 10)	33	25
Impairment of intangible fixed assets (note 10)	59	2
Inventory recognised as an expense	1	-

Other operating income relates mainly to ancillary income from third party meter installations, prepayment infrastructure usage and other sundry income. The increase in other operating income compared to the prior year primarily relates to increased third party meter installations.

The impairment of financial assets includes £88 million (2018 £80 million) in relation to write-offs and recoveries, an impairment reversal in relation to expected credit losses on trade receivables of £17 million (2018: charge of £18 million) and an impairment reversal in relation to expected credit losses on amounts owed to group undertakings of £1 million (2018: charge of £2 million).

In 2019, the operating loss included costs of £65 million relating to the Transformation UK project and the Quick Wins project (2018: £23 million relating to the ZBB project).

E.ON ENERGY SOLUTIONS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
for the Year Ended 31 December 2019

4. Auditors' remuneration

Auditors' remuneration of £391,000 (2018: £454,000) was borne by E.ON UK plc, the immediate parent undertaking, and not recharged.

Of this amount, £251,000 (2018: £257,000) relates to the audit of these financial statements. The remaining £140,000 (2018: £197,000) relates to other audit assurance services.

5. Employee information

The Company had no employees during the year (2018: none). The monthly average number of persons recharged by E.ON UK plc for the services of employees (including directors) during the year was as follows:

	2019 Number	2018 Number
Sales, marketing and distribution	7,326	7,709

The aggregate payroll costs recharged were as follows:

	2019 £000 000	2018 £000 000
Wages and salaries	212	231
Social security costs	20	22
Other pension costs	40	42
	272	295
Less: capitalised in fixed assets	(22)	(39)
Restructuring costs	26	23
	276	279

6. Directors' remuneration

The directors' remuneration for the year was as follows:

	2019 £	2018 £
Aggregate emoluments (including benefits in kind)	2,889,452	3,574,615

The above amounts relate to five (2018: seven) directors whose emoluments were paid by the immediate parent, E.ON UK plc. Of the emoluments disclosed above, £2,889,452 (2018: £3,574,615) was recharged to the Company based on the proportion of time that the directors spent on the 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 schemes	5	7
Accruing benefits under a defined contribution pension scheme	4	4
Accruing benefits under a defined benefit pension scheme	1	3

E.ON ENERGY SOLUTIONS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
for the Year Ended 31 December 2019

During the year, four directors (2018: five) exercised Performance Rights over shares in the ultimate parent company, E.ON SE, that they were awarded for services to the E.ON SE group under Long Term Incentive ('LTI') schemes. Total payments under the LTI arrangements were £517,481 (2018: £688,134).

During the year the Company paid, or treated as paid, contributions to a pension scheme in respect of money purchase benefits in respect of the above directors totalling £15,833 (2018: £6,667).

In respect of the highest paid director:

	2019 £	2018 £
Aggregate emoluments (including benefits in kind)	<u>924,738</u>	<u>1,126,960</u>

The above amounts relate to amounts recharged to the Company by other E.ON group companies that employ the director. Of the emoluments disclosed above, £924,738 (2018: £1,126,960) was recharged to the Company based on the proportion of time that the highest paid director spent on the Company's business.

During both years, the highest paid director accrued benefits under defined benefit pension schemes with the E.ON group company that employed them, which was not the Company.

7. Interest receivable and similar income

	2019 £000 000	2018 £000 000
Interest receivable from group undertakings	<u>3</u>	<u>2</u>

8. Interest payable and similar expenses

	2019 £000 000	2018 £000 000
Interest - lease liabilities	<u>2</u>	<u>-</u>

E.ON ENERGY SOLUTIONS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
for the Year Ended 31 December 2019

9. Tax on loss

	2019 £000 000	2018 £000 000
Current tax:		
UK corporation tax credit	-	(10)
Adjustment in respect of prior years	2	(2)
Total current tax charge/(credit)	2	(12)
Deferred tax:		
Origination and reversal of timing differences	(13)	8
Deferred tax asset not recognised on timing differences	10	-
Adjustment in respect of prior years	-	1
Movement due to changes in tax rates	-	3
Total deferred tax (credit)/charge	(3)	12
Tax credit on loss	(1)	-

Factors affecting current tax charge for the year

The tax credit for the year is lower (2018: lower) than 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 £000 000	2018 £000 000
Loss before taxation	(74)	(7)
Tax credit on loss before taxation at 19% (2018: 19%)	(14)	(1)
<i>Effects of:</i>		
Impact of rate change between corporation tax and deferred tax	1	2
Deferred tax asset not recognised on timing differences	10	-
Adjustments in respect of prior years - deferred tax	-	1
Adjustment in respect of prior years - current tax	2	(2)
Tax credit for the year	(1)	-

The tax rate for 2019 is the same as the prior year.

Changes to the UK corporation tax rates were substantively enacted as part 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.

The Company had trading losses carried forward of £149 million (2018: £nil). Of these losses, a deferred tax asset has not been recognised on £57 million which are available to be carried forward indefinitely.

E.ON ENERGY SOLUTIONS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
for the Year Ended 31 December 2019

10. Intangible assets

	Goodwill £000 000	ROCs £000 000	Software £000 000	Other intangibles £000 000	Total £000 000
Cost					
At 1 January 2019	584	298	198	26	1,106
Additions	-	606	81	4	691
Disposals	-	-	-	(1)	(1)
Surrenders	-	(616)	-	-	(616)
At 31 December 2019	584	288	279	29	1,180
Accumulated amortisation					
At 1 January 2019	-	-	64	4	68
Charge for the year	-	-	32	1	33
Impairments	-	-	59	-	59
At 31 December 2019	-	-	155	5	160
Net book value					
At 31 December 2019	584	288	124	24	1,020
At 31 December 2018	584	298	134	22	1,038

Goodwill arose from the acquisitions of an energy supply company and the retail energy businesses of certain subsidiary companies.

Surrenders relate to ROCs settled to national authorities on an annual basis. Disposals are made up of contract set-up costs associated with contracts which are not proceeding.

Software impairment of £59 million (2018: £1 million) relates to a software project that will no longer be taken forward by the Company following a review and which has been impaired to £nil as no value is expected to be recovered from the project.

Software includes the net book value of assets in the course of construction of £36 million (2018: £59 million).

Other intangibles include the net book value of assets in the course of construction of £7 million (2018: £7 million).

E.ON ENERGY SOLUTIONS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
for the Year Ended 31 December 2019

11. Tangible assets

	Plant and machinery £000 000	Fixtures and fittings £000 000	Meter equipment £000 000	Total £000 000
Cost or valuation				
At 1 January 2019	84	1	478	563
Additions	11	-	55	66
At 31 December 2019	95	1	533	629
Accumulated depreciation				
At 1 January 2019	66	-	251	317
Charge for the year	1	-	26	27
Impairments	-	-	2	2
At 31 December 2019	67	-	279	346
Net book value				
At 31 December 2019	28	1	254	283
At 31 December 2018	18	1	227	246

As a result of the annual review of fixed assets, no impairment charge (2018: £5 million) based on a value-in-use calculation has been recognised for plant and machinery associated with district heating sites.

A £2 million impairment for meter equipment, including analogue meters has been recorded in relation to the smart metering rollout. The meters are impaired as they are removed and replaced with smart meters (2018: £3 million).

Plant and machinery does not consist of any assets in the course of construction (2018: £nil).

E.ON ENERGY SOLUTIONS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
for the Year Ended 31 December 2019

12. Right of use assets

	Land and buildings £000 000	Vehicles £000 000	Total £000 000
Cost or valuation			
At 1 January 2019 (see note 24)	52	24	76
Additions	11	5	16
Disposals	(7)	(2)	(9)
At 31 December 2019	56	27	83
Accumulated depreciation			
At 1 January 2019 (see note 24)	-	-	-
Charge for the year	7	7	14
Disposals	(1)	-	(1)
At 31 December 2019	6	7	13
Net book value			
At 31 December 2019	<u>50</u>	<u>20</u>	<u>70</u>
At 31 December 2018	<u>-</u>	<u>-</u>	<u>-</u>

There were no expenses during the year relating to short term leases (2018: £nil) or relating to leases of low-value assets (2018: £nil).

The expense during the year relating to variable lease payments not included in lease payments was £2 million (2018: £nil).

The total cash outflow for leases in 2019 was £9 million (2018: £nil).

13. Investments

	2019 £000 000	2018 £000 000
Shares in group undertakings and participating interests	<u>22</u>	<u>22</u>

E.ON ENERGY SOLUTIONS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
for the Year Ended 31 December 2019

Shares in group undertakings and participating interests

	Subsidiary undertakings £000 000
Cost or valuation	
At 1 January 2019	33
At 31 December 2019	33
Provision for impairment	
At 1 January 2019	11
At 31 December 2019	11
Net book value	
At 31 December 2019	<u>22</u>
At 31 December 2018	<u>22</u>

The directors believe that the carrying value of the investments is supported by their recoverable amount.

Details of undertakings

Details of the investments which the Company directly holds are as follows:

Undertaking	Holding	Proportion of voting rights and shares held	Principal Activity
Subsidiary undertakings			
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 Industrial Shipping Limited	Ordinary shares	100%	Dormant
Economy Power Limited	Ordinary shares	100%	Dormant
Energy Collection Services Limited	Ordinary shares	100%	Dormant
Utility Debt Services Limited	Ordinary 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.

14. Other assets

The Company has recognised an asset in relation to costs to fulfil customer contracts, of which the balance was as follows:

	2019 £000 000	2018 £000 000
Assets recognised from costs incurred to fulfil a contract at 31 December	<u>61</u>	<u>39</u>

Other assets are stated after amortisation charges of £40 million (2018: £35 million).

E.ON ENERGY SOLUTIONS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
for the Year Ended 31 December 2019

15. Stocks

	2019 £000 000	2018 £000 000
Stores	31	35
Work in progress	4	3
	<u>35</u>	<u>38</u>

Stocks are stated after provisions for impairment of £1 million (2018: £nil).

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

	2019 £000 000	2018 £000 000
Prepayments and accrued income (note 24)	-	15
Deferred tax (note 17)	27	14
	<u>27</u>	<u>29</u>

17. Debtors: amounts falling due within one year

	2019 £000 000	2018 £000 000
Trade receivables	623	547
Amounts owed by group undertakings	235	552
Commodity and other derivative financial instruments	1	1
Deferred tax	2	12
Other debtors	14	10
Prepayments and accrued income	53	65
	<u>928</u>	<u>1,187</u>

Amounts owed by group undertakings include a £206 million floating rate deposit to E.ON UK plc (2018: £525 million), which is unsecured, repayable on demand and incurs interest at LIBOR minus 5 basis points. The remaining amounts owed by group undertakings relate to the funding of subsidiary companies and utilisation of liquid funds by the Company's parent, E.ON UK plc, and are unsecured, interest free and repayable on demand.

Derivative financial instruments consist of foreign currency swaps that have been entered into with E.ON SE to mitigate the impact of foreign exchange on the Company.

Prepayments and accrued income include £14 million (2018: £19 million) of accrued income.

Trade receivables and amounts owed by group undertakings are stated after loss allowances of £191 million and £1 million respectively (2018: £208 million and £2 million).

E.ON ENERGY SOLUTIONS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
for the Year Ended 31 December 2019

Analysis of deferred tax

	2019 £000 000	2018 £000 000
Accelerated capital allowances	18	19
Intangible fixed assets	(10)	(1)
Other timing differences	6	8
Tax losses	15	-
	<u>29</u>	<u>26</u>

The opening and closing deferred tax positions can be reconciled as follows:

	2019 £000 000
Deferred tax asset at 1 January 2019	26
Deferred tax credited to the profit and loss account	3
Deferred tax credit to reserves (note 24)	-
At 31 December 2019	<u><u>29</u></u>

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 by the balance sheet date, would be to increase the tax credit for the period by £3 million and to increase the deferred tax asset by £3 million.

18. Creditors: amounts falling due within one year

	2019 £000 000	2018 £000 000
Trade payables	202	206
Amounts owed to group undertakings	592	646
Other taxation and social security	75	62
Accruals and deferred income	101	128
Commodity and other derivative financial instruments	1	4
Lease liabilities	14	-
Other creditors	10	3
	<u>995</u>	<u>1,049</u>

Amounts owed to group undertakings relate to the provision of services, primarily energy purchases, and are unsecured, interest free and repayable on demand.

Commodity and other derivative financial instruments primarily include contracts that have been entered into to mitigate the impact of the weather on the Company and certain other derivatives.

Accruals and deferred income includes £4 million (2018: £3 million) of deferred income.

Revenue recognised in the year of £3 million (2018: £5 million) was included in the deferred income balance at the beginning of the year.

E.ON ENERGY SOLUTIONS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
for the Year Ended 31 December 2019

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

	2019 £000 000	2018 £000 000
Accruals and deferred income	3	4
Lease liabilities	41	-
	<u>44</u>	<u>4</u>

20. Provisions for liabilities

	Capacity market payments £000 000	ROCs £000 000	TPI commissions £000 000	Other provisions £000 000	Total £000 000
At 1 January 2019	59	468	37	79	643
Charged to the profit and loss account	47	584	62	10	703
Utilised during the year	(106)	(616)	(49)	(15)	(786)
At 31 December 2019	<u>-</u>	<u>436</u>	<u>50</u>	<u>74</u>	<u>560</u>

Capacity market payments represented the estimated value payable once the capacity market was reinstated. During the year, the capacity market was reinstated and amounts owed were subsequently settled. Amounts owed in respect of capacity market payments incurred following reinstatement are reported within trade payables and settled on a regular basis.

ROCs represent the estimated value of certificates payable to national authorities for the Company's activities during the year and are settled on an annual basis.

TPI commissions represent the cost of non-residential customer acquisitions payable to third parties and which are expected to be settled over a period of 1 to 4 years.

Other provisions relate primarily to amounts payable for onerous contracts, ROCs mutualisation costs, restructuring severance costs and supplier of last resort costs. These obligations are expected to be settled over a period of 2 to 17 years.

21. Called up share capital

	2019 £000 000	2018 £000 000
Allotted, called-up and fully paid		
760,000,000 (2018: 760,000,000) ordinary shares of £1.00 each	760	760
31,625,436 (2018: 31,625,436) ordinary shares of £0.10 each	3	3
	<u>763</u>	<u>763</u>

E.ON ENERGY SOLUTIONS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
for the Year Ended 31 December 2019

22. Commitments

Other Commitments

The Company is committed to purchase power and gas under various supply contracts put in place to meet customer demand. At 31 December 2019, the minimum commitment under these contracts was £1,985 million (2018: £1,877 million).

23. 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.

24. Changes in accounting policies

Transition to IFRS 16

The Company has adopted IFRS 16 Leases (which replaced 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. 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.

E.ON ENERGY SOLUTIONS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
for the Year Ended 31 December 2019

(ii) Reconciliation of lease liabilities

	2019 £000 000
Operating lease commitments disclosed as at 31 December 2018	-
Add: finance lease liabilities recognised as at 31 December 2018	76
(Less): payments already made	(15)
Lease liability recognised as at 1 January 2019	61
Of which are:	
Lease liabilities falling due within one year	16
Lease liabilities greater than one year	45
	61

(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:

- Right of use assets - increase by £76 million
- Prepayments - decrease by £15 million
- Lease liabilities - increase by £61 million

The net impact on retained earnings on 1 January 2019 was £nil.

25. Related party transactions

During the year, the Company had related party transactions with companies in the Innogy group, by virtue of E.ON SE, the ultimate controlling party of the Company, having significant influence of the Innogy Group up to 17 September 2019 and control thereafter following the acquisition of a 76.8% controlling stake on 18 September 2019. At the year end E.ON SE held a 90% controlling interest in the Innogy group.

The following are the related party transaction during the year and associated closing balances.

Npower Limited

During part of the year, the Company had income of £2,387,000 and costs of £3,000 relating to the supply of metering services. The balance outstanding at the year end was a receivable of £822,000.

Npower Northern Limited

During part of the year, the Company had income of £414,000 relating to the supply of metering services. The balance outstanding at the year end was a receivable of £395,000.

Npower Gas Limited

During part of the year, the Company had income of £48,000 relating to the supply of metering services. The balance outstanding at the year end was a receivable of £50,000.

Npower Direct Limited

During part of the year, the Company had income of £5,000 relating to the supply of metering services. The balance outstanding at the year end was a receivable of £7,000.

Npower Yorkshire Limited

During part of the year, the Company had costs of £45,000 relating to the supply of metering services. The balance outstanding at the year end was a liability of £5,000.

E.ON ENERGY SOLUTIONS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
for the Year Ended 31 December 2019

During part of the prior year the Company had related party transactions with companies in the Uniper group, by virtue of it being 47% then 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 Global Commodities SE

During the prior year, the Company had costs of £9 million relating to the supply of power and gas under a transfer pricing mechanism and weather derivative.

Uniper Technologies Limited

During the prior year, Uniper Technologies Limited provided training services to the Company amounting to £748,000.

26. Ultimate holding company

The immediate parent undertaking is E.ON UK plc. The ultimate parent undertaking and controlling party is E.ON SE, a company incorporated in Germany, 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