

Registration number: 09850654

PS Energy UK Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2019

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PS Energy UK Limited
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PS Energy UK Limited

Strategic Report for the year ended 31 December 2019

The directors present their Strategic Report on PS Energy UK Limited ("the Company") for the year ended 31 December 2019.

Business review and future developments

In 2019, PS Energy UK Ltd has continued to trade in the UK domestic energy market, under the trading name of "Powershop", offering electricity and gas to consumers under five distinct brands in total, of which four are ongoing from the previous year.

The Company is part of the npower Retail Group. The npower Retail Group consists of 6 main trading entities and 4 other entities including PS Energy UK Limited. The main trading entities are Npower Limited, Npower Northern Limited, Npower Yorkshire Limited, Npower Gas Limited, Npower Commercial Gas Limited and Npower Direct Limited.

The eponymous Powershop brand includes the Powershop Pro (Shopper) product experience which continues to offer customers an innovative ability to purchase their energy requirements via discounted 'Power Packs' and so to take active control of their energy purchases whilst promoting enhanced customer engagement.

In April 2019, the business successfully launched a new contractual arrangement for an affinity 'white label' deal with Sainsbury's Energy, in which PSEUK effectively replaces Sainsbury's previous energy partner, British Gas. Leveraging Sainsbury's high profile branding, customers are offered a highly digitalised, renewable energy product which is further enhanced by access to Nectar reward points.

Sainsbury's confidence to select PSEUK (Powershop Energy UK) as their affinity partner is attributable to the proven white label technology platform, which was developed by PSEUK initially to support affinity deals with Wasps RFC and Wigan RLFC. Both of these deals concluded in respect of new customer take-on in Q3 2019, but their respective bespoke branded tariffs continue for the existing customer base during their respective product's term.

During the year, the business has continued to invest in the Powershop IT system with further development spend to enable the implementation and operation of Smart metering and additional enhancements to both customers and our agents' digital journey and experience.

In spite of extremely competitive conditions in the market throughout 2019, Powershop achieved year on year growth of 140% in both turnover and its total customer meter base, whilst the business consistently achieved low levels of customer churn relative to the market and high levels of customer satisfaction. This latter measure was externally validated by the Which? annual UK energy satisfaction survey, conducted in September 2019, in which Powershop was accredited a joint top 5 position out of 35 Great Britain suppliers.

Customer portfolio growth has been supported by only a 40% growth in total year end headcount and the business has set itself ambitious medium-term targets for further improvements in operational staff efficiencies, process enhancement and technological automation.

During 2020 it was announced the customers of the Company will be sold and migrated to E.ON Next Energy Limited in 2021. As trading in the existing business will cease the future of the Company beyond the planned migration in 2021 is expected to be an orderly wind down with parental company support.

PS Energy UK Limited

Strategic Report for the year ended 31 December 2019 (continued)

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 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.

During 2019 the Company was a wholly owned subsidiary of innogy SE, a company, which throughout 2019 was listed on the Frankfurt stock exchange and strongly committed to responsible corporate governance in line with the recommendations of the German Corporate Governance Code, detailed in the Corporate Governance Report for innogy, available through investor relations section of the innogy website and referenced on page 7 of the innogy 2019 annual report (<https://iam.innogy.com/en/about-innogy/investor-relations>).

The directors of the Company were also required to adhere to the sustainability approach set out on page 95 of the innogy SE 2019 annual report. While their actions shape the success of the Company, they also have an impact on our people and the environment. As directors of a wholly owned subsidiary of innogy SE they were committed to the innogy Code of Conduct, which applies to innogy SE as well as directly and indirectly affiliated companies in and outside of Germany. The corporate governance declaration details our conduct to customers, shareholders, the public and our employees, and is also available from within the investor relations section of the innogy SE website, linked above.

The merger of innogy SE into E.ON Verwaltungs SE became legally effective on 2 June 2020. innogy SE therefore ceased to exist on that date. In addition, E.ON Verwaltungs SE changed its company name into innogy SE as of 2 June 2020. E.ON SE is listed on the Frankfurt Stock Exchange and, like innogy SE, is bound by the German Corporate Governance Code.

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 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. Going forward, the directors consider the factors detailed under section 172(1) of the Act but are directed by the strategy set by the board of management of E.ON SE.

To the extent necessary for an understanding of the development, performance and position of the entity, the Company's directors believe that the requirements of section 172(1) are discussed within the E.ON SE Annual Report 2019 on pages 6 to 85, 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.

The Board regards a well-governed business as essential for the successful delivery of its principal activity and the activities of the Transformation UK programme as set out in the business review and future developments from page 1. The npower management board directs the operations of the Company which is aligned with the group governance set out above and in line with section 172 of the act, the change in ownership to E.ON SE has not significantly impacted the way the Company is governed.

PS Energy UK Limited

Strategic Report for the year ended 31 December 2019 (continued)

Position of the business

The Company's loss for the financial year ended 31 December 2019 was £10.5m (2018: loss of £6m). The net liabilities of the Company at 31 December 2019 were £20m (2018: £9.4m).

Principal risks and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks. These risks are not managed on a legal entity basis, but overseen for the npower Retail Group as a whole. The npower Retail Group continues to invest in a formal, regular risk assessment process to identify, monitor and mitigate as far as possible any risk that should arise. These are formally reviewed and assessed by the Board on a quarterly basis and actions taken as appropriate.

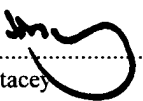
The key business risk affecting the npower Retail Group is the competitive retail market which could impact the Company's ability to achieve its targets for customer numbers and/or gross margin per customer. The main external uncertainties faced are: the impact of energy efficiency initiatives and the strength of the economy on customer consumption; volatility in wholesale energy prices; and the level of network and environmental charges. Furthermore, the Company has a number of operational risks as part of its end-to-end processes. The COVID-19 pandemic increases the risks to the Company as set out above. Detailed discussions of these risks and opportunities, in the context of the innogy SE Group as a whole are provided on pages 79 through 88 of the innogy SE 2019 Annual Report, which is available in the investor relations section of the innogy.com website.

In line with the requirements of the German Corporate Control and Transparency Act (KonTraG), the Company's risk management system enables the directors to identify risks at an early stage and initiate mitigating action where necessary.

Key performance indicators (KPIs)

The directors of the Company do not primarily focus their management of the activities of the Company or wider group on a legal entity basis. Instead business performance is monitored and assessed at a segmented level, which when aggregated covers all of the npower Retail Group's commercial activities in the UK. These segments are supported by a number of central functions that provide a range of services including finance, tax, strategy and HR. Each segment is managed in particular against a number of key performance indicators that cover a range of financial, service delivery, efficiency and operational measures. The operations and activities of the Company and the other entities within the Group are allocated across these segments. Therefore the Company's directors do not set KPIs at a legal entity level, and as a result such KPIs are not presented for the Company.

Approved by the Board on 26 November 2020 and signed on its behalf by:


.....
Mr S Stacey
Director

PS Energy UK Limited

Directors' Report for the year ended 31 December 2019

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

Principal activities

The principal activities of the Company are the marketing and supply of electricity, gas and related services to domestic consumers.

Dividends

The directors do not recommend the payment of a dividend (2018: £nil).

Directors of the Company

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

Mr P Sharman (resigned 30 November 2019)

Mr S Stacey

Mr A Wiggans (resigned 26 February 2020)

The following director was appointed after the year end:

Mr D Winter (appointed 26 February 2020)

Directors' indemnity

The directors have the benefit of the indemnity provision contained in the Company's Articles of Association. This provision was in force throughout the last financial period and is currently in force. This provision is a qualifying third party indemnity provision under section 234 of the Companies Act 2006. The Company also purchased and maintained throughout the financial period directors' and officers' liability insurance in respect of itself and its directors.

Future developments

Further details of significant changes in the future developments of the Company are provided in the Strategic Report on page 1.

Going concern

The financial statements have been prepared on a going concern basis which assumes that the Company will continue to trade for at least the next 12 months. The basis of this assumption depends on the support of Npower Group Limited. Whilst Npower Group Limited had net current liabilities of £289m as at 31 December 2019, it has and continues to benefit from the support and access to funding from innogy SE. The Directors of Npower Group Limited believe this support will continue to be provided because:

- Npower plays a key role for the future of E.ON UK as its domestic customer base is currently being migrated to E.ON UK and E.ON UK's I&C business is due to be merged onto Npower's systems;
- Innogy SE recognises that the operations of Npower Group Limited's subsidiary companies will be subject to an orderly wind-down, or sale of assets and/or shares to E.ON UK plc over a period expected to take 24 months from February 2020, resulting in some or all of such companies ceasing to operate;
- Cash flow forecasts are produced regularly and submitted to the ultimate parent company as part of the annual three year planning process and these forecasts include assumptions on all expected cash flows in and out of the business including the impacts of COVID-19;
- Npower Group Limited has received a letter of support from innogy SE indicating that it intends to provide such funds as are necessary for Npower Group Limited to trade for at least the next 12 months and up to completion of the winding-down of operations; and

PS Energy UK Limited

Directors' Report for the year ended 31 December 2019 (continued)

Going concern (continued)

- The majority of the expected funding requirement required to the completion of the winding-down has already been drawn down at the time of the approval of these accounts.

When considering all these factors, the Directors of Npower Group Limited have a high degree of certainty that the support from innogy SE will continue to be provided.

The Company received a letter of support from Npower Group Limited on 26th February 2020 which indicates that it will provide financial support to enable the Company to meet its liabilities as they fall due during the wind-down period. The Company's Directors also have a high degree of certainty that the support from innogy SE, via Npower Group Limited, will continue to be provided for the reasons noted above.

On 18th September, 2019 E.ON SE (E.ON) acquired RWE AG's (RWE) 76.8% majority stake in innogy SE (innogy1) as part of an extensive asset swap transaction. The main elements of this transaction were that E.ON acquired innogy1's Grid & Infrastructure and Retail businesses and in return, RWE has taken on both E.ON and innogy1's renewables businesses. RWE received a 16.67% stake in E.ON. Subsequently E.ON increased its shareholding in innogy1 to c90%, the remaining c10% minority shareholders retained their interests. innogy1 pursued a merger squeeze out process under German law to acquire this remaining minority holding.

On 2nd June 2020, that merger squeeze out process was completed and E.ON acquired the entire minority shareholding to become 100% owner of innogy1. At the same time, by operation of German law, innogy1 was merged into its immediate parent company E.ON Verwaltungs SE (E.ON V). Under this legal process, E.ON V became the legal successor to innogy1 and the assets and liabilities of innogy1 were assumed by E.ON V. On the same date (2nd June 2020), E.ON V changed its name to innogy SE. The new innogy SE (innogy2), although a separate German legal entity, is now legal successor to the letters of financial support in favour of Npower Group Limited from the old innogy SE (innogy1).

On 29th November 2019, it was announced that customer accounts of the npower Retail Group's Home and npower Business segments would be migrated to E.ON UK plc (E.ON UK) systems commencing Q2 2020 with completion scheduled for mid-2021. Terms for the transfer of the related customers supply contracts were formalised in a Sale and Purchase Agreement (SPA) on 11th February 2020. Under the SPA E.ON UK has become the principal employer of the Retail section of innogy pension scheme with the pension obligation being transferred to E.ON UK on 1st April 2020. Under the SPA, ownership of each customer contract will transfer to E.ON Energy Solutions Limited (EESL) upon migration of the related customer account. The npower Retail Group's Business Solution segment is to merge with E.ON's Industrial and Commercial segment. Npower Business Solutions customers will be moved to the Junifer billing platform and the business will then be sold to E.ON UK plc, this is likely to occur in the first half of 2021.

The Company is a 100% owned subsidiary of the E.ON group and the innogy2 group. innogy2 group had a market capitalisation of €24.8 billion at the 2019 year end (2018: €22.4 billion) and employs around 35,000 employees. innogy2 group supplies over 14 million customers with electricity and over 4 million with gas across Europe, its key markets being in Germany, the Netherlands and the United Kingdom. In the year 2019, the innogy SE group recorded €35.4 billion (2018: €35.2 billion) in revenue and had a profit after tax of approximately €0.7 billion (2018: loss of €0.3 billion). Being a large group, innogy2 manages its financial resources with a Group Treasury function. This function allocates financial resources across the Group to meet all financial obligations in a timely fashion.

Future decisions by E.ON SE could lead to some or all of the companies within the npower Retail Group ceasing to trade. The Company's existing customers will be sold to E.ON UK and migrated in 2021. Given the above position, the financial statements of the Company have been prepared on a going concern basis, and this treatment will be reviewed on an annual basis.

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Directors' Report for the year ended 31 December 2019 (continued)

Stakeholder engagement statement

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 Board regards 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.

During 2019 the Company was a wholly owned subsidiary of innogy SE, a company listed on the Frankfurt stock exchange and strongly committed to responsible corporate governance in line with the recommendations of the German Corporate Governance Code, detailed in the Corporate Governance Report for innogy, available through investor relations section of the innogy website and referenced on page 7 of the innogy 2019 annual report (<https://iam.innogy.com/en/about-innogy/investor-relations>).

The directors of the Company were also required to adhere to the sustainability approach set out on page 95 of the innogy SE 2019 annual report. While their actions shape the success of the Company, they also have an impact on our people and the environment. As directors of a wholly owned subsidiary of innogy SE they were committed to the innogy Code of Conduct, which applies to innogy SE as well as directly and indirectly affiliated companies in and outside of Germany. The corporate governance declaration details our conduct to customers, shareholders, the public and our employees, and is also available from within the investor relations section of the innogy SE website, linked above.

Conduct towards customers

We offer our customers a wide range of products and services in the energy supply industry. It is very important for us to deal with customers fairly, both in recognition of our regulatory obligations but also by putting customers at the centre of what we do including offering them suitable and efficient solutions.

Conduct towards shareholders

As a wholly owned subsidiary of innogy SE during 2019 the npower Retail Group aimed to follow the requirements of innogy and therefore the innogy shareholders' capital is the prerequisite and foundation of our business activities. We therefore aimed to preserve this capital and achieve returns on it in line with market conditions.

Conduct towards business partners

We advocate free competition and transparent markets and are against unfair competition and restrictions of competition. This means that we comply with requirements regarding tax levies, subsidy grants and procedures for awarding public contracts. Through our activities, we would like to set an example and work towards propagating the set of principles in our Code of Conduct. We therefore expect companies that enter into a business relationship with companies in the npower Retail Group to accept the principles in our Code of Conduct as the basis for the partnership. This happens by including the principles that are part of the innogy Code of Conduct in the contractual relationship. Should competing policies come into conflict with each other or the application of the principles of conduct not be possible during the course of the business relationship, we strive to agree on a common set of standards that is at least equal to the level of the UN Global Compact. If it becomes publicly known that a business partner has violated these responsibilities, we will re-examine our business relationship with that partner and take any appropriate measures that we deem necessary.

When choosing consultants and agents, we focus especially on their qualifications and integrity. In all business relationships, we observe the applicable national and international sanction and embargo directives as well as any other applicable foreign trade law restrictions. We also take all necessary and appropriate measures to prevent money laundering.

PS Energy UK Limited

Directors' Report for the year ended 31 December 2019 (continued)

Stakeholder engagement statement (continued)

Conduct towards the public

During 2019 innogy published 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 company 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 innogy are full, fair, accurate, timely and understandable. We respect the professional independence of journalists and the media.

Only authorised persons are allowed to disclose information concerning innogy or its subsidiaries to the public, the media or to other third parties.

Compliance management system

In order to minimise the risks of breaching the Code of Conduct, innogy provided a compliance management system. This serves to identify potential structural risks of corruption in the company. The measures necessary for removing or minimising the risks will be carried out, communicated regularly, monitored and continuously improved. This way, we wish to establish a compliance culture that meets the highest standards across the entire Group.

Future conduct

The merger of innogy SE into E.ON Verwaltungs SE became legally effective on 2 June 2020. innogy SE therefore ceased to exist on that date. In addition, E.ON Verwaltungs SE changed its company name into innogy SE as of June 2 2020.

E.ON SE is listed on the Frankfurt Stock Exchange and, like innogy SE, is bound by the German Corporate Governance Code. The two main operating divisions of the E.ON SE group are Energy Networks and Customer Solutions.

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 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. Going forward, the directors consider the factors detailed under section 172(1) of the Act but are directed by the strategy set by the board of management of E.ON SE.

To the extent necessary for an understanding of the development, performance and position of the entity, the Company's directors believe that the requirements of section 172(1) are discussed within the E.ON SE Annual Report 2019 on pages 6 to 85, 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.

PS Energy UK Limited

Directors' Report for the year ended 31 December 2019 (continued)

Employee engagement statement

The energy, innovation and creativity of our staff add value to our businesses. During the financial year the npower Retail Group maintained its existing policies in the following areas in respect of employee involvement.

The npower Retail Group is committed to the development of all staff in order to leverage our intellectual capital. Among many development and training initiatives, all staff are required to maintain personal development plans.

The ongoing changes within the npower Retail Group mean that effective communication with staff is vital. Corporate publications and other media, including distribution of key development messages and team briefings, are used to promote wide understanding of policies and strategy. We also utilise the latest technology to aid rapid communication with staff through a range of media.

It is the npower Retail Group's policy to consult with employees or their representatives on a regular basis so that the views of employees can be taken into account in making decisions that are likely to affect their interests. The npower Retail Group also endeavours to achieve a common awareness of all employees in relation to the financial and economic factors that affect the performance of the Company.

Equal opportunities and diversity

The npower Retail Group is committed to equal opportunity and diversity because of a sense of social responsibility and also because it makes sound business sense to tap into the wide-ranging knowledge and experience of individuals in all sectors of society. Through its commitment to valuing the talents of its employees, the npower Retail Group aims to ensure that it is able to compete in attracting and retaining high calibre employees with wide-ranging experience and is therefore able to respond positively and flexibly to change. Decisions to appoint, reward, train, develop and promote are taken based on skills and abilities, or demonstrated potential, merit and the requirements of the job. Employment decisions affecting both job applicants and employees with disabilities are made following any reasonable adjustments that may be necessary to ensure fair treatment. In addition, appropriate arrangements are made for training, career development and promotion of disabled persons employed by the npower Retail Group. If members of staff become disabled the npower Retail Group continues employment, either in the same or an alternative position, with appropriate retraining being given if necessary.

Financial risk management

Capital management

The Company's objectives, policies and processes for managing capital are consistent with those of the innogy SE Group. Detailed discussions of these, in the context of the innogy SE Group as a whole, are provided on pages 79 to 88 of the innogy SE 2019 Annual Report.

Credit risk

The Company has a policy of requiring appropriate, externally sourced credit checks on all new and incoming customers prior to establishing credit terms. Credit thresholds are reviewed on a regular basis and revised as appropriate to maintain a managed reported credit risk position.

Liquidity risk

The Company forms part of the Npower Group Limited treasury arrangements, which actively manages a mixture of finance to ensure that the group has sufficient liquid resources to manage its current and future operational requirements.

PS Energy UK Limited
Directors' Report for the year ended 31 December 2019 (continued)

Financial risk management (continued)

Commodity price risk

The Company is exposed to commodity price risk as a result of its operations. The risk is actively managed through the application of appropriate techniques and methodologies in accordance with the Commodity Risk Controlling Directive of innogy SE. These techniques and methodologies include the application of appropriate hedge policies, the measurement of commodity risks, the setting of approved transaction limits (together with the monitoring of compliance with the approved limits), the reporting of unhedged positions and the conduct of scenario analyses and stress tests. The hedge policies determine the timing of the purchase of physical forward contracts for power and gas to cover customers' supply requirements. Financial contracts are typically also purchased to manage the impact of weather variations on customer demand.

The Directive and its application within the Company is kept under constant review to reflect changes in market and Company dynamics, together with the nature of products offered to the market.

Securities price risk

The Company has no significant exposure to equity securities price risk as it holds no material listed or other equity investments.

Interest rate cash flow risk

The Company has interest-bearing liabilities. Interest-bearing liabilities include loans from group undertakings. Interest on loans is fixed which minimises the interest rate risk faced by the Company.

General risk management

As a subsidiary of innogy SE, the Company complies with the Risk Management Directive of innogy SE, which embodies the relevant provisions of the German Law on Corporate Control and Transparency (Gesetz zur Kontrolle und Transparenz im Unternehmensbereich), together with the German Stock Corporation Act (Aktiengesetz) and the German Commercial Code (Handelsgesetzbuch). Compliance is achieved within the Company through the application of a tri-partite system of three separate but supportive elements, namely a risk controlling/early warning system, an internal control system and an internal audit process.

Research and development

The Company invests in the development of software to facilitate its business. Where software is capitalised it is treated as an intangible asset.

PS Energy UK Limited

Directors' Report for the year ended 31 December 2019 (continued)

Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the 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 the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

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

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

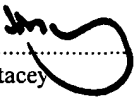
The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies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

Directors' confirmations

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have 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.

Approved by the Board on 26 November 2020 and signed on its behalf by:


.....
Mr S Stacey
Director

PS Energy UK Limited

Independent auditors' report to the members of PS Energy UK Limited

Report on the audit of the financial statements

Opinion

In our opinion, PS Energy UK 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 (the "period") then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance Sheet as at 31 December 2019; the Profit and Loss Account and the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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.

PS Energy UK Limited

Independent auditors' report to the members of PS Energy UK Limited (continued)

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.

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 the 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.

PS Energy UK Limited

Independent auditors' report to the members of PS Energy UK Limited (continued)

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 Kingsbury (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham

26 November 2020

PS Energy UK Limited
Profit and Loss Account for the year ended 31 December 2019

	Note	2019 £ 000	2018 £ 000
Turnover	4	49,015	20,464
Cost of sales		<u>(47,244)</u>	<u>(19,524)</u>
Gross profit		1,771	940
Administrative expenses		<u>(13,660)</u>	<u>(8,137)</u>
Operating loss	5	(11,889)	(7,197)
Interest receivable and similar income	6	54	28
Interest payable and similar expenses	7	<u>(280)</u>	<u>(182)</u>
Loss before taxation		(12,115)	(7,351)
Tax on loss	11	<u>1,581</u>	<u>1,364</u>
Loss for the financial year		<u><u>(10,534)</u></u>	<u><u>(5,987)</u></u>

The above results were derived from continuing operations.

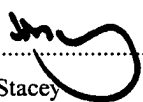
There are no further items which would be included in other comprehensive income so no separate statement of comprehensive income has been prepared.

The notes on pages 17 to 34 form an integral part of these financial statements.

PS Energy UK Limited
Balance Sheet as at 31 December 2019

	Note	2019 £ 000	2018 £ 000
Fixed assets			
Intangible assets	12	16,429	11,765
Property, plant and equipment	13	<u>127</u>	<u>146</u>
		<u>16,556</u>	<u>11,911</u>
Current assets			
Stocks		5	27
Debtors: Amounts falling due after more than one year	11	-	5
Debtors: Amounts falling due within one year	14	12,005	7,110
Cash at bank and in hand		<u>741</u>	<u>10,207</u>
		12,751	17,349
Creditors: Amounts falling due within one year	15	<u>(25,832)</u>	<u>(14,325)</u>
Net current (liabilities)/assets		<u>(13,081)</u>	<u>3,024</u>
Total assets less current liabilities		3,475	14,935
Creditors: Amounts falling due after more than one year	16	<u>(23,449)</u>	<u>(24,375)</u>
Net liabilities		<u>(19,974)</u>	<u>(9,440)</u>
Capital and reserves			
Called up share capital	18	-	-
Profit and loss account		<u>(19,974)</u>	<u>(9,440)</u>
Total shareholders' deficit		<u>(19,974)</u>	<u>(9,440)</u>

The financial statements on pages 14 to 34 were approved by the Board on 26 November 2020 and signed on its behalf by:



 Mr S Stacey

Director

PS Energy UK Limited registered company number: 09850654

The notes on pages 17 to 34 form an integral part of these financial statements.

PS Energy UK Limited**Statement of Changes in Equity for the year ended 31 December 2019**

	Called up share capital £ 000	Profit and loss account £ 000	Total shareholders' deficit £ 000
At 1 January 2019	-	(9,440)	(9,440)
Loss for the financial year	-	(10,534)	(10,534)
Total comprehensive expense for the year	-	(10,534)	(10,534)
At 31 December 2019	-	(19,974)	(19,974)

	Called up share capital £ 000	Profit and loss account £ 000	Total shareholders' deficit £ 000
At 1 January 2018	-	(3,453)	(3,453)
Loss for the financial year	-	(5,987)	(5,987)
Total comprehensive expense for the year	-	(5,987)	(5,987)
At 31 December 2018	-	(9,440)	(9,440)

Called up share capital consists of funds raised by the Company issuing shares in return for cash or other consideration.

Profit and loss account represents the accumulated losses of the Company.

The notes on pages 17 to 34 form an integral part of these financial statements.

PS Energy UK Limited

Notes to the Financial Statements for the year ended 31 December 2019

1 General information

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

The address of its registered office is:

Windmill Hill Business Park

Whitehill Way

Swindon

Wiltshire

SN5 6PB

United Kingdom

The principal activities of the Company are the marketing and supply of electricity, gas and related services to domestic consumers.

2 Accounting policies

Summary of significant accounting policies

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

Basis of preparation

These financial statements were prepared in accordance with the Companies Act 2006 as applicable to companies using FRS 101. The financial statements were prepared under the historical cost convention.

Summary of disclosure exemptions

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraph 33(c) of IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations)
- 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.
- IFRS 7 (Financial Instruments: Disclosures)
- Paragraph 38 of IAS 1 (Presentation of Financial Statements) to present comparative information in respect of:
 - (i) paragraph 79(a)(iv) of IAS 1 (Presentation of Financial Statements)
 - (ii) paragraph 73(e) of IAS 16 (Property, Plant and Equipment)
 - (iii) paragraph 118(e) of IAS 38 Intangible Assets)
- The following paragraphs of IAS 1 (Presentation of Financial Statements):
 - (i) 10(d)
 - (ii) 10(f)
 - (iii) 16
 - (iv) 38A
 - (v) 38B-D
 - (vi) 40A-D
 - (vii) 111
 - (viii) 134-136

PS Energy UK Limited

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

2 Accounting policies (continued)

Summary of disclosure exemptions (continued)

- IAS 7 (Statement of Cash Flows)

- Paragraphs 30 and 31 of IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors)

- Paragraphs 17 and 18A of IAS 24 (Related Party Disclosures)

- The requirements in IAS 24 (Related Party Disclosures) to disclose related party transactions entered into between two or more members of a group.

- Paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 (Impairment of Assets).

Where required, equivalent disclosures are given in the group financial statements of innogy SE. The group financial statements of innogy SE are available to the public and can be obtained as set out in note 19.

Going concern

The financial statements have been prepared on a going concern basis which assumes that the Company will continue to trade for at least the next 12 months. The basis of this assumption depends on the support of Npower Group Limited. Whilst Npower Group Limited had net current liabilities of £289m as at 31 December 2019, it has and continues to benefit from the support and access to funding from innogy SE. The Directors of Npower Group Limited believe this support will continue to be provided because:

- Npower plays a key role for the future of E.ON UK as its domestic customer base is currently being migrated to E.ON UK and E.ON UK's I&C business is due to be merged onto Npower's systems;

- Innogy SE recognises that the operations of Npower Group Limited's subsidiary companies will be subject to an orderly wind-down, or sale of assets and/or shares to E.ON UK plc over a period expected to take 24 months from February 2020, resulting in some or all of such companies ceasing to operate;

- Cash flow forecasts are produced regularly and submitted to the ultimate parent company as part of the annual three year planning process and these forecasts include assumptions on all expected cash flows in and out of the business including the impacts of COVID-19;

- Npower Group Limited has received a letter of support from innogy SE indicating that it intends to provide such funds as are necessary for Npower Group Limited to trade for at least the next 12 months and up to completion of the winding-down of operations; and

- The majority of the expected funding requirement required to the completion of the winding-down has already been drawn down at the time of the approval of these accounts.

When considering all these factors, the Directors of Npower Group Limited have a high degree of certainty that the support from innogy SE will continue to be provided.

The Company received a letter of support from Npower Group Limited on 26th February 2020 which indicates that it will provide financial support to enable the Company to meet its liabilities as they fall due during the wind-down period. The Company's Directors also have a high degree of certainty that the support from innogy SE, via Npower Group Limited, will continue to be provided for the reasons noted above.

PS Energy UK Limited

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

2 Accounting policies (continued)

Going concern (continued)

On 18th September, 2019 E.ON SE (E.ON) acquired RWE AG's (RWE) 76.8% majority stake in innogy SE (innogy1) as part of an extensive asset swap transaction. The main elements of this transaction were that E.ON acquired innogy1's Grid & Infrastructure and Retail businesses and in return, RWE has taken on both E.ON and innogy1's renewables businesses. RWE received a 16.67% stake in E.ON. Subsequently E.ON increased its shareholding in innogy1 to c90%, the remaining c10% minority shareholders retained their interests. innogy1 pursued a merger squeeze out process under German law to acquire this remaining minority holding.

On 2nd June 2020, that merger squeeze out process was completed and E.ON acquired the entire minority shareholding to become 100% owner of innogy1. At the same time, by operation of German law, innogy1 was merged into its immediate parent company E.ON Verwaltungs SE (E.ON V). Under this legal process, E.ON V became the legal successor to innogy1 and the assets and liabilities of innogy1 were assumed by E.ON V. On the same date (2nd June 2020), E.ON V changed its name to innogy SE. The new innogy SE (innogy2), although a separate German legal entity, is now legal successor to the letters of financial support in favour of Npower Group Limited from the old innogy SE (innogy1).

On 29th November 2019, it was announced that customer accounts of the npower Retail Group's Home and npower Business segments would be migrated to E.ON UK plc (E.ON UK) systems commencing Q2 2020 with completion scheduled for mid-2021. Terms for the transfer of the related customers supply contracts were formalised in a Sale and Purchase Agreement (SPA) on 11th February 2020. Under the SPA E.ON UK has become the principal employer of the Retail section of innogy pension scheme with the pension obligation being transferred to E.ON UK on 1st April 2020. Under the SPA, ownership of each customer contract will transfer to E.ON Energy Solutions Limited (EESL) upon migration of the related customer account. The npower Retail Group's Business Solution segment is to merge with E.ON's Industrial and Commercial segment. Npower Business Solutions customers will be moved to the Junifer billing platform and the business will then be sold to E.ON UK plc, this is likely to occur in the first half of 2021.

The Company is a 100% owned subsidiary of the E.ON group and the innogy2 group. innogy2 group had a market capitalisation of €24.8 billion at the 2019 year end (2018: €22.4 billion) and employs around 35,000 employees. innogy2 group supplies over 14 million customers with electricity and over 4 million with gas across Europe, its key markets being in Germany, the Netherlands and the United Kingdom. In the year 2019, the innogy SE group recorded €35.4 billion (2018: €35.2 billion) in revenue and had a profit after tax of approximately €0.7 billion (2018: loss of €0.3 billion). Being a large group, innogy2 manages its financial resources with a Group Treasury function. This function allocates financial resources across the Group to meet all financial obligations in a timely fashion.

Future decisions by E.ON SE could lead to some or all of the companies within the npower Retail Group ceasing to trade. The Company's existing customers will be sold to E.ON UK and migrated in 2021. Given the above position, the financial statements of the Company have been prepared on a going concern basis, and this treatment will be reviewed on an annual basis.

PS Energy UK Limited

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

2 Accounting policies (continued)

New standards, amendments and IFRS IC interpretations

No new accounting standards, or amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2019 have had a material impact on the company.

The IASB has adopted further Standards and amendments to Standards, which were not yet mandatory in the European Union (EU) in the year ending 31 December 2019. The most important changes are presented below. EU endorsement is still pending in some cases.

The following Standards, amendments to Standards, and Interpretations are not expected to have any material effects on npower Retail Group's financial statements:

- IFRS 17 Insurance Contracts (2017).
- Amendments to IFRS 9: Prepayment Features with Negative Compensation (2017).
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (2017).
- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (2016).
- Annual Improvements to IFRS Standards 2014– 2016 Cycle (2016), which contains amendments and clarifications to IFRS 1 and IAS 28.
- Amendments to IAS 40 Transfers of Investment Property (2016).
- Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions (2016).
- Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and an Associate or Joint Venture (2014). First-time application of these amendments in the EU was delayed indefinitely.
- IFRIC 22 Foreign Currency Transactions and Advance Consideration (2016).
- IFRIC 23 Uncertainty over Income Tax Treatments (2017).
- Annual Improvements to IFRS Standards 2015– 2017 Cycle (2017); this collective Standard contains amendments and clarifications to IFRS 3, IFRS 11, IAS 12 and IAS 23.
- Amendments to IAS 19 Plan Amendment, Curtailment or Settlement (2018).

PS Energy UK Limited

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

2 Accounting policies (continued)

Turnover

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The company recognises revenue when performance obligations have been satisfied and for the company this is when the goods or services have transferred to the customer and the customer has control of these. The company's activities are described in detail below. The company bases its estimate of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Energy supply: the company supplies electricity, gas and related services to domestic, commercial and industrial customers. Turnover is recognised on the basis of energy supplied during the year, recognised over time per performance obligation fulfilled.

Turnover for energy supply activities includes an assessment of energy supplied to customers between the date of the last meter reading and the year end (known as unbilled revenue). Unread gas and electricity is estimated using historical consumption patterns, taking into account the industry reconciliation process for total gas and total electricity usage by supplier, and is included in accrued energy income within trade and other receivables. This methodology has been applied consistently for a number of years across a large, homogeneous customer base and therefore it is highly probable that a significant reversal in the cumulative revenue recognised will not occur.

Other turnover comprises additional performance obligations and will have a proportion of the transaction price allocated if completed as part of an energy supply transaction. Other turnover can be recognised at point in time, or over time, bring the date of service provision, which is when the customer obtains control of the good and services, and can benefit from them.

Payments to customers for sale purposes leads to the creation of a contract asset, charged to the income statement as a reduction of revenue.

Contract costs which are additionally incurred when obtaining a customer are capitalised and amortised over the same period as the contract term, ensuring a systematic basis consistent with the transfer of goods or services to the customer.

Contract terms are assigned with the earliest date of the contract exit, however, for energy contracts, revenue is only recognised on transfer to the customer.

Receivables are recognised when the goods and services are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

In the past the company offered 'assurance-type' warranties to customers on specific energy supply tariffs. Obligations in relation to warranties are recognised as provisions.

Interest

Interest receivable and payable is credited or charged to the Profit and Loss Account on an accruals basis.

Taxation

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

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

PS Energy UK Limited

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

2 Accounting policies (continued)

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and on unused tax losses or tax credits in the company. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

The carrying amount of deferred tax assets are reviewed at each reporting date and a valuation allowance is set up against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profit.

Intangible assets

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

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

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

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

Amortisation

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

Asset class	Amortisation method and rate
Computer software	5 years
Assets under construction	Not amortised

Property, plant and equipment

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

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

PS Energy UK Limited

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

2 Accounting policies (continued)

Depreciation

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

Asset class	Depreciation method and rate
Furniture, fittings and equipment	5 years
Assets under construction	Not depreciated

Impairment of non-financial assets

The Company's management reviews the carrying amounts of its fixed assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent, if any, of the impairment loss.

If the recoverable amount of an asset or income generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or income generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in the Profit and Loss Account.

The recoverable amount of an asset is based on its estimated value in use. Value in use is the present value of the future cash flows expected to be derived from use of the asset. The cash flow projections are based on future economic and market assumptions and forecast trading conditions drawn up by the Company's management as follows:

- Future market conditions and prices are based on detailed analysis and predictions based on the specific circumstances of the UK retail energy market
- Cash flow projections are based on management's approved long term business plan which incorporate the predictions of future market conditions above
- The cash flows obtained are discounted at a rate estimated to be appropriate for the retail energy business in the UK

Where an impairment loss subsequently reverses the carrying amount of the asset is increased to the revised estimate of its recoverable amount, not exceeding the carrying amount that would have been determined had no impairment loss been recognised. A reversal of an impairment loss is recognised in the Profit and Loss Account.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and call deposits which are readily convertible to cash and are subject to an insignificant risk of changes in value.

Trade debtors

Trade debtors are amounts due from customers for services performed in the ordinary course of business or amounts due from group undertakings. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade debtors are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due.

PS Energy UK Limited

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

2 Accounting policies (continued)

Trade creditors

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

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

Borrowings

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

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

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

Called up share capital

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

Defined contribution pension obligation

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

For defined contribution plans contributions are paid publicly or privately administered pension insurance plans on a mandatory or contractual basis. The contributions are recognised as employee benefit expense when they are due. If contribution payments exceed the contribution due for service, the excess is recognised as an asset.

PS Energy UK Limited

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

2 Accounting policies (continued)

Leases

The company leases various offices, equipment and vehicles. Rental contracts are typically made for fixed periods between 6 months to 10 years but may have extension options. 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 real estate for which the company is a lessee and for which it has major leases, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor.

Leased assets may not be used as security for borrowing purposes. Until the 2018 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the company.

Assets and liabilities arising from a lease 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 incentives 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, which is generally the case for leases in the company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee 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.

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.

PS Energy UK Limited

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

2 Accounting policies (continued)

Leases (continued)

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss 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 lease liability;
- Any lease payments made at or before the commencement date less any lease incentives received;
- Any initial direct costs; and
- Restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. While the company revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the company.

Lease income from operating leases where the company is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The company did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

Contingent liabilities

A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Company or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. The Company does not recognise a contingent liability but discloses its existence in the financial statements.

PS Energy UK Limited

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

3 Critical accounting judgements and key sources of estimation uncertainty

Turnover – estimation uncertainty

In accounting for energy turnover and direct costs, the Company employs a forecasting process which is driven primarily from customer consumption volume data, held and processed on the Powershop IT system. Estimates of consumption volume are constantly refined by algorithms applied to successive meter read data received from customers, improving the accuracy of the forecast data. Monthly movements between forecasts and subsequent actual billings and costs are reviewed with hindsight and corrective adjustments to the subsequent forecast are then made, where material.

While the estimates are considered to be appropriate, changes in estimation basis could lead to a change in the level of turnover recorded and consequently on the charge or credit to Profit and Loss Account.

Valuation of debtors – estimation uncertainty

Debtors represent the most significant exposure to credit risk and are stated after an allowance for impairment. The Company makes an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other receivables, management considers factors including the credit rating of the receivable, the ageing profile of receivables and historical experience. The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. See note 14 for the net carrying amount of the receivables and associated impairment provision. While the provisions are considered to be appropriate, changes in estimation basis or in economic conditions could lead to a change in the level of provisions recorded and consequently on the charge or credit to the Profit and Loss Account.

Recognition of deferred tax assets - judgement

The recognition of deferred tax assets is based upon whether it is more likely than not that sufficient and suitable taxable profits will be available in the future against which the reversal of temporary differences can be deducted. To determine the future taxable profits, reference is made to the latest available profit forecasts. Where the temporary differences are related to losses, relevant tax law is considered to determine the availability of the losses to offset against the future taxable profits. Recognition therefore involves judgement regarding the future financial performance of the Company.

4 Turnover

The Company operates in one class of business, marketing and supply of electricity and related services, and in one geographical segment, the United Kingdom. The analysis of the Company's turnover for the year from continuing operations is as follows:

	2019 £ 000	2018 £ 000
Sale of goods	48,997	20,461
Other revenue	18	3
	<u>49,015</u>	<u>20,464</u>

The Company has no contract assets or liabilities to disclose in respect of IFRS 15 for the 2019 financial year (2018: £nil).

PS Energy UK Limited**Notes to the Financial Statements for the year ended 31 December 2019 (continued)****5 Operating loss**

Operating loss is arrived at after charging:

	2019	2018
	£ 000	£ 000
Depreciation expense	47	14
Amortisation expense	1,467	2,235
Low value/operating lease expense - property	<u>81</u>	<u>180</u>

The company initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. During 2019, under IFRS 16 lease expenses relating to short term, low value or variable lease payments are not treated as finance leases and instead, they are expensed to the income statement. In 2018 the leases were accounted for under IAS 17 as operating leases and expensed to the income statement.

Full disclosure of the lease commitments are shown in the financial statements of the npower Retail Group company that legally holds the lease. Where use of such leases are shared across the group the lease costs are then recharged across the npower Retail Group as applicable.

6 Interest receivable and similar income

	2019	2018
	£ 000	£ 000
Other finance income	<u>54</u>	<u>28</u>

7 Interest payable and similar expenses

	2019	2018
	£ 000	£ 000
Interest payable to group undertakings	<u>280</u>	<u>182</u>

8 Staff costs

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

	2019	2018
	£ 000	£ 000
Wages and salaries	1,879	1,386
Social security costs	173	111
Other pension costs	28	12
Share-based payment expenses	<u>5</u>	<u>4</u>
	<u>2,085</u>	<u>1,513</u>

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

	2019	2018
	No.	No.
Sales and administrative staff	<u>87</u>	<u>64</u>

PS Energy UK Limited

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

9 Directors' remuneration

The remuneration is unable to be allocated to individual entities as the npower Retail Group is not managed on a legal entity basis. Details of the directors' aggregate remuneration for the year ended 31 December 2019 are set out in the financial statements of Npower Limited together with details of the highest paid director in the npower Retail Group.

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

	2019	2018
	No.	No.
Accruing benefits under defined benefit pension scheme	1	1
Accruing benefits under money purchase pension scheme	<u>2</u>	<u>2</u>

During the year no directors (2018: nil) exercised share options in innogy SE, the intermediate parent company, or E.ON SE, the ultimate parent company. None of the directors (2018: nil) received or became entitled to receive aggregate cash payments in innogy SE or E.ON SE under long-term incentive schemes in the financial year.

Further details of the nature and extent of share based payment arrangements have been disclosed in full within the financial statements of Npower Limited. The directors do not consider it necessary to provide separate disclosure within PS Energy UK Limited's financial statements, as the amount is not material.

10 Auditors' remuneration

The audit fee for the year is £28k (2018: £15k). No fees were paid to the auditors for non audit services (2018: £nil).

PS Energy UK Limited**Notes to the Financial Statements for the year ended 31 December 2019 (continued)****11 Tax on loss**

Tax credited in the profit and loss account

	2019 £ 000	2018 £ 000
Current taxation		
Group relief	(1,586)	(1,359)
Deferred taxation		
Origination and reversal of timing differences	5	(4)
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	<u>-</u>	<u>(1)</u>
Tax credit in the profit and loss account	<u>(1,581)</u>	<u>(1,364)</u>

The tax charge on loss before taxation for the year is higher than the standard rate of corporation tax in the UK (2018: higher than the standard rate of corporation tax in the UK) of 19% (2018: 19%).

The differences are reconciled below:

	2019 £ 000	2018 £ 000
Loss before tax	<u>(12,115)</u>	<u>(7,351)</u>
Loss before tax multiplied by the standard rate of corporation tax in the UK of 19% (2018: 19%)	(2,302)	(1,397)
Expenses not deductible for tax purposes	55	33
Increase (decrease) in current tax from unrecognised tax loss or credit	591	-
Increase (decrease) in current tax from unrecognised temporary difference from a prior period	5	-
Impact of change in UK tax rate	<u>70</u>	<u>-</u>
Total tax credit for the year	<u>(1,581)</u>	<u>(1,364)</u>

In December 2019 there was a general election, as part of the Government's manifesto it was announced that the corporation tax rate would not reduce to 17% from April 2020 and that the rate would remain at 19% for the foreseeable future. At the balance sheet date however, the rate reduction to 17% was still substantively enacted and therefore we have continued to recognise deferred tax at that rate.

At the reporting date, PS Energy UK Limited has unused tax losses of £3,439,486 (2018: nil) available for offset against future profits, which may be carried forward indefinitely. PS Energy UK Limited also had gross unrecognised temporary differences of £70,014 (2018: nil). No deferred tax asset has been recognised in respect of the full amount as it is not considered probable that there will be future taxable profits available.

PS Energy UK Limited

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

11 Tax on loss (continued)

Deferred tax

Deferred tax movement during the year:

	At 1 January 2019 £ 000	Recognised in profit and loss £ 000	At 31 December 2019 £ 000
Other items	5	(5)	-

Deferred tax movement during the prior year:

	At 1 January 2018 £ 000	Recognised in profit and loss £ 000	At 31 December 2018 £ 000
Other items	-	5	5

Other items represent short term timing differences.

12 Intangible assets

	Computer software £000	Intangible assets under construction £000	Total £000
Cost			
At 1 January 2019	11,988	2,651	14,639
Additions	2,984	3,147	6,131
Transfers	1,627	(1,627)	-
At 31 December 2019	16,599	4,171	20,770
Accumulated amortisation			
At 1 January 2019	2,874	-	2,874
Amortisation charge for the year	1,467	-	1,467
At 31 December 2019	4,341	-	4,341
Carrying amount			
At 31 December 2019	12,258	4,171	16,429
At 31 December 2018	9,114	2,651	11,765

PS Energy UK Limited

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

13 Property, plant and equipment

	Furniture, fittings and equipment	Assets under construction	Total
	£000	£000	£000
Cost or valuation			
At 1 January 2019	168	-	168
Additions	-	28	28
At 31 December 2019	<u>168</u>	<u>28</u>	<u>196</u>
Accumulated depreciation			
At 1 January 2019	22	-	22
Charge for the year	47	-	47
At 31 December 2019	<u>69</u>	<u>-</u>	<u>69</u>
Carrying amount			
At 31 December 2019	<u>99</u>	<u>28</u>	<u>127</u>
At 31 December 2018	<u>146</u>	<u>-</u>	<u>146</u>

14 Debtors: amounts falling due within one year

	2019	2018
	£ 000	£ 000
Trade receivables	8,465	4,129
Amounts owed by group undertakings	3,093	2,369
Prepayments	262	576
Value added tax	171	19
Other receivables	<u>14</u>	<u>17</u>
	<u>12,005</u>	<u>7,110</u>

Trade receivables are stated after provisions for impairments of £798k (2018: £319k).

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

Amounts owed by group undertakings includes £2,946k of group relief receivable (2018: £2,132k).

PS Energy UK Limited**Notes to the Financial Statements for the year ended 31 December 2019 (continued)****15 Creditors: amounts falling due within one year**

	2019	2018
	£ 000	£ 000
Trade payables	2,320	1,524
Amounts owed to group undertakings	6,505	9,089
Social security and other taxes	40	33
Accrued expenses	11,347	1,105
Deferred income	1,997	1,620
Other payables	3,623	954
	<u>25,832</u>	<u>14,325</u>

Amounts owed to group undertakings are unsecured, interest free and have no fixed date of repayment.

16 Creditors: amounts falling due after more than one year

	2019	2018
	£ 000	£ 000
Loans owed to group undertakings	<u>23,449</u>	<u>24,375</u>

Cash surpluses and deficits in each Group company are swept on a daily basis and recognised as loans owed to/by group undertakings. Interest is calculated on a daily basis and interest rates reflect the overall cost of borrowing or deposit rates and are updated where required. All loans within this financing arrangement mature on 30 December 2021.

The loan facility is unsecured and at 31 December 2019 bore interest at a rate of 1.125% (2018: 1.067%). Loans owed by group undertakings also include accrued interest payable on the loan agreement. Loans can be repaid early subject to the consent of both parties.

17 Pension and other schemes***Defined contribution pension scheme***

The Company operates a defined contribution pension scheme as employees are eligible to join the NEST defined contribution governmental pension scheme.

The pension cost for the year represents contributions payable by the Company to the scheme and amounted to £28k (2018: £12k).

There were no prepaid or accrued contributions at 31 December 2019 or 31 December 2018.

PS Energy UK Limited**Notes to the Financial Statements for the year ended 31 December 2019 (continued)****18 Called up share capital****Allotted, called up and fully paid shares**

	No.	2019 £	No.	2018 £
Ordinary shares of £1 each	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>

19 Controlling parties

The Company is controlled by Npower Limited (the immediate parent), a company incorporated in the United Kingdom and registered in England and Wales.

The name of the parent undertaking of the smallest group in whose consolidated financial statements the Company's financial statements are consolidated is innogy SE, a company incorporated in Germany. These financial statements are available upon request from innogy SE, Opernplatz 1, D-45128 Essen, Germany.

The ultimate parent company and controlling party is E.ON SE, a company incorporated in Germany, which is the parent undertaking of the largest group to consolidate these financial statements. Copies of E.ON SE consolidated financial statements can be obtained from E.ON SE, Brüsseler Platz 1, 45131 Essen, Germany.

20 Non adjusting events after the financial period

During 2020 it was announced the customers of the Company will be sold and migrated to E.ON Next Energy Limited in 2021. As trading in the existing business will cease the future of the Company beyond the planned migration in 2021 is expected to be an orderly wind down with parental company support. The existing intangible and tangible assets will be written down, the value of these at 31 December 2019 was £16.4m, additional restructuring and termination costs will be also be incurred, the value of these is still to be determined.

During 2020 the Company has experienced negative impacts of the COVID-19 pandemic. The Company implemented crisis management plans which allowed the Company 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 Basis of preparation section of the Accounting Policies note.