

Registration number: 01313782

E.ON UK Holding Company Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2020



E.ON UK Holding Company Limited

Strategic Report for the Year Ended 31 December 2020

The directors present their Strategic Report for the year ended 31 December 2020 for E.ON UK Holding Company Limited ("the Company").

Fair review of the business

The Company continued to act as a holding company and to service the funding requirements of companies within the E.ON SE group. The directors believe these activities will continue in the current year.

At 31 December 2020, the Company had net assets of £1,528 million (2019: net assets of £1,618 million). Further information regarding the financial results of the Company at the year end and future developments are provided in the Directors' Report.

The Company made a loss before tax during the year of £84 million (2019: loss before tax of £121 million) due primarily to net interest payable.

Key performance indicators ('KPIs')

Net interest payable:

The Company had net interest payable for the year of £85 million (2019: £116 million), the reduction due to the settlement of loans in 2019.

Other than the KPI stated above, the directors do not believe there are any further relevant KPIs that are not already disclosed within these financial statements.

Principal risks and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks.

The key business risks and uncertainties affecting the Company are considered to relate to fluctuations in exchange rates and interest rates on loans to and from other companies within the E.ON SE group. These risks are managed through cross currency swap agreements for all exposure on non-sterling denominated loans and a mixture of fixed and floating interest rates on the loans. Due to the fully hedged position of the Company, the risk associated with the significant volatility is deemed to be low.

COVID-19

As the Company is a holding company with no operational activities, COVID-19 has had no material impact on the activities of the Company. Despite COVID-19, the directors believe that the Company can meet its obligations as they fall due for a period of at least 12 months from the date of approval of these financial statements.

Brexit

Britain has now left the European Union ('EU') and the transitional period ended on 31 December 2020. The European Union (Future Relationship) Act 2020 was passed on 30 December 2020, implementing the EU-UK Trade and Cooperation Agreement. A cross functional working group remains in place, which continues to meet 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 related developments and their potential impact on the Company's business.

E.ON UK Holding Company Limited

Strategic Report for the Year Ended 31 December 2020

Statement made under Section 172(1) of the Companies Act 2006 ('Act')

The directors acknowledge and understand their duties under the Act and in particular their duty 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:

- (a) the likely consequences of any decision in the long term;
- (b) the desirability of the Company maintaining a reputation for high standards of business conduct; and
- (c) the need to act fairly between members of the Company.

The directors regard a well-governed business as essential for the successful delivery of its principal activity. 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, Germany. The two main operating divisions of the E.ON SE group are Energy Networks and Customer Solutions.

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

The Company's directors believe that, to the extent necessary for an understanding of the development, performance and position of the Company, the requirements of section 172(1) are discussed within the E.ON SE Annual Report 2020 on pages 14 to 115, which does not form part of this report.

Approved by the Board on 23 June 2021 and signed on its behalf by:



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D C A Baumber
Director

E.ON UK Holding Company Limited
Registration No:01313782
Westwood Way
Westwood Business Park
Coventry
England
CV4 8LG

E.ON UK Holding Company Limited

Directors' Report for the Year Ended 31 December 2020

The directors present their Directors' Report and the audited financial statements of the Company for the year ended 31 December 2020.

Directors of the Company

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

C Barr

D C A Baumber

M D Lewis

S L Vaughan (resigned 26 November 2020)

Principal activity

The principal activity of the Company is to act as a holding company and to service the funding requirements of companies within the E.ON SE group. The funding is sourced through loans from companies within the E.ON SE group.

Results and dividends

The Company's loss for the financial year is £84 million (2019: loss of £131 million) due primarily to net interest payable. No interim dividends were paid during the year (2019: £nil). The directors do not recommend the payment of a final dividend (2019: £nil).

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.

The Company's approach to financial risk management, including its use of hedging instruments, is explained in note 16 to these financial statements.

E.ON UK Holding Company Limited

Directors' Report for the Year Ended 31 December 2020

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

Foreign exchange risk management

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

Interest rate risk management

The Company operates within the E.ON 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 floating rate borrowings.

Credit risk management

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

Liquidity and cash flow risks

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

Political donations

No political donations were made during the year (2019: £nil).

Future developments

The directors believe that the principal activities of the Company will continue in the current year, in addition to the debt restructuring which is discussed in the post balance sheet event note.

Going concern

Notwithstanding the fact that the Company is loss making and has net current liabilities, the directors have prepared these financial statements on the going concern basis. Following the details of the debt restructuring discussed in the post balance sheet event note, the directors are confident that funding will continue to be provided by other group companies and hence 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.

E.ON UK Holding Company Limited

Directors' Report for the Year Ended 31 December 2020

Important non adjusting events after the financial period

Subsequent to the year end, a debt restructuring was performed with E.ON UK plc, a subsidiary of the Company. This followed the completion of a multi-year sales process to dispose of E.ON UK plc's investments in large scale renewable wind generation. The debt restructuring was as follows:

- A £900 million long-term loan was novated to the Company from E.ON UK plc for its nominal value. The loan is with a fellow group undertaking, has a coupon rate of 6.075% and is due for repayment in 2037.
- A series of medium-term deposits were placed with the Company by E.ON UK plc totalling £2,700 million. These deposits mature over the period from 2024 to 2031 and are fixed rate based on market prices.

On 21 June 2021, the Company also received a dividend of £500 million from E.ON UK plc.

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 these financial statements.

Disclosure of information to the auditors

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

Statement of directors' responsibilities in respect of these financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have prepared these financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework' ('FRS 101'), 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 apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101 have been followed, subject to any material departures disclosed and explained in these financial statements; and
- prepare these financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

E.ON UK Holding Company Limited

Directors' Report for the Year Ended 31 December 2020

Approved by the Board on 23 June 2021 and signed on its behalf by:



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D C A Baumber
Director

E.ON UK Holding Company Limited
Registration No: 01313782
Westwood Way
Westwood Business Park
Coventry
England
CV4 8LG

E.ON UK Holding Company Limited

Independent Auditors' Report to the Members of E.ON UK Holding Company Limited

Report on the audit of the financial statements

Opinion

In our opinion, E.ON UK Holding Company Limited's financial statements:

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

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

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

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

Reporting on other information

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

E.ON UK Holding Company Limited

Independent Auditors' Report to the Members of E.ON UK Holding Company Limited

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

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

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

Strategic report and Directors' report

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities 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.

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

E.ON UK Holding Company Limited

Independent Auditors' Report to the Members of E.ON UK Holding Company Limited

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to data protection legislation, and taxation legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the posting of unusual journals to interest and the manipulation of accounting estimates which could be subject to management bias. Audit procedures performed by the engagement team included:

- discussions with management and the company's legal team, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- evaluation and testing of the operating effectiveness of management's controls designed to prevent and detect irregularities;
- challenging assumptions and judgements made by management in their significant accounting estimates; and
- identifying and testing journal entries, in particular any journal entries posted with unusual account combinations to interest.

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

E.ON UK Holding Company Limited

Independent Auditors' Report to the Members of E.ON UK Holding Company Limited.



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

25 June 2021

E.ON UK Holding Company Limited

Profit and Loss Account for the Year Ended 31 December 2020

	Note	2020 £ m	2019 £ m
Administrative expenses excluding impairments		-	(3)
Reversal/(impairment) of financial assets		<u>1</u>	<u>(7)</u>
Administrative expenses		1	(10)
Other operating income		<u>-</u>	<u>1</u>
Operating profit/(loss)	3	1	(9)
Income from shares in group undertakings		-	4
Interest receivable and similar income	5	15	28
Interest payable and similar expenses	6	<u>(100)</u>	<u>(144)</u>
Loss before tax		(84)	(121)
Tax on loss	8	<u>-</u>	<u>(10)</u>
Loss for the financial year		<u>(84)</u>	<u>(131)</u>

The notes on pages 15 to 41 form an integral part of these financial statements.

E.ON UK Holding Company Limited

Statement of Comprehensive Income for the Year Ended 31 December 2020

	2020	2019
	£ m	£ m
Loss for the financial year	<u>(84)</u>	<u>(131)</u>
Items that may be reclassified subsequently to profit or loss		
Cash flow hedge	20	(49)
Exchange movement on debt in cash flow hedges	(27)	33
Income tax effect	<u>1</u>	<u>3</u>
Total other comprehensive expense	<u>(6)</u>	<u>(13)</u>
Total comprehensive expense for the year	<u><u>(90)</u></u>	<u><u>(144)</u></u>

The notes on pages 15 to 41 form an integral part of these financial statements.

E.ON UK Holding Company Limited

(Registration number: 01313782)
Balance Sheet as at 31 December 2020

	Note	31 December 2020 £ m	31 December 2019 £ m
Fixed assets			
Investments	9	5,300	5,300
Current assets			
Debtors: amounts falling due after more than one year	10	15	14
Debtors: amounts falling due within one year	11	1,777	1,891
		1,792	1,905
Creditors: amounts falling due within one year	12	(4,690)	(4,415)
Net current liabilities		(2,898)	(2,510)
Total assets less current liabilities		2,402	2,790
Creditors: amounts falling due after more than one year	13	(874)	(1,171)
Provisions for liabilities	14	-	(1)
Net assets		1,528	1,618
Capital and reserves			
Called up share capital	15	911	911
Other reserves	17	3	9
Profit and loss account		614	698
Shareholders' funds		1,528	1,618

The financial statements on pages 11 to 41 were approved by the Board of directors on 23 June 2021 and signed on its behalf by:



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D C A Bamber
Director

E.ON UK Holding Company Limited
Registration No: 01313782

E.ON UK Holding Company Limited

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

	Called up share capital £ m	Other reserves £ m	Profit and loss account £ m	Shareholders' funds £ m
At 1 January 2020	911	9	698	1,618
Loss for the financial year	-	-	(84)	(84)
Cash flow hedge	-	20	-	20
Exchange movement on debt in cash flow hedges	-	(27)	-	(27)
Income tax effect	-	1	-	1
Total comprehensive expense	-	(6)	(84)	(90)
At 31 December 2020	<u>911</u>	<u>3</u>	<u>614</u>	<u>1,528</u>

	Called up share capital £ m	Other reserves £ m	Profit and loss account £ m	Shareholders' funds £ m
At 1 January 2019	911	22	829	1,762
Loss for the financial year	-	-	(131)	(131)
Cash flow hedge	-	(49)	-	(49)
Exchange movement on debt in cash flow hedges	-	33	-	33
Income tax effect	-	3	-	3
Total comprehensive expense	-	(13)	(131)	(144)
At 31 December 2019	<u>911</u>	<u>9</u>	<u>698</u>	<u>1,618</u>

The notes on pages 15 to 41 form an integral part of these financial statements.

E.ON UK Holding Company Limited

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

1 General information

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

The Company acts as a holding company and services the funding requirements of UK companies within the E.ON SE group.

The address of its registered office is:

Westwood Way
Westwood Business Park
Coventry
England
CV4 8LG

2 Accounting policies

Summary of significant accounting policies and key accounting estimates

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

Basis of preparation

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) and 111 (cash flow statement information) 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
- 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

E.ON UK Holding Company Limited

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

2 Accounting policies (continued)

Going concern

Notwithstanding the fact that the Company is loss making and has net current liabilities, the directors have prepared these financial statements on the going concern basis. Following the details of the debt restructuring discussed in the non-adjusting post balance sheet event note, the directors are confident that funding will continue to be provided by other group companies and hence 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.

Exemption from preparing group accounts

These financial statements contain information about E.ON UK Holding Company Limited as an individual company and do not contain consolidated financial information as the parent of a group.

The Company is exempt under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its ultimate parent, E.ON SE, a company incorporated in Germany.

Changes in accounting policy

None of the following standards, interpretations and amendments effective for the first time from 1 January 2020 have had a material effect on these financial statements:

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

Critical accounting judgements 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 and estimates 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. There are no critical judgements or key sources of estimation uncertainty in relation to these financial statements.

Foreign currency transactions and balances

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

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

All exchange differences are included in the profit and loss account except when deferred in other comprehensive income as qualifying cash flow hedges.

E.ON UK Holding Company Limited

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

2 Accounting policies (continued)

Tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in shareholders' funds. In this case, the tax is recognised in other comprehensive income or directly in shareholders' funds, respectively.

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

Deferred 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 profit or loss. 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.

Investments

Investments in subsidiaries are held at cost less accumulated impairment losses.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

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

E.ON UK Holding Company Limited

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

2 Accounting policies (continued)

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. These balances are consolidated at each period end into a single balance with each group company. These transactions are net settled. As a result, the directors consider it appropriate to present inter-company balances within these financial statements on a net basis. 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.

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.

Financial instruments

Hedge accounting

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company designates its derivatives as hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

The E.ON UK plc treasury or E.ON SE group finance teams document at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. Also documented are assessments, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair value of various derivative instruments used for hedging purposes is disclosed in note 17. Movements on the hedging reserve in other comprehensive income are shown on page 12. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months.

E.ON UK Holding Company Limited

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

2 Accounting policies (continued)

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account.

Amounts accumulated in the cash flow hedge reserve are reclassified to profit or loss in the periods when the hedged item affects profit or loss. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the profit and loss account.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the profit and loss account. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the profit and loss account.

3 Operating profit/(loss)

The reversal of impairment for amounts owed to group undertakings recognised during the year was £1 million (2019: impairment expense of £7 million).

4 Auditors' remuneration

Auditors' remuneration of £44,000 (2019: £31,000) for the audit of these financial statements was borne by E.ON UK plc and not recharged.

5 Interest receivable and similar income

	2020	2019
	£ m	£ m
Other finance income	-	7
Interest receivable from group undertakings	3	5
Interest rate swaps - gains	12	16
	<u>15</u>	<u>28</u>

6 Interest payable and similar expenses

	2020	2019
	£ m	£ m
Interest payable to group undertakings	88	126
Interest rate swaps - losses	12	18
	<u>100</u>	<u>144</u>

E.ON UK Holding Company Limited

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

7 Staff costs

The Company had no employees during the year (2019: none).

The directors received no emoluments from the Company during the year (2019: £nil) in respect of services to the Company.

8 Tax on loss

Tax charged in the profit and loss account

	2020 £ m	2019 £ m
Current taxation		
UK corporation tax	-	(1)
UK corporation tax adjustment to prior periods	-	(2)
	-	(3)
Total current income tax	-	(3)
Deferred taxation		
Arising from origination and reversal of temporary differences	2	12
Deferred tax credit relating to changes in tax rates and laws	(4)	-
Deferred tax prior period adjustment	2	1
Total deferred taxation	-	13
Tax expense in the profit and loss account	-	10

The tax on profit before tax for the year is higher than the standard rate of corporation tax in the UK (2019: higher than the standard rate of corporation tax in the UK) of 19% (2019: 19%).

The differences are reconciled below:

	2020 £ m	2019 £ m
Loss before tax	(84)	(121)
Corporation tax at standard rate	(16)	(23)
Deferred tax expense from unrecognised tax loss or credit	18	32
Deferred tax (credit)/expense relating to changes in tax rates or laws	(4)	2
UK corporation tax adjustment for prior periods	-	(2)
Deferred tax prior period adjustment	2	1
Total tax charge	-	10

E.ON UK Holding Company Limited

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

8 Tax on loss (continued)

In the Spring Budget 2020, the UK 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. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements. In the Spring Budget 2021, the UK Government announced that from 1 April 2023 the corporation tax rate would increase to 25%. This new law was not substantively enacted on the balance sheet date and has therefore not been reflected in these financial statements.

The corporation tax receivable has been reduced by £nil because of group relief surrendered to a fellow group undertaking for which a payment will be received (2019: payment made of £3,000,000). Accordingly, no tax losses are available for carry forward.

Deferred tax

Deferred tax assets and liabilities

	Asset £ m	Liability £ m	Net deferred tax £ m
2020			
Other items	-	-	-
Foreign exchange contracts	(4)	-	(4)
Derivatives	-	4	4
	<u>(4)</u>	<u>4</u>	<u>-</u>
2019			Liability £ m
Other items			-
Foreign exchange contracts			1
Derivatives			-
			<u>1</u>

Deferred tax movement during the year:

	At 1 January 2020 £ m	Recognised in other comprehensive income £ m	At 31 December 2020 £ m
Other items	-	-	-
Foreign exchange contracts	1	(5)	(4)
Derivatives	-	4	4
Net tax liabilities/(assets)	<u>1</u>	<u>(1)</u>	<u>-</u>

E.ON UK Holding Company Limited

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

8 Tax on loss (continued)

Deferred tax movement during the prior year:

	At 1 January 2019 £ m	Recognised in income £ m	Recognised in other comprehensive income £ m	At 31 December 2019 £ m
Other items	(13)	13	-	-
Foreign exchange contracts	(5)	-	6	1
Derivatives	9	-	(9)	-
Net tax (assets)/liabilities	<u>(9)</u>	<u>13</u>	<u>(3)</u>	<u>1</u>

There is a deferred tax asset that has not been recognised in respect of restricted interest payable of £53 million (2019: £35 million). This would only be recognised in the event of a reduction in the restriction of future interest payable which the directors do not consider probable. There are no other unused tax losses or tax credits.

9 Investments

	31 December 2020 £ m	31 December 2019 £ m
Investments in subsidiaries	<u>5,300</u>	<u>5,300</u>
Subsidiaries		£ m
Cost		
At 1 January 2019		<u>10,547</u>
At 31 December 2019		<u>10,547</u>
At 1 January 2020		<u>10,547</u>
At 31 December 2020		<u>10,547</u>
Provision		
At 1 January 2019		5,246
Provision		<u>1</u>
At 31 December 2019		<u>5,247</u>
At 1 January 2020		<u>5,247</u>
At 31 December 2020		<u>5,247</u>
Carrying amount		
At 31 December 2020		<u>5,300</u>
At 31 December 2019		<u>5,300</u>

The directors believe that the carrying value of the investments is supported by either their underlying net assets or through discounted future cashflows based on value in use calculations.

E.ON UK Holding Company Limited

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

9 Investments (continued)

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

Name of subsidiary	Principal activity	Holding	Proportion of ownership interest and voting rights held	
			2020	2019
E.ON UK plc*	Buying and selling renewable energy, ROCs and REGOs and intermediate holding company	Ordinary shares	100%	100%
Powergen Limited*	Non-trading company	Ordinary shares	100%	100%
Powergen UK Investments*	Non-trading company	Ordinary shares	100%	100%
Citigen (London) Limited	Sale of energy services involving the supply of heating hot water and ventilation	Ordinary shares	100%	100%
E.ON Energy ECO Installations Limited (previously known as E.ON UK Cogeneration Limited)	Sale of energy services involving the operation of CHP plants	Ordinary shares	100%	100%
E.ON Energy Installation Services Limited	Hardware installation services for residential customers	Ordinary shares	100%	100%
E.ON Energy Solutions Limited	Sale of electricity, gas and other energy-related products to residential, business and industrial customers throughout Great Britain	Ordinary shares	100%	100%
E.ON IT UK Limited	Non-trading company	Ordinary shares	100%	100%
E.ON Next Energy Limited (formerly known as Npower Direct Limited)	Sale of electricity, gas and other energy-related products to residential and business customers throughout Great Britain	Ordinary shares	100%	100%
E.ON Project Earth Limited	Leasing of ground source heating systems	Ordinary shares	100%	100%
E.ON UK CHP Limited	Sale of energy and related services, primarily from the operation of combined heat and power plants	Ordinary shares	100%	100%
E.ON UK Energy Markets Limited	Energy procurement business	Ordinary shares	100%	100%
E.ON UK Heat Limited	Set up phase of district heating business	Ordinary shares	100%	100%

E.ON UK Holding Company Limited

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

9 Investments (continued)

Name of subsidiary	Principal activity	Holding	Proportion of ownership interest and voting rights held	
			2020	2019
E.ON UK Infrastructure Services Limited (formerly known as E.ON UK Blackburn Meadows Limited)	Operation of biomass plant	Ordinary shares	100%	100%
E.ON UK Steven's Croft Limited	Operation of biomass plant	Ordinary shares	100%	100%
Ergon Overseas Holdings	Non trading company	Ordinary shares	100%	100%
Lighting for Staffordshire Holdings Limited	Holding company of Lighting for Staffordshire Limited, a subsidiary company established for the financing, organisation and operation of a street lighting scheme in Staffordshire, under the Government's Private Finance Initiative Scheme	Ordinary shares	60%	60%
Lighting for Staffordshire Limited	Servicing of street lighting	Ordinary shares	60%	60%
Novo Innovations Limited	Non trading company	Ordinary shares	100%	100%
Powergen Holdings B.V.	Non trading company	Ordinary shares	100%	100%
Powergen International	Non trading company	Ordinary shares	100%	100%
Visioncash	Non trading company	Ordinary A and B shares	100%	100%
Avon Energy Partners Holdings	Dormant company	Ordinary shares	100%	100%
CHN Contractors Limited	Dormant company	Ordinary shares	100%	100%
CHN Electrical Services Limited	Dormant company	Ordinary shares	100%	100%
CHN Group Ltd	Dormant company	Ordinary shares	100%	100%
CHN Special Projects Limited	Dormant company	Ordinary shares	100%	100%
E.ON (Cross-Border) Pension Trustees Limited	Dormant company	Limited by guarantee	100%	100%
E.ON Energy Gas (Eastern) Limited	Dormant company	Ordinary shares	100%	100%
E.ON Energy Gas (Northwest) Limited	Dormant company	Ordinary shares	100%	100%

E.ON UK Holding Company Limited

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

9 Investments (continued)

Name of subsidiary	Principal activity	Holding	Proportion of ownership interest and voting rights held	
			2020	2019
E.ON Next Limited	Dormant company	Ordinary shares	100%	100%
E.ON UK Directors Limited	Dormant company	Ordinary shares	100%	100%
E.ON UK Energy Services Limited	Dormant company	Ordinary shares	100%	100%
E.ON UK Industrial Shipping Limited	Dormant company	Ordinary shares	100%	100%
E.ON UK Pension Trustees Limited	Dormant company	Ordinary shares	100%	100%
E.ON UK Property Services Limited	Dormant company	Ordinary shares	100%	100%
E.ON UK PS Limited	Dormant company	Ordinary shares	100%	100%
E.ON UK Secretaries Limited	Dormant company	Ordinary shares	100%	100%
E.ON UK Trustees Limited	Dormant company	Limited by guarantee	100%	100%
East Midlands Electricity Distribution Holdings	Dormant company	Ordinary shares	100%	100%
East Midlands Electricity Share Scheme Trustees Limited	Dormant company	Ordinary shares	100%	100%
Economy Power Limited	Dormant company	Ordinary shares	100%	100%
Energy Collection Services Limited	Dormant company	Ordinary shares	100%	100%
Industry Development Services Limited	Dormant company	Ordinary shares	100%	100%
Matrix Control Solutions Limited	Dormant company	Ordinary shares	100%	100%
Midlands Electricity Limited	Dormant company	Ordinary shares	100%	100%
Powergen Power No. 1 Limited	Dormant company	Ordinary shares	100%	100%
Powergen Power No. 2 Limited	Dormant company	Ordinary shares	100%	100%
Powergen Serang Limited	Dormant company	Ordinary shares	100%	100%

E.ON UK Holding Company Limited

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

9 Investments (continued)

Name of subsidiary	Principal activity	Holding	Proportion of ownership interest and voting rights held	
			2020	2019
The Power Generation Company Limited	Dormant company	Ordinary shares	100%	100%
Utility Debt Services Limited	Dormant company	Ordinary shares	100%	100%

* indicates direct investment

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

The only exception to this is Powergen Holdings B.V. which is registered in the Netherlands.

Associates

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

Name of associate	Principal activity	Proportion of ownership interest and voting rights held	
		2020	2019
Rampion Renewables Limited	Investment holding company	39.93%	39.93%
Hams Hall Management Company Limited	Control, supervision, maintenance and management of the premises known as Hams Hall, Coleshill, Birmingham, for the benefit of the tenants	39%	39%
ECO2 Solutions Group Limited	Supply and installation of solar panels	49%	0%

All of the undertakings disclosed above are incorporated in the United Kingdom. Hams Hall Management Company Limited has a registered office address of Gowling WLG (UK) LLP, Snow Hill, Queensway, Birmingham, B4 6WR, ECO2 Solutions Group Limited has a registered office address of Unit 8 John Samuel Building, Arthur Drive Hoo Farm Industrial Estate, Kidderminster, Worcestershire, DY11 7RA and Rampion Renewables Limited has a registered office of Greenwood House, Westwood Way, Westwood Business Park, Coventry, England, CV4 8PB.

On 29 December 2020, a contract was signed with RWE Renewables UK Limited to sell the 39.93% stake in Rampion Renewables Limited. The completion of the sale occurred on 1 April 2021.

E.ON UK Holding Company Limited

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

10 Debtors: amounts falling due after more than one year

	31 December 2020 £ m	31 December 2019 £ m
Commodity and other derivative financial instruments	<u>15</u>	<u>14</u>

£15 million (2019: £14 million) of derivative financial instruments are classified as non current. Foreign currency swaps, that mature in 2024, have been entered into with E.ON SE with the objective of stabilising the exchange rates, under which certain loans became equivalent to sterling assets of £15 million (2019: £14 million) at interest rates of 6.01%.

11 Debtors: amounts falling due within one year

	31 December 2020 £ m	31 December 2019 £ m
Amounts owed by group undertakings	1,765	1,891
Commodity and other derivative financial instruments	<u>12</u>	<u>-</u>
	<u>1,777</u>	<u>1,891</u>

Amounts owed by group undertakings at 31 December 2020 include the following unsecured loans which are repayable on demand:

A deposit with E.ON SE of £1,349 million (2019: £1,472 million) which bears interest at a rate of LIBOR plus 52 basis points which is repayable on demand and has no fixed repayment date.

A loan to E.ON Connecting Energies Limited of £48 million (2019: £85 million) which bears interest at a rate of LIBOR plus 52 basis points and is a drawdown from a facility of £95 million which has a maturity date of 31 December 2022.

A loan to Green Sky Energy Limited of £25 million (2019: £25 million) which bears interest at a rate of LIBOR plus 52 basis points and is a drawdown from a facility of £31 million which has a maturity date of 31 December 2022.

A loan to Kemsley CHP Limited of £71 million (2019: £27 million) which bears interest at a rate of LIBOR plus 52 basis points and is a drawdown from a facility of £80 million which has a maturity date of 31 December 2022.

All other amounts are unsecured, interest free and repayable on demand.

As at 31 December 2020, the Company had made available to fellow subsidiaries within the E.ON SE group committed facilities totalling £228 million (2019: £193 million), of which £83 million (2019: £55 million) was still available for drawdown.

E.ON UK Holding Company Limited

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

11 Debtors: amounts falling due within one year (continued)

Foreign currency swaps, that mature in 2021, have been entered into with E.ON SE with the objective of stabilising the exchange rates, under which certain loans became equivalent to sterling assets of £12 million (2019: £ nil) at interest rates of 6.01%.

Amounts owed by group undertakings are stated after loss allowances of £7 million (2019: £1 million).

12 Creditors: amounts falling due within one year

	31 December 2020 £ m	31 December 2019 £ m
Amounts due to group undertakings	4,682	4,410
Commodity and other derivative financial instruments	3	-
Other creditors	<u>5</u>	<u>5</u>
	<u>4,690</u>	<u>4,415</u>

During 2020, the following amounts owed to group undertakings were moved to Creditors falling due in less than one year:

Three unsecured loans totalling €350 million from MEON Pensions GmbH which bear interest at an interest at a weighted average rate of 5.8% and are due for repayment in 2021.

Amounts owed to group undertakings at 31 December 2020 include the following unsecured loan which is repayable on demand:

A loan of £4,303 million (2019: £4,350 million) from E.ON UK plc which bears interest at LIBOR minus 5 basis points and currently rolls forward (principal and interest) on a daily basis.

Foreign currency swaps have been entered into with E.ON SE with the objective of stabilising the exchange rates, under which certain loans became equivalent to sterling borrowings of £nil (2019: £nil) at interest rates of 6.01%.

All other amounts owed to group undertakings are unsecured, interest free and repayable on demand.

Subsequent to the year end, the Company restructured its debt portfolio with a corresponding decrease in the amounts owed to related parties due within one year. Further details are provided in note 18.

E.ON UK Holding Company Limited

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

13 Creditors: amounts falling due after more than one year

	31 December 2020 £ m	31 December 2019 £ m
Commodity and other derivative financial instruments	-	10
Amounts due to group undertakings	874	1,161
	<u>874</u>	<u>1,171</u>

During 2020, the following amounts owed to group undertakings were moved to Creditors falling due within one year:

Three unsecured loans totalling €350 million (2019: €350 million) from MEON Pensions GmbH which bear interest at a weighted average rate of 5.8% and are due for repayment in 2021.

Amounts owed to group undertakings at 31 December 2020 include the following unsecured loans:

A loan of £700 million (2019: £700 million) from E.ON SE which bears interest at a rate of 7.4% and is due for repayment in January 2039.

Two loans totalling €200 million (2019: two loans totalling €200 million) from MEON Pensions GmbH which bear interest at a weighted average rate of 5.9% and are due for repayment in 2024.

Foreign currency swaps have been entered into with E.ON SE with the objective of stabilising the exchange rates, under which certain loans became equivalent to sterling borrowings of £nil (2019 £10 million) at interest rates of 6.01%.

Subsequent to the year end, the Company restructured the debt portfolio of itself and its direct subsidiary, E.ON UK plc. This has resulted in a reduction in the amounts falling due within one year but an increase in amounts falling due after more than one year. The key changes are the receipt of a £900 million loan liability novated from E.ON UK plc which incurs interest of 6.075% and is due for repayment in 2037, and a series of four fixed terms deposits from E.ON UK plc totalling £2,700 million and maturing in 2024, 2026, 2028 and 2031.

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

	31 December 2020 £ m	31 December 2019 £ m
In more than one year, but no more than two years	-	301
In more than two years, but no more than five years	174	170
In more than five years	700	700
	<u>874</u>	<u>1,171</u>

E.ON UK Holding Company Limited

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

14 Provisions for liabilities

	Deferred tax £m	Total £m
At 1 January 2020	1	1
Provisions utilised	(1)	(1)
At 31 December 2020	-	-

15 Called up share capital

	2020 £m	2019 £m
Allotted, called up and fully paid	911	911
7,410,900,576 (2019: 7,410,900,576) ordinary shares of £0.123 each		

16 Financial risk review

This note presents information about the Company's exposure to financial risks and the Company's management of capital.

Credit risk

In order to minimise credit risk arising from the use of financial instruments and from operating activities, the Company enters into transactions only with counterparties that satisfy the E.ON SE group's internally established minimum requirements. Maximum credit risk limits are set on the basis of credit quality ratings established internally, and from Moody's and Standard & Poor's. The setting and monitoring of credit limits is subject to certain minimum requirements applicable throughout the E.ON SE group. Long-term contracts arising from the operating activities and asset management transactions are not included in this process. The maximum exposure to credit risk at the reporting date is the carrying value of the derivative financial instruments and the amounts owed by group undertakings.

Financial assets are considered to be at greater risk of impairment where there is a significant increase in credit risk, being a decrease in internal rating of at least three tiers. Amounts are written off where there is no reasonable expectation of recovery. Indicators of this can include insolvency and legal disputes regarding repayment.

	2020 £m	2019 £m
Receivables - Existing companies with no defaults in past.	1,765	1,891
BBB+ to BBB- Derivative financial instruments (S&Ps)	27	14
	1,792	1,905

E.ON UK Holding Company Limited

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

16 Financial risk review (continued)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Following a review it has been agreed that as all the financial agreements are within the E.ON SE group, any liquidity risk is minimal. The E.ON UK plc treasury team monitors rolling forecasts of the liquidity requirements to ensure that the Company has sufficient cash to meet operational needs at all times to ensure that borrowing limits are not breached. Any surplus cash held by the Company is transferred to E.ON SE.

Maturity analysis for financial liabilities

The following tables set out the remaining contractual maturities of the Company's financial liabilities by type.

	Carrying amount £ m	Expected cash flows £ m	< 1 year £ m	1 to < 2 years £ m	2 to < 5 years £ m	More than 5 years £ m
As at 31 December 2020						
Borrowings	(5,556)	(6,609)	(4,765)	(62)	(356)	(1,426)
Interest rate swaps (net)	-	-	-	-	-	-
Cross currency swaps (net)	<u>24</u>	<u>18</u>	<u>11</u>	<u>-</u>	<u>7</u>	<u>-</u>

	Carrying amount £ m	Expected cash flows £ m	< 1 year £ m	1 to < 2 years £ m	2 to < 5 years £ m	More than 5 years £ m
As at 31 December 2019						
Borrowings	(5,571)	(6,700)	(4,490)	(377)	(356)	(1,477)
Interest rate swaps (net)	1	(1)	-	(1)	-	-
Cross currency swaps (net)	<u>3</u>	<u>(14)</u>	<u>(3)</u>	<u>(7)</u>	<u>(4)</u>	<u>-</u>

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments.

The Company acts as a holding company and does not enter into trades or sales and as such has no commodity price risk.

E.ON UK Holding Company Limited

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

16 Financial risk review (continued)

Foreign exchange risk

The Company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Euros, which arise when recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The E.ON SE board require group companies to manage their foreign exchange risk against their functional currency. The Company hedges its entire foreign exchange risk exposure with E.ON SE.

All foreign exchange rate exposure is hedged and therefore it is expected that movements in foreign exchange rates will have no impact on post tax profit or losses.

The Company uses cross currency swaps to manage the foreign exchange exposure. Cross currency swaps are entered into to convert long term Euro loans into equivalent sterling loans. They are designated as cash flow hedges under FRS 101. Currency swaps are valued separately at their forward rates and prices as of the balance sheet date.

The effects of the cross currency swaps on the Company's financial position and performance are as follows:

	2020		2019	
	Asset	Liability	Asset	Liability
Cross currency swaps				
Carrying amount	£24m	-	£6m	(£3m)
Notional amount	€550m	-	€300m	€250m
Maturity date	2021 - 2024	-	2021 - 2024	2021 - 2024
Hedge ratio	1:1	-	1:1	1:1
Change in fair value of outstanding hedging instruments since 1 January	£21m	-	(£21m)	(£14m)
Change in value of hedged item used to determine hedge effectiveness	(£27m)	-	£13m	£11m
Weighted average hedged rate for the year	-	-	-	-

E.ON UK Holding Company Limited

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

16 Financial risk review (continued)

Interest rate risk

The Company's interest rate risk arises from long term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk.

The Company has a portfolio of fixed and floating interest rate debt and, in order to mitigate interest rate risk, arranges interest rate hedges to achieve a desired mix of fixed and floating interest rates, with a range of different maturities. Floating rate financial liabilities bear interest at variable rates determined with reference to LIBOR. The Company seeks to maintain an appropriate mix of fixed and floating rate debt in its overall debt portfolio. The Company has only fixed interest rate exposure in the cash flow hedges.

The Company uses interest rate swaps to manage the foreign exchange exposure. Interest rate swaps are entered into by the Company to convert fixed Euro interest payments into fixed sterling interest payments for long term loans entered into. The fair values of existing instruments to hedge interest rate risk are determined by discounting future cash flows using market interest rates over the remaining term of the instrument.

The Company has considered the impact of the proposed interest rate benchmark reform in 2021 and has concluded that there is no impact or potential exposure on the basis that the interest rate swaps will conclude in July 2021 and are not expected to be replaced.

The effect of the interest rate swaps on the Company's financial position and performance are as follows:

	2020		2019	
	Asset	Liability	Asset	Liability
Interest rate swaps				
Carrying amount	£3m	(£3m)	£8m	(£7m)
Notional amount	€150m	(£131m)	€150m	(£131m)
Maturity date	2021	2021	2021	2021
Hedge ratio	1:1	1:1	1:1	1:1
Change in fair value of outstanding hedging instruments since 1 January	(£5m)	£4m	(£5m)	£3m
Change in value of hedged item used to determine hedge effectiveness	-	-	-	-
Weighted average hedged rate for the year	-	-	-	-

E.ON UK Holding Company Limited

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

16 Financial risk review (continued)

Effect of IBOR reform

Following the financial crisis, the reform and replacement of benchmark interest rates such as GBP LIBOR and other inter-bank offered rates ('IBORS') has become a priority for global regulators. There remains some uncertainty around the timing and precise nature of these changes. The Company has a number of contracts which reference GBP LIBOR and extend beyond 2021.

It is currently expected that SONIA (Sterling Overnight Index Average) will replace GBP LIBOR. There remain key differences between GBP LIBOR and SONIA. GBP LIBOR is a 'term rate', which means that it is published for a borrowing period (such as three months or six months) and is 'forward looking', because it is published at the beginning of the borrowing period. SONIA is currently a 'backward looking' rate, based on overnight rates from actual transactions, and it is published at the end of the overnight borrowing period. Furthermore, LIBOR includes a credit spread over the risk-free rate, which SONIA currently do not. To transition existing contracts and agreements that reference GBP LIBOR to SONIA, adjustments for term differences and credit differences might need to be applied to SONIA, to enable the two benchmark rates to be economically equivalent on transition.

There are net inter-company borrowings of £1,490 million linked to LIBOR, but specific changes required for the IBOR reform have not yet been agreed.

Capital risk management

Capital management

The Company defines capital as called up share capital and profit and loss account.

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for its shareholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to its shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Cash flow hedges

The following tables indicate the periods in which the discounted cash flows associated with cash flow hedging instruments are expected to affect the profit and loss:

	Carrying amount £ m	Expected cash flows £ m	< 1 year £ m	1 to < 2 years £ m	2 to < 5 years £ m
As at 31 December 2020					
- Interest rate swaps assets	3	3	3	-	-
- Interest rate swaps liabilities	(3)	(3)	(3)	-	-
- Cross currency swaps assets	24	24	9	-	15
- Cross currency swaps liabilities	-	-	-	-	-
	<u>24</u>	<u>24</u>	<u>9</u>	<u>-</u>	<u>15</u>

E.ON UK Holding Company Limited

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

16 Financial risk review (continued)

	Carrying amount £m	Expected cash flows £m	< 1 year £m	1 to < 2 year £m	2 to < 5 year £m
As at 31 December 2019					
- Interest rate swaps assets	8	8	-	8	-
- Interest rate swaps liabilities	(7)	(7)	-	(7)	-
- Cross currency swaps assets	6	6	-	-	6
- Cross currency swaps liabilities	(3)	(3)	-	(3)	-
	<u>4</u>	<u>4</u>	<u>-</u>	<u>(2)</u>	<u>6</u>

17 Financial instruments

Financial instruments by category

	Amortised cost £ m	At fair value through profit and loss £ m	Total £ m
Assets at 31 December 2020			
Derivative financial instruments assets	-	27	27
Amounts owed by group undertakings	1,765	-	1,765
	<u>1,765</u>	<u>27</u>	<u>1,792</u>
Liabilities at 31 December 2020			
Derivative financial instruments liabilities	-	(3)	(3)
Amounts due to group undertakings	(5,556)	-	(5,556)
Other creditors	(5)	-	(5)
	<u>(5,561)</u>	<u>(3)</u>	<u>(5,564)</u>

E.ON UK Holding Company Limited

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

17 Financial instruments (continued)

	Amortised cost £ m	At fair value through profit and loss £ m	Total £ m
Assets at 31 December 2019			
Derivative financial instruments assets	-	14	14
Amounts owed by group undertakings	1,891	-	1,891
	<u>1,891</u>	<u>14</u>	<u>1,905</u>
Liabilities at 31 December 2019			
Derivative financial instruments liabilities	-	(10)	(10)
Amounts due to group undertakings	(5,571)	-	(5,571)
Other creditors	(5)	-	(5)
	<u>(5,576)</u>	<u>(10)</u>	<u>(5,586)</u>

There is no material difference between the carrying amount and the fair value amount of the financial assets and liabilities disclosed above.

Fair value hierarchy

Financial assets and financial liabilities measured and held at fair value are classified into one of three categories, known as hierarchy levels, which are defined according to the inputs used to measure fair value as follows:

- Level 1: fair value is determined using observable inputs that reflect unadjusted quoted market prices for identical assets and liabilities;
- Level 2: fair value is determined using significant inputs that may be directly observable inputs or unobservable inputs that are corroborated by market data; and
- Level 3: fair value is determined using significant unobservable inputs that are not corroborated by market data and may be used with internally developed methodologies that result in management's best estimate of fair value.

E.ON UK Holding Company Limited

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

17 Financial instruments (continued)

The following table presents the Company's assets and liabilities that are measured at fair value at 31 December 2020.

	Level 1 £m	Level 2 £m	Level 3 £m	Fair value £m	Carrying value £m
Financial assets					
Derivatives used for hedging					
Interest rate swaps asset	-	3	-	3	3
Cross currency swaps asset	-	24	-	24	24
Total financial assets	<u>-</u>	<u>27</u>	<u>-</u>	<u>27</u>	<u>27</u>
Financial liabilities					
Derivatives used for hedging					
Interest rate swaps liability	-	3	-	3	3
Cross currency swaps liability	-	-	-	-	-
Total financial liabilities	<u>-</u>	<u>3</u>	<u>-</u>	<u>3</u>	<u>3</u>

The following table presents the Company's assets and liabilities that are measured at fair value at 31 December 2019.

	Level 1 £m	Level 2 £m	Level 3 £m	Fair value £m	Carrying value £m
Financial assets					
Derivatives used for hedging					
Interest rate swaps asset	-	8	-	8	8
Cross currency swaps asset	-	6	-	6	6
Total financial assets	<u>-</u>	<u>14</u>	<u>-</u>	<u>14</u>	<u>14</u>
Financial liabilities					
Derivatives used for hedging					
Interest rate swaps liability	-	(7)	-	(7)	(7)
Cross currency swaps liability	-	(3)	-	(3)	(3)
Total financial liabilities	<u>-</u>	<u>(10)</u>	<u>-</u>	<u>(10)</u>	<u>(10)</u>

During the year, there have been no transfers from Level 1 to Level 2. There have also been no transfers from Level 2 to Level 1 in the year (2019: no transfers in either direction). At 31 December 2020, the Company did not have any liabilities classified at Level 3 of the fair value hierarchy (2019: none).

E.ON UK Holding Company Limited

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

17 Financial instruments (continued)

Financial instruments in Level 2

The following is a summary of the methods and assumptions used for the valuation of derivative financial instruments, together with their classification according to the IFRS 7 fair value hierarchy, where they cannot be observed directly from quoted prices (Level 1):

- Interest rate swaps are entered into by the Company to convert fixed Euro interest payments into fixed sterling interest payments for long term loans entered into. The fair values of existing instruments to hedge interest rate risk are determined by discounting future cash flows using market interest rates over the remaining term of the instrument (Level 2).
- Cross currency swaps are entered into to convert long term Euro loans into equivalent sterling loans. They are designated as cash flow hedges under FRS 101. Currency swaps are valued separately at their forward rates and prices as of the balance sheet date. Forward rates and prices are based on market quotations, with forward premiums and discounts taken into consideration (Level 2).

To the extent that hedges are effective changes in the fair value are recognised directly in equity, with any ineffectiveness recognised in the income statement. No derivative instruments are held for trading.

Valuation

The fair value of derivative instruments is sensitive to movements in underlying market rates and other relevant variables. The Company assesses and monitors the fair value of derivative instruments on a periodic basis. Fair values for each derivative financial instrument are determined as being equal to the price at which one party would assume the rights and duties of another party, and calculated using either quoted prices or common market valuation methods, with reference to available market data, as of the balance sheet date.

Derivative financial instruments

	Assets 2020 £ m	Liabilities 2020 £ m	Assets 2019 £ m	Liabilities 2019 £ m
Interest rate swaps - cash flow hedge	3	(3)	8	(7)
Cross currency swaps - cash flow hedge	24	-	6	(3)
	<u>27</u>	<u>(3)</u>	<u>14</u>	<u>(10)</u>
Non current portion	15	-	14	(10)

The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and, as a current asset or liability, if the maturity of the hedged item is less than 12 months.

The ineffective portion recognised in the profit and loss account that arises from cash flow hedges amounts to a profit of £243,842 (2019: loss of £382,242).

E.ON UK Holding Company Limited

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

17 Financial instruments (continued)

The Company's hedging reserves disclosed in the statement to changes in equity relate to the following hedging instruments:

Cash flow hedge reserve

	Cost of hedging reserve £ m	Cash flow hedge reserve £ m	Total £ m
Opening balance at 1 January 2019	9	13	22
Change in fair value of hedging instrument recognised in OCI	-	(45)	(45)
Costs of hedging deferred and recognised OCI	(4)	-	(4)
Reclassified from OCI to profit or loss	-	33	33
Deferred tax	-	3	3
Closing balance 31 December 2019	<u>5</u>	<u>4</u>	<u>9</u>
Change in fair value of hedging instrument recognised in OCI	-	22	22
Costs of hedging deferred and recognised OCI	(2)	-	(2)
Reclassified from OCI to profit or loss	-	(27)	(27)
Deferred tax	-	1	1
Closing balance 31 December 2020	<u><u>3</u></u>	<u><u>-</u></u>	<u><u>3</u></u>

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument.

For hedges of foreign currency purchases, the Company enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item. The Company therefore performs a qualitative assessment of effectiveness. If changes in circumstances affect the terms of the hedged item such that the critical terms no longer match exactly with the critical terms of the hedging instrument, the Company uses the hypothetical derivative method to assess effectiveness.

In hedges of foreign currency purchases, ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated, or if there are changes to the credit risk of the Company or the derivative counterparty.

The Company enters into interest rate swaps that have similar critical terms as the hedged item, such as notional amounts. The Company hedges 100% of its loans. During 2020 there was some ineffectiveness in the hedging relationship which has been recognised in the profit and loss account.

Hedge ineffectiveness for interest rate swaps is assessed using the same principles as for hedges of foreign currency purchases. It may occur due to the credit value/debit value adjustment on interest rate swaps which is not matched by the loan, and differences in critical terms between the interest rate swaps and loans.

E.ON UK Holding Company Limited

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

17 Financial instruments (continued)

Fair value of financial instruments

	Carrying value 2020 £ m	Carrying value 2019 £ m	Fair value 2020 £ m	Fair value 2019 £ m
Assets				
Amounts owed by group undertakings	1,765	1,891	1,765	1,891
Derivative financial instruments	27	14	27	14
	<u>1,792</u>	<u>1,905</u>	<u>1,792</u>	<u>1,905</u>
Liabilities				
Amounts due to group undertakings	(5,556)	(5,571)	(6,621)	(6,700)
Derivative financial instruments	(3)	(10)	(3)	(10)
	<u>(5,559)</u>	<u>(5,581)</u>	<u>(6,624)</u>	<u>(6,710)</u>

Within assets amounts owed by group undertakings, are balances owed by E.ON SE group companies and are repayable on demand.

Within liabilities amounts due to group undertakings, are balances which are repayable on demand as well as long term loans.

18 Non adjusting events after the financial period

Subsequent to the year end, a debt restructuring was performed with E.ON UK plc, a subsidiary of the Company. This followed the completion of a multi-year sales process to dispose of E.ON UK plc's investments in large scale renewable wind generation. The debt restructuring was as follows:

- A £900 million long-term loan was novated to the Company from E.ON UK plc for its nominal value. The loan is with a fellow group undertaking, has a coupon rate of 6.075% and is due for repayment in 2037.
- A series of medium-term deposits were placed with the Company by E.ON UK plc totalling £2,700 million. These deposits mature over the period from 2024 to 2031 and are fixed rate based on market prices.

On 21 June 2021, the Company also received a dividend of £500 million from E.ON UK plc.

E.ON UK Holding Company Limited

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

19 Ultimate holding company

The immediate parent undertaking is E.ON Finanzanlagen GmbH. 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.