Registration number: 03407430

# E.ON Energy Solutions Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2020

# E.ON Energy Solutions 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 Energy Solutions Limited ("the Company").

**Fair review of the business**

The Company's turnover during the year was £5,500 million (2019: £5,841 million), a decrease of £341 million compared to the prior year. The COVID-19 pandemic has suppressed demand during 2020 for electricity and gas with higher market churn resulting in lower customer numbers and continued energy efficiency leading to lower average customer consumption.

The Company's other operating income during the year was £146 million (2019: £143 million), an increase of £3 million compared to the prior year. The increase primarily relates to higher staff recharges to other E.ON Group companies, offset by a reduction in ancillary income due to the COVID-19 pandemic.

The Company's operating loss for the year was £246 million compared to an operating loss of £75 million in the prior year, primarily due to COVID-19 impacts, higher market churn, higher restructuring costs and higher impairments.

During the year, the Company made a loss after tax of £186 million (2019: loss after tax of £73 million). The directors believe that the continued challenging market conditions will continue to drive high churn levels during 2021 and put pressure on margin levels.

At 31 December 2020, the Company had net assets of £742 million (2019: net assets of £928 million). The reduction in net assets was primarily attributable to the impairments recognised during the year and operational losses.

The Company sells electricity and gas to the residential and business sector; the latter encompassing both Small and Medium Enterprises ('SME') and Industrial and Commercial ('I&C') customers throughout the United Kingdom. As of 31 December 2020, the Company supplied approximately 6,106,000 (2019: 6,141,000) customer accounts, of which 5,663,000 (2019: 5,693,000) were residential customer accounts and 443,000 (2019: 448,000) were SME and I&C accounts.

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

The Company continues to focus on its Net Promoter Score ('NPS') given by residential customers as a key measure of satisfaction. NPS stood at -13 (2019: -18) (in a scale of -100 to +100) at the year end. This represents an improvement from the prior year.

During 2020, as part of the Transformation UK project, the Company made the decision to migrate its residential and SME customers to a fellow group undertaking, E.ON Next Energy Limited ('E.ON Next') which will service all legacy Npower and E.ON residential and SME customers going forward. E.ON Next uses a new state of the art billing platform and provides a differential, superior customer experience enabled by technology with the customer at the heart of all acting and thinking. The migration of the Company's residential and SME customers to E.ON Next commenced in 2021.

In addition, the Company's City Energy Solutions business will be transferred to a fellow group undertaking in 2021. The results for these businesses are shown as discontinued operations in these financial statements with the relevant assets and liabilities classified as held for sale at the balance sheet date.

In the industry as a whole, electricity consumption in England, Scotland and Wales during the year was 281 billion kWh compared to 294 billion kWh in the prior year, a decrease of 4%. Gas consumption (excluding power stations) was 481 billion kWh in 2019 compared with 507 billion kWh in 2019, a decrease of 5%.

During 2020, the Company incurred significant reorganisation and restructuring costs of £125 million relating primarily to the Transformation UK project, compared to £65 million for the Transformation UK and Quick Wins projects in 2019. Additionally, the Company's customer and billing platform ICE was fully written off in the year, following the decision to migrate its residential and SME customers to the new E.ON Next platform and to migrate its I&C customers to a different billing platform.

**Residential customers**
In the residential sector, the Company sold 12.1 TWh of electricity and 28.6 TWh of gas in 2020, compared with 12.1 TWh of electricity and 29.2 TWh of gas in 2019. The decrease in gas consumption was driven by the impact of fewer customers on supply and the weather factors seen particularly in the first quarter of 2020.

**SME and I&C customers**
In the SME and I&C sectors, the Company sold 13.8 TWh of electricity and 9.7 TWh of gas in 2020, compared with 15.4 TWh of electricity and 11.6 TWh of gas in 2019. The decrease in electricity and gas consumption was driven by the impact of fewer customers on supply and the weather factors seen particularly in the first quarter of 2020.

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

**Future developments**
During 2020, the migration of residential and SME customers from Npower to the new state of the art billing platform within the new E.ON Next business commenced. Full migration of the Company's residential and SME customers onto the new E.ON Next platform will also be completed during 2022, following the decision to transfer these customers to E.ON Next and the subsequent agreement signed in 2021 to sell those customers. Furthermore, a decision has also been made to transfer the Company's I&C customers onto a new billing platform, with a pilot commenced, and a decision in principle to combine these customers with Npower's I&C customers within a separate company. The migration of the Company's I&C customers to the new billing platform is expected to commence during Q4 2021 and be completed during 2022.

On 14 September 2020, the Company signed an agreement to transfer its City Energy Solutions business to a fellow group undertaking at book value. The transfer is expected to commence during 2021.

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

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

The Company's key performance indicators during the year were as follows:

| | Unit | 2020 | 2019 |
|---|---|---|---|
| Volumes of electricity sold | TWh | 25.90 | 27.50 |
| Volumes of gas sold | TWh | 38.30 | 40.80 |
| Residential customer NPS (range of -100 to +100) | | (13.00) | (18.00) |
| Customer account numbers at year end | million | 6.11 | 6.14 |
| Compliant smart meters fitted | thousands | 598.00 | 863.00 |

The COVID-19 pandemic suppressed demand in 2020 for electricity and gas, together with weather factors in the first quarter of 2020.

In absolute terms the NPS score has increased from 2019. This has been driven by scores in the 'Value' and 'Product' category.

Customer account numbers have reduced as market churn levels have remained high throughout 2020 due to the competitively challenging market.

The COVID-19 pandemic and various lockdowns has impacted the ability to install smart meters in 2020.

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

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

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

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

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

*Weather and climate risk*
This risk arises due to the impact that weather or response to climate changes have on the demand for energy and the impact on the Company's sales. The Company uses a demand management system and weather derivatives to manage this risk.

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

**Brexit**

Britain 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.

**COVID-19**

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

At the end of the first half of 2021, the overall risk situation of the Company's operating business had remained at a similar level relative to year end 2020. The risk profile reflects the business implications of COVID-19 on the basis of a conservative scenario analysis. The main risk factors in the sales business are volume and price effects, including credit losses. Despite the impact of COVID-19, the directors believe that the Company can meet its obligations as they fall due for a period of at least twelve months from the date of approval of these financial statements.

**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 interests of a company's employees;
(c) the need to foster the Company's business relationships with suppliers, customers and others;
(d) the impact of the Company's operations on the community and the environment;
(e) the desirability of the Company maintaining a reputation for high standards of business conduct; and
(f) 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 Customer Solutions division of E.ON SE. The board of management of E.ON SE manages the group's operations on a global and divisional basis. The E.ON SE group has in place detailed policies and governance frameworks within which its subsidiaries must operate, including the Company. From the perspective of the directors, due to the E.ON SE group governance structure, the matters that they are responsible for considering under section 172(1) of the Act are also considered to an appropriate extent by the E.ON SE group management board in relation both to the E.ON SE group and the Company. The directors consider the factors detailed under section 172(1) of the Act are within the framework of the strategy set by the board of management of E.ON SE.

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

The directors believe that effective and meaningful engagement with stakeholders is key to promoting the success of the Company. The Company's key stakeholders and how the Company has engaged with these stakeholders is set out below:

*1. Customers*

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

*2. Employees*

The Company has no employees but it is recharged by E.ON UK plc for the services of certain employees. The Company ensures that E.ON UK plc has employment policies which are designed to attract, retain and motivate the very best people recognising that this can only be achieved through offering equal opportunities for all irrespective of sex, race, marital status, age or disability. The employment practices and procedures of E.ON UK plc are regularly reviewed to ensure that they provide equality of opportunity to all employees within the current legislative framework. The employment policies of E.ON UK plc are discussed in further detail in the financial statements of E.ON UK plc, which do not form part of this report.

*3. Suppliers*

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

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

*4. Communities and the environment*

Society expects increasingly more of the energy industry, particularly of large energy companies. The Company is committed to providing answers to questions about climate change, energy efficiency and what tomorrow's energy supply will look like. The Company continues to engage in dialogue with its stakeholders and customers and seeks to deal with society's evolving expectations. The Company's ability to remain successful over the long term depends in part on incorporating its stakeholders' and customers' interests and expectations into the way it operates its business.

The Company and other affiliated companies of E.ON UK plc now reach nearly a fifth of households and small businesses across Britain and it is through our customers' energy use that we make our most material contribution to communities and the environment. This is why our residential and eligible small business customers now receive 100% renewable electricity on all tariffs, as standard, at no extra cost. To help our customers on the energy transition, we are also continuing the roll-out of smart meters which is a key enabler for supporting broader system changes. We are working with a number of local authorities across the country to help them upgrade homes of vulnerable customers with energy efficiency, solar and heat pumps through the Green Homes Grant Local Authority Delivery Scheme and the Energy Company Obligation.

The Company is proud to have the Alzheimer's Society as its charity partner. The Alzheimer's Society is the UK's leading dementia charity which campaigns for change, fund research to find a cure and support people living with dementia.

In the nearly five years of partnership we have raised and donated over £350,000, helping to fund dementia support workers who support people who have had a recent dementia diagnosis. In addition, over 5,000 E.ON colleagues have taken part in a dementia friends session, helping them to understand a little bit more about dementia, how it affects people living with the disease and the practical things they can do to help.

*5. Government and regulators*

The Company engages in intensive and constructive dialogue with government agencies and policy makers either directly or through third party organisations, such as trade associations.

Engagement includes CEO Ministerial roundtables on supply market issues, monthly BEIS meetings with senior officials on designing the future Energy Company Obligation and being a member of the BEIS Smart Metering Delivery Group. The Company has also been engaging extensively with BEIS and HM Treasury on the future policies that will be required to deliver the UK's transition to net zero, particularly around decarbonising homes, how to make the electricity system more flexible and demand led, and the important role of suppliers in helping customers upgrade their homes in making the transition to low carbon.

*6. Shareholder group*

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

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

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

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

Approved by the Board on 6 September 2021 and signed on its behalf by:

Christian Barr

C Barr
Director

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

# E.ON Energy Solutions 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

M R French

M D Lewis

C J Lovatt

A S Ainsworth (appointed 15 June 2020)

S L Vaughan (resigned 26 November 2020)

**Principal activity**

The principal activities of the Company are the supply of electricity, the shipping and supply of natural gas and the provision of other energy related services to residential, SME and I&C customers.

**Results and dividends**

The Company's loss for the financial year is £186 million (2019: loss of £73 million). 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 E.ON UK plc treasury team employs a continuous forecasting and monitoring process to ensure that the Company complies with all its banking and other covenants that apply to the financing of the UK business. This team works in close liaison with other E.ON companies operating within the UK, when considering hedging requirements related to their activities. A group-wide cash forecasting and currency exposure reporting process exists which ensures regular reporting into UK treasury of future positions, both short and medium term. Information is submitted to E.ON SE for incorporation into the E.ON SE group's forecasting processes on a weekly and quarterly basis.

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

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

*Price risk*

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

*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*

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

*Liquidity and cash flow risks*

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

**Political donations**

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

**Corporate governance**

The Company adheres to the detailed policies and governance frameworks outlined by the E.ON SE group, which is indirectly in adherence to the 'Government Commission German Corporate Governance Code'. Further discussion of corporate governance is included in the Strategic Report.

**Employees**
Further discussion of employees is included in the Strategic Report.

**Stakeholder engagement**
For information regarding how the directors have engaged with stakeholders, such as suppliers, customers and others during the financial year, please see the Statement made under Section 172(1) of the Companies Act 2006 in the Strategic report, which is incorporated into this Directors' report by reference and forms an integral part of this report.

**Environmental report**
The Company is required to report the below information under the Streamlined Energy and Carbon Reporting guidance. As this is the first year of reporting, the Company is not required to disclose information for the previous financial year.

*Emissions and energy consumption*
Greenhouse Gas emissions have been calculated in accordance with the GHG Protocol Corporate Standard, using activity data derived from manual meter reads of electricity and gas consumption data, fuel purchase records and business mileage expenses claims. Emissions factors have been obtained from the 'UK Government GHG Conversion Factors for Company Reporting (2020, V1.0)' in order to calculate GHG emissions.

Summary of scope 1 (direct) greenhouse gas emissions for the year ended 31 December 2020:

| Name and description | Unit of measurement | 2020 |
|---|---|---|
| Emissions from combustion of gas | tCO2e | 53,020 |
| Emissions from combustion of fuel for transport purposes | tCO2e | 5,366 |
| | | 58,386 |

Summary of scope 2 (indirect) greenhouse gas emissions for the year ended 31 December 2020:

| Name and description | Unit of measurement | 2020 |
|---|---|---|
| Emissions from purchased electricity | tCO2e | 2,818 |

Summary of scope 3 (other indirect) greenhouse gas emissions for the year ended 31 December 2020:

| Name and description | Unit of measurement | 2020 |
|---|---|---|
| Emissions from business travel in rental or employee-owned vehicles where the Company is responsible for purchasing the fuel | tCO2e | 133 |

Summary of energy consumption for the year ended 31 December 2020:

| Name and description | Unit of measurement | 2020 |
|---|---|---|
| Energy consumption | kWh | 303,401,081 |

**Intensity ratio**

**tCO2e/FTE Employee**

During the year ended 31 December 2020, the total CO2 emissions per FTE employee was 8.40. The FTE employee measure is based on recharged payroll costs by E.ON UK plc for the services of certain of its employees.

The Company is constantly measuring the performance of its energy solutions to ensure energy use is optimised. Some examples of achievements in 2020 are listed below:
- Increased efficiency of the Loampit Vale District Heating Scheme saving £56,000/annum though reduced parasitic load and reduction in gas demand.
- Improved efficiencies at the Royal Albert Wharf and Maple Quay sites through improved heat management and reduction of thermal losses.

**Future developments**

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

**Going concern**

In adopting the going concern basis for preparing these financial statements, the directors have considered the business activities as set out on page 1 as well as the Company's principal risks and uncertainties as set out on page 3. Based on the Company's current financial position and after taking into account the sale of its residential and SME customers in April 2021, the directors believe that the Company will be able to operate within its current facilities for the foreseeable future, being a period of at least twelve months from the date of approval of these financial statements. The directors have also received confirmation from E.ON UK plc, the Company's immediate parent undertaking, of its intention to financially support the Company such 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. For these reasons, the Company continues to adopt the going concern basis.

**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.

Approved by the Board on 6 September 2021 and signed on its behalf by:

Christian Barr
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C Barr
Director

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

# Report on the audit of the financial statements

## Opinion

In our opinion, E.ON Energy Solutions Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 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 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.

# Independent auditors' report to the members of E.ON Energy Solutions Limited (continued)

## Conclusions relating to going concern

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- review of management's going concern paper including supporting cash flow forecasts:
- review of the financial performance and position of the Company; and
- review of the financial strength of E.ON UK plc as well as the funding available to the Company from E.ON UK plc.

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.

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.

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

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

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to gas and electricity industry regulations, health and safety legislation, employment legislation, 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 revenue and interest, the posting of journal entries to capitalise operating expenses and the manipulation of accounting estimates which could be subject to management bias. Audit procedures performed by the engagement team included:

- inquiries 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;
- reading key correspondence with regulatory authorities in relation to compliance with regulatory requirements;
- 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 revenue, interest and operating expenses.

**Independent auditors' report to the members of E.ON Energy Solutions Limited (continued)**

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.

Mark Skedgel

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

7 September 2021

# E.ON Energy Solutions Limited

## Profit and Loss Account for the Year Ended 31 December 2020

| | Note | Continuing operations 2020 £ m | Discontinued operations 2020 £ m | Total 2020 £ m | Continuing operations 2019 £ m | Discontinued operations 2019 £ m | Total 2019 £ m |
|---|---|---|---|---|---|---|---|
| Turnover | 5 | 370 | 5,130 | 5,500 | 314 | 5,527 | 5,841 |
| Cost of sales | | (249) | (4,603) | (4,852) | (201) | (4,901) | (5,102) |
| Gross profit | | 121 | 527 | 648 | 113 | 626 | 739 |
| Administrative expenses excluding impairments | | (232) | (614) | (846) | (205) | (621) | (826) |
| Net impairment losses on financial assets | | (1) | (113) | (114) | (1) | (69) | (70) |
| Net impairment losses on tangible and intangible assets | | (3) | (77) | (80) | (2) | (59) | (61) |
| Administrative expenses | | (236) | (804) | (1,040) | (208) | (749) | (957) |
| Other operating income | 6 | 114 | 32 | 146 | 88 | 55 | 143 |
| Operating loss | 6 | (1) | (245) | (246) | (7) | (68) | (75) |
| Interest receivable and similar income | | - | - | - | - | 3 | 3 |
| Interest payable and similar expenses | | (1) | - | (1) | (1) | (1) | (2) |
| Loss before tax | | (2) | (245) | (247) | (8) | (66) | (74) |
| Tax on loss | 12 | - | 61 | 61 | 2 | (1) | 1 |
| Loss for the financial year | | (2) | (184) | (186) | (6) | (67) | (73) |

As the Company has no other comprehensive income for the year, a separate statement of comprehensive income has not been presented.

Discontinued operations relate to the Company's residential, SME and I&C energy supply business and its City Energy Solutions business. The prior year has been restated for the purposes of comparability. See note 3 for further details.

# E.ON Energy Solutions Limited

## (Registration number: 03407430)
## Balance Sheet as at 31 December 2020

| | Note | 31 December 2020 £ m | 31 December 2019 £ m |
|---|---|---|---|
| **Fixed assets** | | | |
| Intangible assets (including 2020: £609m held for sale) | 13 | 978 | 1,020 |
| Tangible assets (including 2020: £33m held for sale) | 14 | 275 | 283 |
| Right of use assets (including 2020: £29m held for sale) | 15 | 60 | 70 |
| Investments | 16 | 22 | 22 |
| Other assets (including 2020: £64m held for sale) | 17 | 64 | 61 |
| | | 1,399 | 1,456 |
| **Current assets** | | | |
| Stocks (including 2020: £1m held for sale) | 18 | 40 | 35 |
| Debtors: amounts falling due after more than one year (including 2020: £62m held for sale) | 19 | 81 | 27 |
| Debtors: amounts falling due within one year (including 2020: £609m held for sale) | 20 | 868 | 928 |
| Cash at bank and in hand | | 51 | 81 |
| | | 1,040 | 1,071 |
| **Creditors:** Amounts falling due within one year (including 2020: £1m held for sale) | 21 | (1,105) | (995) |
| **Net current (liabilities)/assets** | | (65) | 76 |
| **Total assets less current liabilities** | | 1,334 | 1,532 |
| **Creditors:** Amounts falling due after more than one year (including 2020: £12m held for sale) | 22 | (32) | (44) |
| **Provisions for liabilities** (including 2020: £75m held for sale) | 23 | (560) | (560) |
| **Net assets** | | 742 | 928 |
| **Capital and reserves** | | | |
| Called up share capital | 24 | 763 | 763 |
| Share premium account | | 41 | 41 |
| Profit and loss account | | (62) | 124 |
| **Shareholders' funds** | | 742 | 928 |

The financial statements on pages 17 to 50 were approved by the Board of directors on 6 September 2021 and signed on its behalf by:

Christian Barr

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

The notes on pages 20 to 50 form an integral part of these financial statements.

# E.ON Energy Solutions Limited

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

| | Called up share capital £ m | Share premium account £ m | Profit and loss account £ m | Shareholders' funds £ m |
|---|---|---|---|---|
| At 1 January 2020 | 763 | 41 | 124 | 928 |
| Loss for the year | - | - | (186) | (186) |
| Total comprehensive expense | - | - | (186) | (186) |
| At 31 December 2020 | 763 | 41 | (62) | 742 |

| | Called up share capital £ m | Share premium reserve £ m | Profit and loss account £ m | Shareholders' funds £ m |
|---|---|---|---|---|
| At 1 January 2019 | 763 | 41 | 197 | 1,001 |
| Loss for the year | - | - | (73) | (73) |
| Total comprehensive expense | - | - | (73) | (73) |
| At 31 December 2019 | 763 | 41 | 124 | 928 |

The notes on pages 20 to 50 form an integral part of these financial statements.

### 1 General information

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

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

The 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), 111 (cash flow statement information) and 134-136 (capital management disclosures) of IAS 1 Presentation of Financial Statements

• The comparative information requirements of paragraph 38 of IAS 1 Presentation of Financial Statements in respect of paragraph 79(a)(iv) of IAS 1, paragraph 73(e) of IAS 16 Property, Plant and Equipment, paragraph 118(e) of IAS 38 Intangible Assets (reconciliations between the carrying amount at the beginning and the end of the year) and paragraph 134 (d-f) of IAS 36 Impairment of Assets

• The requirements of IAS 7 Statement of Cash Flows

• The requirements of Paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

• The requirements of Paragraph 17 of IAS 24 Related Party Disclosures (key management compensation)

## 2 Accounting policies (continued)

• The requirements of Paragraph 18A of IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more wholly owned members of a group

• The requirements of IFRS 7 Financial Instruments: Disclosures

• The requirements of paragraphs 91 to 99 of IFRS 13 Fair Value Measurement (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)

• The requirements of the second sentence of paragraph 110 and paragraphs 113 (a), 114, 115, 118, 119 (a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers

• The requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases

• The requirements of paragraph 58 of IFRS 16, provided that the disclosure of details of indebtedness required by paragraph 61(1) of Schedule 1 to the Regulations is presented separately for lease liabilities and other liabilities, and in total.

**Going concern**
In adopting the going concern basis for preparing these financial statements, the directors have considered the business activities as set out on page 1 as well as the Company's principal risks and uncertainties as set out on page 3. Based on the Company's current financial position and after taking into account the sale of its residential and SME customers in April 2021, the directors believe that the Company will be able to operate within its current facilities for the foreseeable future, being a period of at least twelve months from the date of approval of these financial statements. The directors have also received confirmation from E.ON UK plc, the Company's immediate parent undertaking, of its intention to financially support the Company such 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. For these reasons, the Company continues to adopt the going concern basis.

**Exemption from preparing group accounts**
These financial statements contain information about the Company 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 is 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.

**2 Accounting policies (continued)**

**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.

*Recognition of deferred tax assets (estimate)*

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 future taxable profits. Recognition therefore involves judgement regarding the future financial performance of the Company and the wider E.ON UK group. The carrying value of deferred tax assets are disclosed within notes 19 and 20. To determine the future taxable profit, reference is made to the latest available profit forecasts assessed over the next 20 years with years after year 5 risk weighted for uncertainty.

*Revenue recognition - unread gas and electricity meters (estimation uncertainty)*

Revenue for energy supply activities includes an assessment of energy supplied to customers between the date of the last meter reading and the year end. Unread gas and electricity are estimated using historical consumption patterns taking into account the industry reconciliation process for total gas and total electricity usage by supplier. Unbilled amounts are included in trade receivables within note 20. The industry reconciliation process is required as differences arise between the estimated quantity of gas and electricity the Company deems to have supplied and billed customers, and the estimated quantity the industry system operator deems the individual suppliers, including the Company, to have supplied to customers. If the estimations were to change by 1%, this would impact the gross profit figure by £1 million.

## 2 Accounting policies (continued)

### Critical accounting judgements and key sources of estimation uncertainty (continued)

*Impairment of financial assets (estimate)*
The Company has two types of financial assets that are subject to the expected credit loss model:

- trade receivables from the sale of electricity, gas and energy related services; and
- amounts owed by group undertakings

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

Trade receivables
The Company applies the IFRS 9 simplified approach to measuring expected credit losses for trade receivables, which uses a lifetime expected credit loss allowance. The expected loss rates are based on available external and internal rating information as well as historical default ratios. The estimates and assumptions used to determine the level of expected credit losses are reviewed periodically. The carrying value of trade receivables is disclosed within note 20. If the provision was to increase by 1%, profit before tax would reduce by £9 million.

Amounts owed by group undertakings
For amounts owed by group undertakings the Company first determines the 12 month expected credit loss, with the lifetime expected credit loss being recognised in the event of a significant increase in default risk. This is assumed if the internally determined counterparty risk has been downgraded at least three risk levels on the ten level counterparty risk scale since initial recognition. If external or internal rating information is available, the expected credit loss is determined on the basis of this data. If no rating information is available, the Company determines default ratios on the basis of historical default rates, taking into account forward-looking information on economic developments. The estimates and assumptions used to determine the level of expected credit losses are reviewed periodically to determine if there is a significant increase in default risk. The carrying value of amounts owed by group undertakings is disclosed within note 20. If the provision was to increase by 1%, profit before tax would reduce by £1 million.

**2 Accounting policies (continued)**

**Turnover**
All turnover generated by the Company during the year arose from its principal activities. Turnover predominantly comprises revenue from the sale of electricity, gas and energy services to residential, SME and I&C customers. Turnover excludes value added tax.

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

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

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

**Government grants**
Government grants are not recognised until there is reasonable assurance that the Company will comply with the conditions attached to it and that the grant will be received.

Government grants for costs are posted as income over the period in which the costs are incurred. Government grants for assets are recognised in income on a straight-line basis over the associated asset's expected useful life.

### 2 Accounting policies (continued)

**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.

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

Derivative instruments accounted for at fair value through the profit and loss account are recorded as either assets or liabilities in the balance sheet and measured at fair value. Changes in the fair value of derivatives that do not qualify for hedge accounting are recognised in the profit and loss account as they arise. Own use forward contracts are accounted for on an accruals basis.

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

See the directors' report and notes 20 and 21 for further details of the fair values of the financial instruments.

**Tax**

The tax credit 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 recognised directly in other comprehensive income.

The current income tax credit 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 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.

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.

## 2 Accounting policies (continued)

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

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

| Asset class | Depreciation method and rate |
|---|---|
| Plant and machinery | Straight line basis over 15 to 40 years |
| Fixtures and fittings | Straight line basis over 3 to 10 years |
| Meter equipment* | Straight line basis over 4 to 15 years |

*Meter equipment includes installation costs

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

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

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

Valuations are based on the medium-term corporate planning approved by both the directors and the E.ON SE Management Board. The calculations for impairment-testing purposes are generally based on the three planning years of the medium-term plan plus two additional detailed planning years. In certain justified exceptional cases, a longer detailed planning period is used as the calculation basis. The cash flow assumptions extending beyond the detailed planning period are determined using growth rates that generally correspond to the growth rates in each of the areas where the cash-generating units are tested. In 2020, the growth rate used for the GBP and EUR areas was 0.5 percent (2019: 0.5 percent). The interest rate used for discounting cash flows in the annual impairment test was calculated using market data and for 2020 was 5.3 percent after taxes (2019: 5.9 percent after taxes). The carrying value of goodwill is disclosed within note 13.

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

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

**2 Accounting policies (continued)**

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

Intangible assets in the course of construction are included in intangible fixed assets on the basis of expenditure incurred at the balance sheet date. In the case of assets constructed by the Company, directly related overheads and commissioning costs are included in cost. No amortisation is provided on intangible assets in the course of construction.

**Amortisation**

Amortisation is provided on intangible assets so as to write off the cost, less any estimated residual value, over their expected useful economic life. ROCs are surrendered to national authorities on an annual basis and are not amortised. No amortisation is provided on goodwill.

| Asset class | Amortisation method and rate |
|---|---|
| Other intangibles | Straight-line basis over 15 to 40 years |
| Software | Straight-line basis over 3 to 5 years |

**Other assets**

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

**Investments**

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

**Stocks**

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

**2 Accounting policies (continued)**

**Provisions**

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

The amount recognised in the balance sheet as a provision is the best estimate of the expenditure required to settle a present obligation at the balance sheet date. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risk specific to the liability.

Future operating costs are not provided for.

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

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

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

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

**2 Accounting policies (continued)**

**Leases**

*Definition*

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

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

Where contracts contain a lease coupled with an agreement to purchase or sell other goods or services (i.e., non-lease components), the non-lease components are identified and accounted for separately from the lease component. The consideration in the contract is allocated to the lease and non-lease components on a relative standalone price basis using the principles in IFRS15.

However, for leases of buildings, the Company has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

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

*Initial recognition and measurement*

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

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

**2 Accounting policies (continued)**

*Subsequent measurement*

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

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

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

To determine the incremental borrowing rate, the Company derives benchmark interest rates from maturity-related risk-free interest rates which are increased by a specific credit-risk premium and adjusted for attributes specific to the lease (e.g. term, country, currency and security).

The related right-of-use asset is accounted for using the Cost model in IAS 16 and depreciated over the shorter of the lease term and the useful economic life of the asset. Adjustments are made to the carrying value of the right of use asset where the lease liability is re-measured in accordance with the above. Right of use assets are tested for impairment in accordance with IAS 36 Impairment of assets as disclosed in the accounting policy in impairment.

**2 Accounting policies (continued)**

*Lease modifications*

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

The modification is accounted for as a separate lease if both:
(a) The modification increases the scope of the lease by adding the right to use one or more underlying assets; and
(b) The consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.
If both of these conditions are met, the lease modification results in two separate leases, the unmodified original lease and a separate lease. The Company then accounts for these in line with the accounting policy for new leases.

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

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

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

*Short term and low value leases*

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

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

Short term and low value lease payments are included in operating expenses in the profit and loss account as they are incurred.

## 2 Accounting policies (continued)

**Impairment of non-financial assets**

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

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

If the reasons for previously recognised impairment losses no longer exist, such impairment losses are reversed and recognised in the profit and loss account. Such reversal shall not cause the carrying amount to exceed the amount that would have resulted had no impairment taken place in previous years.

**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.

Inter-company receivable balances are provided for in line with the impairment estimation criteria set out on page 23.

**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.

**Work in progress**

Work in progress is valued at the lower of cost and net realisable value. Net realisable value is based on selling price less anticipated costs to completion and selling costs. Cost includes all direct costs and an appropriate proportion of fixed and variable overheads.

**Accrued income**

Income recognised in advance of receipt is debited to an accrued income account and recognised in the profit and loss account in the period to which it relates as the relevant performance obligations are satisfied.

**2 Accounting policies (continued)**

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

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

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

**Financial instruments**

**Initial recognition**
Amortised cost assets (including trade receivables and amounts owed by group undertakings) are primarily financial assets with fixed or determinable payments that are not traded in an active market and are reported on the balance sheet under "Debtors: amounts falling due within one year". Initial measurement takes place at fair value plus transaction costs.

Financial liabilities (including trade payables and amounts owed to group undertakings) are measured at amortised cost, using the effective interest method. Initial measurement takes place at fair value net of transaction costs incurred.

**Classification and measurement**
Amortised cost assets are subsequently measured at amortised costs, using the effective interest method. Valuation allowances are provided for identifiable individual risks in addition to the expected credit losses calculated when known.

Financial liabilities are subsequently measured at amortised cost, using the effective interest method. In subsequent periods, the amortisation and accretion of any premium or discount is included in finance costs/income.

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

## 3 Discontinued operations

**Migration of customers to new billing platforms**

During 2020, the migration of residential and SME customers from Npower to the new state of the art billing platform within the new E.ON Next business commenced. Full migration of the Company's residential and SME customers onto the new E.ON Next platform will also be completed during 2022, following the decision to migrate these customers to E.ON Next and the subsequent agreement signed in 2021 to sell those customers. Furthermore, a decision has also been made to transfer the Company's I&C customers onto a new billing platform, with a pilot commenced, and a decision made in principle to combine these customers with Npower's I&C customers within a separate company. The migration of the Company's I&C customers to the new billing platform is expected to commence during Q4 2021 and be completed during 2022.

The results of the discontinued operations, which have been included in the profit and loss account, were as follows:

| | 2020<br>£ m | 2019<br>£ m |
|---|---|---|
| Revenue | 5,098 | 5,492 |
| Net expenses | (5,339) | (5,556) |
| Loss before tax | (241) | (64) |
| Tax credit/(expense) relating to profit before tax of discontinued operations | 60 | (1) |
| Net loss attributable to discontinued operations | (181) | (65) |

**Transfer of City Energy Solutions business**

On 14 September 2020, the Company signed an agreement to transfer its City Energy Solutions business to a fellow group undertaking at book value. The transfer is expected to commence during 2021.

The results of the discontinued operations, which have been included in the profit and loss account, were as follows:

| | 2020<br>£ m | 2019<br>£ m |
|---|---|---|
| Revenue | 32 | 35 |
| Net expenses | (36) | (37) |
| Loss before tax | (4) | (2) |
| Tax credit relating to loss before tax of discontinued operations | 1 | - |
| Net loss attributable to discontinued operations | (3) | (2) |

## 4 Assets classified as held for sale

**Migration of customers to new billing platforms**

A decision was made to migrate the Company's residential and SME customers to the new E.ON Next platform, following a subsequent agreement signed in 2021 to sell the customers. Furthermore, a decision was also made to transfer the Company's I&C customers onto a new billing platform, with a decision in principle made to combine these customers with Npower's I&C customers within a separate company. The following assets and liabilities have been reclassified as held for sale:

| | 31 December 2020 £ m |
|---|---|
| Intangible assets | 584 |
| Other assets | 64 |
| Debtors: amounts falling due after more than one year | 45 |
| Debtors: amounts falling due within one year | 588 |
| Provisions for liabilities | (57) |
| | 1,224 |

**Transfer of City Energy Solutions business**

On 14 September 2020, the Company signed an agreement to transfer its City Energy Solutions business to a fellow group undertaking at book value. The transfer is expected to commence during 2021. The following assets and liabilities have been reclassified as held for sale:

| | 31 December 2020 £ m |
|---|---|
| Intangible assets | 25 |
| Tangible assets | 33 |
| Right of use assets | 29 |
| Stocks | 1 |
| Debtors: amounts falling due after more than one year | 17 |
| Debtors: amounts falling due within one year | 21 |
| Creditors: amounts falling due within one year | (1) |
| Creditors: amounts falling due after more than one year | (12) |
| Provisions for liabilities | (18) |
| | 95 |

## 5 Turnover

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

Revenue recognised in the year of £21 million (2019: £9 million) relates to performance obligations satisfied in prior years.

## 6 Operating loss

Arrived at after charging/(crediting):

| | Note | 2020<br>£ m | 2019<br>£ m |
|---|---|---|---|
| Depreciation of tangible assets | 14 | 26 | 27 |
| Depreciation on right of use assets | 15 | 13 | 14 |
| Amortisation expense | 13 | 34 | 33 |
| Impairment loss on tangible assets | 14 | 3 | 2 |
| Impairment loss on intangible assets | 13 | 77 | 59 |
| Impairment of financial assets | | 114 | 70 |
| Restructuring | | 125 | 65 |
| Foreign exchange gains | | - | (1) |
| Expense of variable lease payments not included in lease liabilities | | 1 | 3 |
| Expense on low value leases | | 1 | - |
| Derivative losses/(gains) | | 10 | (4) |
| Loss on disposal of intangible assets | 13 | - | 1 |

Other operating income relates mainly to ancillary income from third party meter installations, prepayment infrastructure usage, staff recharges and other sundry income. The increase in other operating income compared to the prior year primarily relates to higher staff recharges to other E.ON Group companies, offset by a reduction in ancillary income due to the COVID-19 pandemic.

Restructuring costs includes severance costs and costs related to the Transformation UK project.

The impairment of financial assets includes £75 million (2019: £88 million) in relation to debt write-offs and recoveries, an impairment in relation to expected credit losses on trade receivables of £39 million (2019: reversal of £17 million) and an impairment in relation to expected credit losses on amounts owed to group undertakings of £nil (2019: reversal of £1 million).

The total cash outflow for leases in 2020 was £14 million (2019: £9 million).

### 7 Auditors' remuneration

Auditors' remuneration of £420,000 (2019: £391,000) was borne by E.ON UK plc, the immediate parent undertaking, and not recharged.

Of this amount, £265,000 (2019: £251,000) relates to the audit of these financial statements. The remaining £155,000 (2019: £140,000) relates to other audit assurance services.

### 8 Interest receivable and similar income

| | 2020<br>£ m | 2019<br>£ m |
|---|---|---|
| Interest receivable from group undertakings | - | 3 |

### 9 Interest payable and similar expenses

| | 2020<br>£ m | 2019<br>£ m |
|---|---|---|
| Interest expense on leases | 1 | 2 |

### 10 Staff costs

The Company had no employees during the year (2019: none). The average monthly number of persons (including directors) recharged by E.ON UK plc for the services of employees during the year was:

| | 2020<br>No. | 2019<br>No. |
|---|---|---|
| Sales, marketing and distribution | 6,647 | 7,326 |

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

| | 2020<br>£ m | 2019<br>£ m |
|---|---|---|
| Wages and salaries | 203 | 212 |
| Social security costs | 20 | 20 |
| Other pension costs | 32 | 40 |
| Restructuring costs | 54 | 26 |
| Less: Capitalised in fixed assets | (7) | (22) |
| | 302 | 276 |

### 11 Directors' remuneration

The directors' remuneration for the year was as follows:

| | 2020 | 2019 |
|---|---|---|
| | £ | £ |
| Aggregate emoluments (including benefits in kind) | 2,722,965 | 2,889,452 |

The above amounts relate to six (2019: five) directors whose emoluments were paid by the immediate parent, E.ON UK plc. These emoluments of £2,722,965 (2019: £2,889,452) were recharged to the Company based on the proportion of time that the directors spent on the Company's business.

In addition to the above, one director who mutually consented to leave the Company during the year received compensation of £879,380 related to their contractual rights. This was recharged to the Company based on the proportion of time that the director spent on the Company's business.

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

| | 2020 | 2019 |
|---|---|---|
| | No. | No. |
| Received or were entitled to receive shares under long term incentive schemes | 6 | 5 |
| Accruing benefits under defined benefit pension scheme | 1 | 1 |
| Accruing benefits under money purchase pension scheme | 5 | 4 |

During the year, four directors (2019: four) exercised Performance Rights over shares in the ultimate parent company, E.ON SE, that they were awarded for services to the E.ON SE group under Long Term Incentive ('LTI') schemes. Total payments under the LTI arrangements were £474,040 (2019: £517,481).

During the year the Company paid, or treated as paid, contributions to a pension scheme in respect of money purchase benefits in respect of the above directors totalling £17,651 (2019: £15,833).

In respect of the highest paid director:

| | 2020 | 2019 |
|---|---|---|
| | £ | £ |
| Aggregate emoluments (including benefits in kind) | 681,923 | 924,738 |

The above amounts relate to amounts recharged to the Company by other E.ON group companies that employ the director. The emoluments disclosed above of £681,923 (2019: £924,738) were recharged to the Company based on the proportion of time that the highest paid director spent on the Company's business.

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

### 11 Directors' remuneration (continued)

During the year the highest paid director did not exercise any share options in E.ON UK plc, the immediate parent company, or E.ON SE the ultimate parent company (2019: none). They also did not make any contributions in respect of money purchase schemes (2019: £nil).

### 12 Tax on loss

Tax credited in the profit and loss account

| | 2020<br>£ m | 2019<br>£ m |
|---|---|---|
| **Current taxation** | | |
| UK corporation tax | (3) | - |
| UK corporation tax adjustment to prior periods | (6) | 2 |
| | (9) | 2 |
| **Deferred taxation** | | |
| Arising from origination and reversal of temporary differences | (44) | (13) |
| Arising from changes in tax rates and laws | (3) | - |
| Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods | (10) | - |
| Deferred tax asset not recognised on timing differences | - | 10 |
| Deferred tax adjustment to prior periods | 5 | - |
| Total deferred taxation | (52) | (3) |
| Tax credit in the profit and loss account | (61) | (1) |

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

The differences are reconciled below:

| | 2020<br>£ m | 2019<br>£ m |
|---|---|---|
| Loss before tax | (247) | (74) |
| Corporation tax at standard rate | (47) | (14) |
| (Decrease)/increase in current tax from adjustment for prior periods | (6) | 2 |
| Decrease from tax losses for which no deferred tax asset was recognised | - | 10 |
| Deferred tax credit from unrecognised temporary difference from a prior period | (10) | - |
| Deferred tax (credit)/expense relating to changes in tax rates or laws | (3) | 1 |
| Adjustment in respect of prior periods - deferred tax | 5 | - |
| Total tax credit | (61) | (1) |

## 12 Tax on loss (continued)

**Deferred tax**
Deferred tax assets and liabilities

Deferred tax movement during the year:

| | At 1 January 2020 £ m | Recognised in income £ m | At 31 December 2020 £ m |
|---|---|---|---|
| Accelerated tax depreciation | 18 | 3 | 21 |
| Tax losses | 15 | 54 | 69 |
| Other timing differences | 6 | 8 | 14 |
| Intangible assets | (10) | (13) | (23) |
| Net tax assets | 29 | 52 | 81 |

Deferred tax movement during the prior year:

| | At 1 January 2019 £ m | Recognised in income £ m | At 31 December 2019 £ m |
|---|---|---|---|
| Accelerated tax depreciation | 19 | (1) | 18 |
| Tax losses | - | 15 | 15 |
| Other timing differences | 8 | (2) | 6 |
| Intangible assets | (1) | (9) | (10) |
| Net tax assets | 26 | 3 | 29 |

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 substantively enacted after the balance sheet date and has therefore not been reflected in these financial statements however would cause an additional deferred tax credit of £26 million.

Within the deferred tax credit of £52 million, the amount that relates to the change in the tax rate is £3 million.

The Company had unused tax losses carried forward of £365 million which are available to be carried forward indefinitely (2019: £149 million). Of these losses the deferred tax asset has been recognised in full (2019: deferred tax asset in respect of losses of £57 million was not recognised).

## 13 Intangible assets

| | Goodwill £ m | ROCs £ m | Capitalised software £ m | Other intangible assets £ m | Total £ m |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January 2020 | 584 | 288 | 279 | 29 | 1,180 |
| Additions | - | 638 | 22 | 3 | 663 |
| Surrenders | - | (594) | - | - | (594) |
| At 31 December 2020 | 584 | 332 | 301 | 32 | 1,249 |
| **Accumulated amortisation** | | | | | |
| At 1 January 2020 | - | - | 155 | 5 | 160 |
| Charge for the year | - | - | 33 | 1 | 34 |
| Impairment | - | - | 77 | - | 77 |
| At 31 December 2020 | - | - | 265 | 6 | 271 |
| **Carrying amount** | | | | | |
| At 31 December 2020 | 584 | 332 | 36 | 26 | 978 |
| At 31 December 2019 | 584 | 288 | 124 | 24 | 1,020 |

Goodwill arose from the acquisitions of an energy supply company and the retail energy businesses of certain subsidiary companies. The goodwill is included within assets held for sale (see note 3) and has been fully recovered following the sale of the Company's residential and SME customers to E.ON Next during 2021. The assumptions for reviewing goodwill for impairment are discussed within the accounting policy on page 26. The annual impairment test has been performed and no impairment was identified.

Surrenders relate to ROCs settled to national authorities on an annual basis.

Software includes the net book value of assets in the course of construction of £7 million (2019: £36 million).

Other intangibles include the net book value of assets in the course of construction of £9 million (2019: £7 million).

Software impairment of £77 million (2019: £59 million) relates to software, including the ICE customer billing platform, that will no longer be taken forward by the Company following a review and which has been impaired to £nil as no value is expected to be recovered from the software.

## 14 Tangible assets

| | Fixtures and fittings £ m | Meter equipment £ m | Plant and machinery £ m | Total £ m |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2020 | 1 | 533 | 95 | 629 |
| Additions | 1 | 11 | 9 | 21 |
| At 31 December 2020 | 2 | 544 | 104 | 650 |
| **Accumulated depreciation** | | | | |
| At 1 January 2020 | - | 279 | 67 | 346 |
| Charge for the year | 1 | 24 | 1 | 26 |
| Impairment | - | 3 | - | 3 |
| At 31 December 2020 | 1 | 306 | 68 | 375 |
| **Carrying amount** | | | | |
| At 31 December 2020 | 1 | 238 | 36 | 275 |
| At 31 December 2019 | 1 | 254 | 28 | 283 |

A £3 million impairment for meter equipment, including analogue meters has been recorded in relation to the smart metering rollout. The meters are impaired as they are removed and replaced with smart meters (2019: £2 million).

Plant and machinery does not consist of any assets in the course of construction (2019: £nil).

## 15 Right of use assets

| | Property £ m | Vehicles £ m | Total £ m |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2020 | 56 | 27 | 83 |
| Additions | 5 | - | 5 |
| Disposals | (2) | (3) | (5) |
| At 31 December 2020 | 59 | 24 | 83 |
| **Accumulated depreciation** | | | |
| At 1 January 2020 | 6 | 7 | 13 |
| Charge for the year | 5 | 8 | 13 |
| Eliminated on disposals | (1) | (2) | (3) |
| At 31 December 2020 | 10 | 13 | 23 |
| **Carrying amount** | | | |
| At 31 December 2020 | 49 | 11 | 60 |
| At 31 December 2019 | 50 | 20 | 70 |

## 16 Investments

| | 31 December 2020 £ m | 31 December 2019 £ m |
|---|---|---|
| Investments in subsidiaries | 22 | 22 |

**16 Investments (continued)**

| **Subsidiaries** | **£ m** |
|---|---|
| **Cost** | |
| At 1 January 2019 | 33 |
| At 1 January 2020 | 33 |
| At 31 December 2020 | 33 |
| **Provision** | |
| At 1 January 2019 | 11 |
| At 1 January 2020 | 11 |
| At 31 December 2020 | 11 |
| **Carrying amount** | |
| At 31 December 2020 | 22 |
| At 31 December 2019 | 22 |

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

Details of the 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 Energy Gas (Eastern) Limited | Dormant | Ordinary shares | 100% | 100% |
| E.ON Energy Gas (Northwest) Limited | Dormant | Ordinary shares | 100% | 100% |
| E.ON Project Earth Limited | Leasing of ground source heating systems | Ordinary shares | 100% | 100% |
| E.ON UK Industrial Shipping Limited | Dormant | Ordinary shares | 100% | 100% |
| Economy Power Limited | Dormant | Ordinary shares | 100% | 100% |
| Energy Collection Services Limited | Dormant | Ordinary shares | 100% | 100% |
| Utility Debt Services Limited | Dormant | Ordinary shares | 100% | 100% |

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

**17 Other assets**

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

**Assets recognised from costs to fulfil a contract with customers**

| | 31 December 2020 £ m | 31 December 2019 £ m |
|---|---|---|
| Assets recognised from costs incurred to fulfil a contract at 31 December | 64 | 61 |

Other assets are stated after amortisation of £35 million (2019: £40 million).

**18 Stocks**

| | 31 December 2020 £ m | 31 December 2019 £ m |
|---|---|---|
| Stores | 36 | 31 |
| Work in progress | 4 | 4 |
| | 40 | 35 |

Stores are stated net of provisions for impairment of £nil (2019: £1m).

The cost of stock recognised as an expense in the year amounted to £1m (2019: £1m). This is included within cost of sales.

**19 Debtors: amounts falling due after more than one year**

| | 31 December 2020 £ m | 31 December 2019 £ m |
|---|---|---|
| Deferred tax assets | 81 | 27 |

## 20 Debtors: amounts falling due within one year

| | 31 December 2020 £ m | 31 December 2019 £ m |
|---|---|---|
| Gross trade receivables | 884 | 814 |
| Provision for impairment of trade receivables | (230) | (191) |
| Trade receivables | 654 | 623 |
| Amounts owed by group undertakings | 158 | 235 |
| Accrued income | - | 14 |
| Prepayments | 50 | 39 |
| Deferred tax assets | - | 2 |
| Other debtors | 6 | 14 |
| Commodity and other derivative financial instruments | - | 1 |
| | 868 | 928 |

Amounts owed by group undertakings include a £64 million floating rate deposit to E.ON UK plc (2019: £206 million) which is unsecured, repayable on demand and bears interest at a rate of LIBOR minus 5 basis points (2019: LIBOR minus 5 basis points). All other amounts are unsecured, interest free and repayable on demand.

Trade receivables and amounts owed by group undertakings are stated after loss allowances of £230 million and £1 million respectively (2019: £191 million and £1 million).

Trade receivables includes £791 million of unbilled debt (2019: £796 million).

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

## 21 Creditors: amounts falling due within one year

| | 31 December 2020 £ m | 31 December 2019 £ m |
|---|---|---|
| Trade creditors | 231 | 202 |
| Accrued expenses | 124 | 88 |
| Amounts due to group undertakings | 611 | 592 |
| Social security and other taxes | 67 | 75 |
| Other creditors | 12 | 10 |
| Commodity and other derivative financial instruments | 10 | 1 |
| Lease liabilities | 11 | 14 |
| Deferred income | 39 | 13 |
| | 1,105 | 995 |

### 21 Creditors: amounts falling due within one year (continued)

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

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

Revenue recognised in the year of £3 million (2019: £3 million) was included in the deferred income balance at the beginning of the year.

### 22 Creditors: amounts falling due after more than one year

| | 31 December 2020 £ m | 31 December 2019 £ m |
|---|---|---|
| Lease liabilities | 28 | 41 |
| Deferred income | 4 | 3 |
| | 32 | 44 |

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

| | 31 December 2020 £ m | 31 December 2019 £ m |
|---|---|---|
| In more than one year, but no more than two years | 7 | 13 |
| In more than two years, but no more than five years | 11 | 15 |
| In more than five years | 10 | 13 |
| | 28 | 41 |

## 23 Provisions for liabilities

| | ROCs £ m | TPI commissions £ m | Restructuring severance provision £ m | Other provisions £ m | Total £ m |
|---|---|---|---|---|---|
| At 1 January 2020 | 436 | 50 | 18 | 56 | 560 |
| Increase in existing provisions | 555 | 37 | 37 | 16 | 645 |
| Provisions used | (594) | (30) | (10) | (11) | (645) |
| At 31 December 2020 | 397 | 57 | 45 | 61 | 560 |

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

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

Restructuring provisions relate primarily to the restructuring of the Company following the Quick Wins and Transformation UK projects, the majority of which will be utilised during 2021.

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

## 24 Called up share capital

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

| | 31 December 2020 No. m | £ m | 31 December 2019 No. m | £ m |
|---|---|---|---|---|
| Ordinary shares of £1 each | 760 | 760 | 760 | 760 |
| Ordinary shares of £0.10 each | 32 | 3 | 32 | 3 |
| | 792 | 763 | 792 | 763 |

The Company had 791,625,436 ordinary shares in issue as at 31 December 2020 (2019: 791,625,436 ordinary shares).

## 25 Commitments

**Other financial commitments**
The Company is committed to purchase power and gas under various supply contracts put in place to meet customer demand.

The total amount of other financial commitments not provided for in these financial statements was £1,669 million (2019: £1,985 million).

## 26 Related party transactions

During the year, the Company had related party transactions with companies in the Innogy group, by virtue of E.ON SE, the ultimate controlling party of the Company, holding a 90% controlling interest in the Innogy group as at 31 December 2019. On 4 March 2020, the Extraordinary General Meeting of Innogy SE adopted a resolution to transfer the remaining minority shareholders' Innogy stock to E.ON SE. The merger squeeze-out adopted at the meeting took effect when the transfer resolution and merger were entered into the Commercial Register on 2 June 2020.

The following are the related party transactions up to 2 June 2020:

**Npower Limited**
During part of the year, the Company had income of £523,000 (2019: £2,387,000) and costs of £1,000 (2019: £3,000) relating to the supply of metering services.

**Npower Northern Limited**
During part of the year, the Company had income of £79,000 (2019: £414,000) relating to the supply of metering services.

**Npower Gas Limited**
During part of the year, the Company had income of £35,000 (2019: £48,000) relating to the supply of metering services.

**Npower Direct Limited**
During part of the year, the Company had income of £1,000 (2019: £5,000) relating to the supply of metering services.

**Npower Yorkshire Limited**
During part of the year, the Company had costs of £53,000 (2019: £45,000) relating to the supply of metering services.

**27 Ultimate holding company**

The immediate parent undertaking is E.ON UK plc. The ultimate parent undertaking and controlling party is E.ON SE, a company incorporated in Germany, which is the parent company of the largest and smallest group to consolidate these financial statements. Copies of E.ON SE's financial statements are available from the offices of E.ON SE at the following address:

E.ON SE
Brüsseler Platz 1
45131 Essen
Germany