



**E.ON UK plc Group's Consolidated Segmental Report  
for the year ended 31 December 2019**

# E.ON UK plc Group's Consolidated Segmental Report for the year ended 31 December 2019



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In accordance with the Electricity Generation Licence Condition 16B - Financial Information Reporting, and the Electricity Supply and Gas Supply Licence Condition 19A - Financial Information Reporting (together the "Licence Conditions"), the E.ON companies (the "Relevant Licensees") listed below on page 4 have prepared this Consolidated Segmental Report for the year ended 31 December 2019. This Consolidated Segmental Report has five sections:

1. **E.ON UK plc Group's generators and suppliers**, which lists E.ON's Relevant Licensees;
2. **Trading**, which provides an explanation of how any electricity and gas trading associated with licence supply and generation activities in Great Britain is carried out within the E.ON SE Group (the group containing the ultimate parent company, E.ON SE, and its subsidiary companies) and reported in this Consolidated Segmental Report;
3. **The Consolidated Segmental Statement (the "CSS")** as defined in the Licence Conditions and within which is:
  - A. **E.ON UK plc Group's CSS for the year ended 31 December 2019 (Table 1)**, which provides information relating to the revenues, costs and profits of the Relevant Licensees' activities in the generation of electricity and the supply of electricity and gas to any premises, where Table 1 is one of the two tables that form the CSS;
  - B. The **Notes to Table 1 and basis of preparation**, which provide an explanation of how the Relevant Licensees define the terms: revenues, costs and profits used in E.ON UK plc Group's CSS;
  - C. **Table 2 Business Function**, which provides an explanation of where individual business functions are captured in E.ON UK plc Group's CSS, as specified by Appendix 2 of the Guidelines, where Table 2 is the second of the two tables that form the CSS;
  - D. The **Notes to Table 2 and basis of preparation**, which provide an explanation of how the Relevant Licensees define the terms used in Table 2; and
  - E. **Independent Auditors' report**, which is set out in Annex 1 and is the Independent Auditors' report to the Directors of E.ON's Relevant Licensees. This report, from the Relevant Licensees' Auditor, gives an audit opinion as to whether the Relevant Licensees have prepared this Consolidated Segmental Report and the CSS within it, in accordance with the requirements of the Licence Conditions and the basis of preparation.

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### 4. Reconciliation of Table 1 to the Annual Report of E.ON SE, which comprises:

- A. **Table 3 Reconciliation**, because none of the UK statutory accounts of E.ON's eight Relevant Licensees were prepared or published before 30 April 2020, this is a reconciliation of the Revenues and EBITDA contained within Table 1 to the audited data published in the Annual Report of E.ON SE for the year ended 31 December 2019, where the Annual Report of E.ON SE is prepared under International Financial Reporting Standards; and
- B. **Notes to Table 3 and basis of preparation**, which provide an explanation of the definitions used and reconciling items in the Reconciliation.

This reconciliation of Table 1 to the Annual Report of E.ON SE does not form part of the CSS.

### 5. Transfer Pricing and basis of preparation, within which is:

- A. **The transfer pricing methodology used by the Relevant Licensees**, which is an explanation of the transfer pricing methodology used by the Relevant Licensees and how this relates to the revenues, costs and profits information in Table 1 of the CSS; and
- B. **Compliance with the Licence Conditions' requirements in respect of Transfer Pricing**, which is an explanation of how the Relevant Licensees meet the Licence Conditions' requirements for ensuring that the transfer pricing methodology they operate is appropriate and up to date.

The Relevant Licensees have published the CSS within this Consolidated Segmental Report on the website <http://www.eonenergy.com/About-eon/our-company/at-a-glance/company-reporting>.

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## 1. E.ON UK plc Group's generators and suppliers

### The Relevant Licensees

1. **Relevant Electricity Supply licensees** (electricity supply licensees that are, or have Affiliates that are, holders of an electricity generation licence, as set out in the Licence Conditions):
  - E.ON Energy Solutions Limited
  - E.ON UK plc
  
2. **Relevant Gas Supply licensees** (gas supply licensees that are, or have Affiliates that are, holders of an electricity generation licence, as set out in the Licence Conditions):
  - E.ON Energy Gas (Eastern) Limited
  - E.ON Energy Gas (North West) Limited
  - E.ON Energy Solutions Limited
  - E.ON UK plc
  - Economy Power Limited
  
3. **Relevant Generation licensees** (generation licensees that supply electricity or gas, or its Affiliates supply electricity or gas, as set out in the Licence Conditions):
  - Citigen (London) Limited (licence revoked 9 September 2019)
  - RWE Renewables UK Humber Wind Limited (formerly E.ON Climate & Renewables UK Humber Wind Limited)
  - E.ON UK plc (licence revoked 9 September 2019)
  - Rampion Offshore Wind Limited

Until 30 September 2019, all the Relevant Licensees were wholly owned subsidiaries of E.ON SE except for Rampion Offshore Wind Limited in which a 50.1% controlling interest was held. During 2019, E.ON SE and RWE AG commenced an asset and business exchange transaction. Under this deal, on 30 September 2019, shareholdings in RWE Renewables UK Humber Wind Limited and Rampion Offshore Wind Limited were sold to RWE and as a result they ceased to be Relevant Licensees. Therefore, the results of these two Relevant Licensees are only fully consolidated up to 30 September 2019. All

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the other Relevant Licensees are fully consolidated in E.ON UK plc Group's CSS for the whole of 2019 except for the generation activities of Citigen (London) Limited and E.ON UK plc which have been consolidated up to 30 September 2019 following revocation of their Generation licences on 9 September 2019.

The transaction with RWE resulted in the E.ON SE Group obtaining a 76.8% share in Innogy SE on 17 September 2019 which has been subsequently increased and at 31 December 2019 was circa 90%. As at 31 December 2019, the Innogy SE group still owned both Supply and Generation licensed businesses in the UK and met the definition of an affiliate. As these businesses have operated independently of the E.ON UK plc Group during the period, the results of those businesses have been excluded from this Consolidated Segmental Report and are included in the equivalent report for Innogy.

### Major operational generation plant of the Relevant Licensees in 2019

E.ON Plant classed as Conventional in Tables 1 and 2 below:

- Citigen (natural gas fired combined heat and power plant)

E.ON Plant classed as Renewable in Tables 1 and 2 below:

- Humber Gateway (off-shore wind farm)
- Rampion (off-shore wind farm)
- Out Newton (on-shore wind farm)

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## Joint Ventures and Associates

Under the Guidelines to Licence Conditions, in preparing the CSS the Relevant Licensees should account for Joint Ventures and Associates which hold a generation or electricity/gas supply licence in the UK. E.ON UK plc Group had one UK Associate that holds a generation licence, London Array Limited, which until 30 September 2019 was 30% owned by a former subsidiary of E.ON UK plc. The major operating plant covered by this generation licence is the London Array wind farm. Consequently, Table 1 includes, until 30 September 2019:

- The revenues arising from E.ON's 30% interest in the London Array wind farm;
- The EBITDA arising from E.ON's 30% interest in the London Array wind farm; and
- 30% of London Array's generation volume.

London Array Limited's activities do not form part of the transfer pricing methodology used by the Relevant Licensees and are not covered in Table 2.

The Relevant Licensees also have Affiliates, Associates and Joint Ventures that are not licensees, but carry out generation and supply activities in Great Britain. As these companies are not licensees, their activities are not included in the CSS.

## Classification of Generation and Supply Activities

For this Consolidated Segmental Report:

- the combined electricity generation activities of the Relevant Licensees are "Generation", which forms the Generation segment in Table 1, and comprises the Relevant Licensees' generation activities managed in 2019 by the E.ON Management Units Renewables and Customer Solutions UK; and
- the combined supply (electricity and gas) activities of the Relevant Licensees are "Supply", which forms the Supply segment in Table 1, and comprises the Relevant Licensees' supply activities managed by the E.ON Management Unit Customer Solutions UK.

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### 2019 generation volumes of E.ON UK plc Group's Great Britain generation plant

Relevant Licensees, including 30% of London Array, which is the volume reported in Table 1	1.9TWh
Licence Exempt generation by Affiliates and Associates of the Relevant Licensees	1.8TWh
<b>Total volume of E.ON UK plc Group's Great Britain generation plant</b>	<b>3.7TWh</b>

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## 2. Trading

During 2019, the activities of the Relevant Licensees within the E.ON UK plc Group were supported by E.ON UK Energy Markets Limited ("EEM"). EEM is used to centralise the purchase and sale of commodities and is not a Relevant Licensee and is not included in Table 1.

EEM's activities include purchasing generation from the Relevant Licensees and providing electricity and gas for supply activities by the Relevant Licensees. These arrangements are covered by legal contracts which ensure that all commodity transactions are on a non-profit basis and as such the costs and income for the Relevant Licensees are fully market reflective. These arrangements for EEM are described in the explanation of the transfer pricing methodology used by the Relevant Licensees on pages 20 to 22 of this Consolidated Segmental Report.

The Relevant Licensees' generation activities do not engage in the trading of electricity or gas, other than in transfer pricing arrangements with EEM to sell electricity and procure gas based on market prices. EEM has not entered into any trading activities during the year apart from to meet the supply and demand from/to the Relevant Licensees and as such there is no entry in Table 1 for trading activities through EEM.

Electricity and gas supply activities forming Supply do not actively engage in the trading of electricity or gas, other than in contracting for the necessary volume of electricity and gas for supply to our customers. Nearly all the procurement is from EEM using transfer pricing arrangements. These arrangements mean that the cost of energy purchased from EEM by Supply is based on wholesale market prices. Any profit or loss from trading by any other companies in the E.ON organisation does not affect costs for Supply and therefore if there was an entry for trading in the Supply segment of Table 1, it would be zero.

There are differences between the average electricity income rate for the Generation segment and the average electricity cost rate of the Supply segment in Table 1, but none of these are due to trading activities of EEM or any other E.ON UK plc Group businesses. The differences arise from the timing of when the electricity volumes are contracted for the energy generated and supplied together with the effects of transaction costs meaning that, although activities of Generation and Supply are contracting at wholesale market prices, Generation's average income rate per KWh generated will be different to Supply's average expenditure rate per KWh of electricity supplied. Also, in Table 1, the Renewable Generation weighted average input cost of fuel reflects the mix of generation between wind and biomass so therefore appears to be a low value.



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## 3. The CSS - E.ON UK plc Group's Consolidated Segmental Statement for the year ended 31 December 2019 (Table 1)

Table 1	Note	Unit	Electricity Generation		Aggregate Generation business (see Note 16)	Electricity Supply		Gas Supply		Aggregate Supply business (see Note 19)
			Conventional (See note 14)	Renewable (See note 15)		Domestic (See note 17)	Non-domestic (See note 18)	Domestic (See note 17)	Non-domestic (See note 18)	
			2019	2019	2019	2019	2019	2019	2019	2019
Revenue from sales of electricity and gas	1	£'m	1.7	72.1	73.8	2,151.6	2,047.5	1,202.3	295.4	5,696.8
Other revenue	2	£'m	2.3	199.6	201.9	-	-	-	-	-
<b>Total revenue</b>		£'m	<b>4.0</b>	<b>271.7</b>	<b>275.7</b>	<b>2,151.6</b>	<b>2,047.5</b>	<b>1,202.3</b>	<b>295.4</b>	<b>5,696.8</b>
Direct fuel costs	3	£'m	(1.5)	-	(1.5)	(785.4)	(860.6)	(617.4)	(195.2)	(2,458.6)
Transportation costs	4	£'m	-	(20.1)	(20.1)	(497.3)	(442.6)	(326.0)	(53.8)	(1,319.7)
Environmental and social obligations	5	£'m	-	-	-	(497.1)	(549.6)	(24.8)	-	(1,071.5)
Other direct costs	6	£'m	(0.7)	(44.0)	(44.7)	(32.4)	(13.3)	(18.6)	(0.9)	(65.2)
Indirect costs	7	£'m	(0.5)	6.5	6.0	(362.1)	(108.4)	(257.3)	(31.9)	(759.7)
<b>Total operating costs</b>		£'m	<b>(2.7)</b>	<b>(57.6)</b>	<b>(60.3)</b>	<b>(2,174.3)</b>	<b>(1,974.5)</b>	<b>(1,244.1)</b>	<b>(281.8)</b>	<b>(5,674.7)</b>
<b>EBITDA</b>	8	£'m	<b>1.3</b>	<b>214.1</b>	<b>215.4</b>	<b>(22.7)</b>	<b>73.0</b>	<b>(41.8)</b>	<b>13.6</b>	<b>22.1</b>
Depreciation and amortisation (DA)	9	£'m	(0.2)	(84.7)	(84.9)	(18.0)	(2.9)	(12.0)	(0.8)	(33.7)
<b>EBIT</b>	10	£'m	<b>1.1</b>	<b>129.4</b>	<b>130.5</b>	<b>(40.7)</b>	<b>70.1</b>	<b>(53.8)</b>	<b>12.8</b>	<b>(11.6)</b>
Volume	11	TWh therms (m)	- -	1.8 -	1.8 -	12.1 -	15.4 -	- 1,016.3	- 397.2	- -
WACOF/E/G	12	£/MWh p/th	- -	- -	0.8 -	64.9 -	55.9 -	- 60.7	- 49.1	- -
Customer accounts	13	Thousands accounts	-	-	-	3,435	325	2,292	89	6,141

Indirect costs and DA include restructuring costs and impairments respectively. See notes 7 and 9 on page 12 for further information of these items.

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## **Notes to Table 1 and basis of preparation**

### 1. *Revenue from sales of electricity and gas*

- a. For the Generation segments, this means revenue received from EEM for sales of the Relevant Licensees' net generation. The revenue received from EEM reflects EEM market participation costs, including Elexon/Xoserve administration costs.
- b. For the respective Supply segments, this means electricity and gas sales by the Relevant Licensees. Revenue for domestic supply is less discounts including dual fuel and customer rewards as recorded in the company's books of account; this includes the customer rebate for the Warm Home Discount (WHD). Where revenues are not recorded as fuel specific, they are allocated on the basis of customer numbers.

### 2. *Other revenue* - this means other segmental revenues of the licensees not covered in Revenue from sales of electricity and gas.

- a. For the Generation segment this includes any ancillary services and Renewables Obligation Certificates (ROCs). For Citigen (London) Limited, this also includes heat and cooling.
- b. For the Supply segment, Table 1 only includes licensed supply activity, as all other activities have been adjusted on the reconciliation in Table 3.

### 3. *Direct fuel costs*

- a. For the Generation segment, this is just the cost of fuel (e.g. gas etc.) consumed by the Relevant Licensees during the financial year. As all emissions costs such as EU-ETS certificates are included in Environmental and social obligation costs, they are excluded from Direct fuel costs.
- b. For the Supply segment, this is the cost of electricity and gas used by the Relevant Licensees' Supply activities. This includes the wholesale energy costs, losses, the energy element of Reconciliation-by-Difference (RBD), the cost of securing derivative hedging instruments and balancing and shaping costs.

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### 4. *Transportation costs*

- a. For the Generation segment, this includes all network costs and Balancing Services Use of System (BSUoS) charges relating to Generation.
- b. For the Supply segment, this includes use of system charges, transportation costs, BSUoS, the transport element of RBD and other network costs relating to Supply. Costs are as recorded in the company's books of account and supporting documents.

### 5. *Environmental and social obligation costs*

- a. For the Generation segment, this includes the cost of EU-ETS allowances and CPF related taxes.
- b. For the Supply segment the costs directly attributable to it were Electricity Market Reform (EMR), Feed-in Tariffs (FIT), ROCs, the Energy Companies Obligation (ECO) and Assistance for Areas with High Electricity Distribution Costs (AAHEDC). EMR, FIT, ROCs and AAHEDC are included as recorded in the company's books of account and supporting documents for domestic and non-domestic supply. ECO costs are as recorded in the company's books of account and supporting documents for the domestic supply customer group – further split to allocate into electricity and gas using the number of customer accounts. Using an allocation based on the number of customer accounts provides a consistent approach for allocating such costs across all customer accounts.
- c. Certain environmental and social industry costs have also been mutualised during 2019 and the impact of these charges has been included in this category.

### 6. *Other direct costs*

- a. For the Generation segment, this includes the cost of electricity imported to the sites, and Generation does not incur market participation costs, including Elexon/Xoserve administration costs.

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- b. For the Supply segment, this includes market participation costs, including Elexon/Xoserve administration costs, brokers' costs, intermediaries' sales commissions and any 'wider' smart metering programme costs (e.g. Data Communications Company (DCC) and Smart Energy GB related costs).

### 7. Indirect costs

- a. For the Generation segment, this includes general office costs and repairs and maintenance. Indirect costs of the Renewables segment are wholly offset by insurance proceeds of £31.5m relating to the Rampion off-shore wind farm.
- b. For the Supply segment this means the Relevant Licensees' own internal operating costs including sales and marketing costs, bad debt, costs to serve, IT, staffing costs, head office costs that are attributable to Supply, billing and all meter costs including smart meter costs (e.g. linked to rollout or asset rental, but not DCC or Smart Energy GB). Also included are restructuring costs of £53.6m, which are resources engaged on a business process review that management considers relates to the reporting period in full and relate directly to the operation of the Supply segment, thus they form part of the total cost of resources employed in the business; they are not capital in nature. Costs are as recorded in the companies' books of account and are allocated where possible as a direct allocation to a particular customer group, i.e. there is an allocation between domestic and non-domestic, and then, within each of those two customer groups, between electricity and gas. Unless stated otherwise, where a direct allocation cannot be made to a particular customer group, the allocation between domestic and non-domestic and then electricity and gas has been made on a reasonable endeavours basis using the number of customer accounts in each category. Using an allocation based on the number of customer accounts provides a consistent approach for allocating such costs across all customer accounts.

8. *EBITDA* – this means earnings before interest, tax, depreciation, amortisation and impairments. *EBITDA* is *Total Revenue* less *Total operating costs*.

9. *DA* – this means depreciation and amortisation.

- a. The Generation segment also includes relevant impairments that relate directly to the operation of the Generation businesses. This includes a £7.0m impairment of fixed assets during the year in respect of the generation portfolio.

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- b. The Supply segment also includes relevant impairments that relate directly to the operation of the Supply business. Further exceptional impairments of intangible assets related to IT projects amounting to £57.0m have been excluded from the CSS.
10. *EBIT* – this means earnings before interest and tax. *EBIT* is *EBITDA* less *DA*. In accordance with the Guidelines to Licence Conditions, the CSS does not include the mark to market adjustment of derivatives. This is the notional profit/loss incurred through changes in valuation of contracts with future delivery dates, due to changes in market price. As these contracts have not been realised in cash terms, they do not form part of the performance measures used by management to make strategic decisions and have therefore been excluded.
11. *Volume*
- a. For the Electricity Generation segments, this is the volume of electricity, measured in TWh to 1 decimal place, that can actually be sold in the wholesale market, i.e. generation volumes after losses up to the point where power is received under the Balancing and Settlement Code (BSC) but before subsequent losses. This is a different basis for measuring volume to that used for the Supply segment. The Electricity Generation Renewable segment includes generation by the Relevant Licensees that does not have “Direct fuel costs”, e.g. wind generation.
- b. For the Supply segment, this is the volume of electricity, measured in TWh to 1 decimal place, and gas, measured in millions of therms to 1 decimal place, as recorded at the meter point (i.e. supplied under BSC net of losses). This is a different basis for measuring volume to that used for the Generation segment.
12. *WACO F/E/G*
- a. For the Generation segment, this is the “*Direct fuel costs*” (Note 3 above) and “*Environmental and social obligation costs*” (Note 5 above), added together and divided by the “*Volume*” (Note 11 above), and means the weighted average input cost of all fuel (e.g. gas) used by the Relevant Licensees and the cost of EU-ETS allowances.
- b. For the Supply segment, this is solely the “*Direct fuel costs*” (Note 3 above) divided by the *Volume* (Note 11 above) and means the weighted average cost of electricity (shown as £/MWh), or gas (shown as p/therm) used by the Relevant Licensee’s Supply activities.

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13. *Customer accounts* - means the average number of electricity and gas, domestic and non-domestic meter points (Meter Point Administration Numbers and Meter Point Reference Numbers) during the reporting year. The average number has been calculated by summing the month end number of meter points and dividing by 12. The customer numbers are rounded to the nearest 1,000.
  14. *Electricity Generation Conventional* - means generation plant that is eligible to participate in the Capacity Market under EMR.
  15. *Electricity Generation Renewable* - means generation plant that is not eligible to participate in the Capacity Market under EMR.
  16. *Aggregate Generation business* - this column sums the horizontal figures of the Electricity Generation columns.
  17. *Domestic* - means supply to Domestic Customers, where Domestic Customers are customers supplied or requiring to be supplied with electricity at Domestic Premises. These are premises at which a supply of electricity is taken wholly or mainly for a domestic purpose except where those premises are Non-domestic Premises, but excluding such customers insofar as they are supplied or require to be supplied at premises other than Domestic Premises, where Non-domestic Premises have the meaning given in and are interpreted as in accordance with the Electricity Supply and Gas Supply Standard Licence Conditions 6 (Classification of premises). These columns of the Table form the Domestic supply business segment.
  18. *Non-domestic* - means supply to Non-domestic Customers, being those customers who are not Domestic Customers. These columns of the Table form the Non-domestic supply business segment.
  19. *Aggregate Supply business* - this column sums the horizontal figures of the Electricity Supply and Gas Supply columns. Both the Electricity Supply and Gas Supply columns are each further divided into two columns to provide a Domestic and Non-domestic supply market breakdown. Where possible a direct allocation has been made to a particular customer group, i.e. there is an allocation between electricity and gas, and then, within each of those two groups, between domestic and non-domestic sales. Unless stated otherwise, where a direct allocation cannot be made to a particular customer group, the allocation between electricity and gas and then between Domestic and Non-domestic sales has been made on a reasonable endeavours basis using the number of customer accounts in each category. Using an allocation based on the number of customer accounts provides a consistent approach for allocating such costs across all customer accounts.

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Table 2 Business Function	Generation		Supply	Another part of the business <sup>1</sup>
	Conventional	Renewable		
Operates and maintains generation assets	√	√		
Responsible for scheduling decisions	√	√		
Responsible for interactions with the Balancing Market				√
Responsible for determining hedging policy	P/L <sup>3</sup>	P/L <sup>3</sup>	√ <sup>4</sup>	F <sup>5</sup>
Responsible for implementing hedging policy/makes decisions to buy/sell energy			√	√
Interacts with wider market participants to buy/sell energy <sup>6</sup>				√
Holds unhedged positions (either short or long) <sup>7</sup>	√	√	√	√
Procures fuel for generation		√		√ <sup>2</sup>
Procures allowances for generation				√ <sup>2</sup>
Holds volume risk on positions sold (either internal or external)	√	√	√	
Matches own generation with own supply <sup>8</sup>				
Forecasts total system demand <sup>9</sup>				
Forecasts wholesale price				√
Forecasts customer demand			√	
Determines retail pricing and marketing strategies			√	
Bears shape risk after initial hedge until market allows full hedge			√	√
Bears short term risk for variance between demand and forecast			√	

### Key

√ Indicates that the business function and the profits or losses reside in the same business.

F Indicates where the business function resides in cases where it is not in the same business as where the profit or loss is recorded.

P/L Indicates where the profit and loss is recorded in cases where the business function does not reside in the same business.

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### **Notes to Table 2 and basis of preparation**

1. Excluding generation and supply by E.ON SE Group companies that are not licensees.
2. Fuel and allowances for conventional generation are procured by EEM.
3. The Relevant Licensees' Generation activities are not responsible for determining hedging policy. However, the impact of the E.ON Group's overall hedging policy on the Relevant Licensees' Generation activities is reflected in any profit or loss recorded in the Generation segments of Table 1.
4. The impact of the E.ON Group's overall hedging policy is also reflected in any profit or loss recorded by the Supply segment of Table 1. In addition, the Relevant Licensees' Supply activities are responsible for determining their hedging policies within the E.ON Group's overall hedging policy.
5. While the E.ON Group's overall hedging policy is determined by another part of the business to the Relevant Licensees' Generation and Supply activities, the impact of the strategy on the Generation and Supply segments in Table 1 is reflected in any profit or loss recorded by them.
6. The Relevant Licensees' Supply activities do purchase small volumes from embedded generation and industry mechanisms. As this accounts for less than 5% of the total electricity supply volume reported in the Supply segment of Table 1, to avoid overcomplicating this Table 2, it is not shown. If it was included there would be a tick in the Supply column for this business function.
7. The Relevant Licensees' Generation capacity that is not, or has not yet been, contracted with EEM. The Relevant Licensees' Supply activities forecast sales, the energy for which has not yet been contracted and their residual exposure to volume changes.
8. E.ON's transfer pricing arrangements mean that there is no matching of the Group's, or Relevant Licensees', own generation with own supply.
9. The Transmission System Operator forecasts the total system demand.



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## 4. Reconciliation of Table 1 to the Annual Report of E.ON SE

### Reconciliation to E.ON SE 2019 Annual Report

Table 3 Reconciliation

	External	Inter-segment	Revenue		Note	Adjusted EBIT	
	Sales in €m	Sales in €m	€m	£m		£m	€m
<b>E.ON SE Group</b>	<b>41,484.0</b>		<b>41,484.0</b>		1		<b>3,235.0</b>
less: Energy Networks - Germany	4,790.0	1,473.0	6,263.0				921.0
Energy Networks - Sweden	1,018.0	6.0	1,024.0				539.0
Energy Networks - ECE/Turkey	670.0	913.0	1,583.0				428.0
Customer Solutions - Germany	7,178.0	135.0	7,313.0				159.0
Customer Solutions - Other	7,951.0	332.0	8,283.0				143.0
innogy	10,381.0	63.0	10,444.0				421.0
<b>Renewables (E.ON Climate and Renewables)</b>	<b>682.0</b>	<b>914.0</b>	<b>1,596.0</b>		2		<b>347.0</b>
Non-core business	1,174.0	-	1,174.0				366.0
Corporate functions/other	14.0	608.0	622.0				(107.0)
Consolidation	-	(4,501.0)	(4,501.0)				7.0
	33,858.0	(57.0)	33,801.0				3,224.0
<b>Customer Solutions - UK</b>	<b>7,626.0</b>	<b>57.0</b>	<b>7,683.0 = 6,743.6</b>		3	<b>9.7</b>	<b>= 11.0</b>
Other Customer Solutions - UK activities			(915.7)		4	6.7	
Reallocation of other Retail business			(131.1)		5	25.6	
Restructuring costs			-		6	(53.6)	
<b>CSS Revenue and EBIT (Aggregate Supply business) per Table 1</b>			<b>5,696.8</b>		7	<b>(11.6)</b>	
<b>Total Renewables above</b>			<b>1,596.0</b>		2		<b>347.0</b>
Less Non-UK components			(1,286.5)		8		(227.5)
<b>UK Renewables</b>			<b>309.5 = 271.7</b>		9	<b>104.9</b>	<b>= 119.5</b>
Reallocation of generation activities			4.0		10	32.6	
Impairment			-		11	(7.0)	
<b>CSS Revenue and EBIT (Aggregate Generation business) per Table 1</b>			<b>275.7</b>		12	<b>130.5</b>	

## E.ON UK plc Group's Consolidated Segmental Report for the year ended 31 December 2019



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### **Notes to Table 3 and basis of preparation**

- 1 *E.ON SE Group* figures are taken from pages 204 and 205 of the [2019 E.ON SE Group Annual Report](#), which show the Financial Information by Business Segment disclosed in millions of Euros or €m. Adjusted EBIT means earnings before interest and tax, adjusted to exclude material non-operating effects.
- 2 *Renewables* segment is also taken from pages 204 and 205 of the [2019 E.ON SE Group Annual Report](#), and covers the E.ON SE Group's worldwide renewables activities, including the generation licensees' component, in €m.
- 3 *Customer Solutions UK* is also taken from pages 204 and 205 of the [2019 E.ON SE Group Annual Report](#). These have been translated into £m using an average exchange rate of £1 = €1.1393.
- 4 *Other Customer Solutions UK activities* are the other activities carried out by E.ON Customer Solutions UK, including the Corporate Centre functions, which do not form part of the Relevant Licensees' Supply activities.
- 5 *Reallocation of other Retail business* is E.ON Customer Solutions UK's Supply activities that do not form part of the Supply segment in Table 1, e.g. licence exempt supply by Affiliates of the Relevant Licensees.
- 6 *Restructuring costs* are the resources engaged in restructuring E.ON Customer Solutions UK's Supply activities (£53.6m). The costs relate directly to the operation of the Supply segments.
- 7 *CSS Revenue and EBIT (Aggregate Supply business)* figures are the Aggregate Supply business figures presented in Table 1 of this report.
- 8 *Non-UK components* are E.ON's other worldwide generation activities.
- 9 *UK Renewables* represents the activities associated with wind generation plant accounted for within the E.ON UK plc Group. These have been translated into £m using an average exchange rate of £1 = €1.1393.
- 10 *Reallocation of generation activities* relates to exclusion of unlicensed renewables generation and insurance proceeds of £31.5m relating to the Rampion off-shore wind farm.

## E.ON UK plc Group's Consolidated Segmental Report for the year ended 31 December 2019



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- 11 *Impairment* is the amount of impairments of fixed assets in respect of the generation portfolio during the year following an updated impairment assessment.
  - 12 *CSS Revenue and EBIT (Aggregate Generation business)* figures are the Aggregate Generation business figures presented in Table 1 of this report.

# E.ON UK plc Group's Consolidated Segmental Report for the year ended 31 December 2019



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## **5. Transfer Pricing and basis of preparation**

### **The transfer pricing methodology used by the Relevant Licensees**

All of the Relevant Licensees operate within E.ON's transfer pricing methodology as described below.

#### **Arrangements between the Relevant Licensees and EEM for generation plant**

Relevant Licensees' generation plant that is not eligible to participate in the Capacity Market under EMR is classed as Renewables. E.ON has no UK renewables generation plant scheduled by EEM.

These arrangements mean that the key risks for the Relevant Licensees are the potential for unscheduled power station outages and in their management of fuel procurement.

#### **Income arrangements**

The Relevant Licensees have arm's length contracts to receive payment from EEM for the output from the Relevant Licensees' renewables generation plant. These arrangements are primarily for delivery of electricity, with the Relevant Licensees not EEM scheduling the generation. The prices are market based with imbalances between contracted and outturn covered by a balancing fee. These payments form part of the "Revenue from sales of electricity and gas" for the Electricity Generation Renewable segment within Table 1.

#### **Expenditure arrangements**

Any payment for fuel by the generator is direct to the supplier and does not form part of the transfer pricing methodology. For the Relevant Licensee, these payments are the "Direct fuel costs" within Table 1; they only cover the cost of the fuel used in generation and do not cover any fuel delivered to site that has not been used. These costs are included in the "WACO F/E/G" for the Electricity Generation Renewable segment within Table 1.

## E.ON UK plc Group's Consolidated Segmental Report for the year ended 31 December 2019



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### E.ON's transfer pricing methodology for the Relevant Licensees' Supply activities

#### Income arrangements

The revenues from Supply sales of electricity and gas do not form part of the contracts between the Relevant Licensees and EEM.

#### Expenditure arrangements for energy procurement

The Relevant Licensees buy nearly all their required supply of electricity and gas from EEM on arm's length contracts using traded market instruments, including derivative financial instruments. The arm's length arrangements are secured through the instruments using a price that is directly derived from visible wholesale market prices at the time when the transaction takes place. This means that prices paid for the electricity and gas correspond to the current open market price for the particular product. A small volume is also purchased from embedded generation and industry mechanisms. Variations between final contract commitments and outturn customer demand are settled using the corresponding short term prices in the electricity and gas markets. There are no other costs relating to the contracts with EEM. Thus, to the extent that a Relevant Licensee procures energy from other E.ON companies, the transfer pricing methodology reflects how they actually acquire energy. The total price paid by the Relevant Licensees for electricity or gas, used for supply, is the "Direct fuel costs" for the Supply segment in Table 1. This is the cost used for the "WACO F/E/G" for the Supply segment within Table 1.

The required supply is based on forecast demand and the timing of purchases. These are determined by an assessment of competitive market dynamics and represent the key commodity risks for the Relevant Licensees' Supply activities. As explained above, the full costs of these purchases are included in "Direct fuel costs" in Table 1. However, any notional profit or loss, through changes in valuation due to changes in market price, of contracts with future delivery dates, is excluded. The exclusion of this notional profit or loss reflects the fact that these contracts have not been realised in cash terms and do not form part of the performance measures used by management to make strategic decisions. Excluding such notional profit or loss in Table 1 supports Ofgem's requirements for consistency in reporting and so supports meaningful comparison of statements.

A number of purchasing strategies are operated to address the various characteristics and requirements of our customers and reflect the competitive market conditions. These strategies range from flexible purchase arrangements for some large corporate customers, to longer term hedges for most tariff customers. This can produce different WACO F/E/G for the different electricity and gas Supply segments of Table 1.

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### **Arrangements between the Relevant Licensees and other parts of E.ON**

The treatment of services taken from other parts of E.ON by the Relevant Licensees' Generation and Supply activities are covered by Service Level Agreements (SLAs). These Generation and Supply costs are included in "*Indirect costs*" within Table 1.

E.ON's Great Britain supply activities, other than by the Relevant Licensees, are by companies that are licence exempt. These companies supply electricity direct to customers; using electricity they generate themselves or have purchased from a licensed supplier, which can be one of E.ON's Relevant Licensees. Sales by the Relevant Licensee to the licence exempt supplier are included in "*Revenue from sales of electricity and gas*" within Table 1.

The Relevant Supply Licensees procure ROCs and LECs from a number of sources, including E.ON companies. Any such procurement from E.ON companies is through an arm's length agreement.

### **Compliance with the Licence Conditions' requirements in respect of Transfer Pricing**

During 2019 the Relevant Licensees operated in accordance with E.ON's Group Policy FP-22 - Transfer Pricing. The policy remained in force on 31 December 2019. There were no material changes to E.ON's Group Policy FP-22.

As described above, all of the Relevant Licensees operate within their Group's transfer pricing methodology. Where trading is between the Relevant Licensees and other companies within their Group, it is through arm's length contractual arrangements. These contracts are in the form of SLAs. With the SLAs forming part of the Relevant Licensees' normal trading activities, they are kept under review to ensure that they are appropriate, up to date, compliant with the requirements of their Group's Transfer Pricing policy and compliant with the requirements of the tax authorities in both Germany and the UK. This ongoing review process did result in amendments being made to some of the SLAs during 2019. In addition, as part of the Relevant Licensees' normal trading activities, transactions under the SLAs are subject to normal financial controls, checks, record keeping and audit.

To ensure compliance with paragraph 8 of the Licence Condition 16B of the Generation Licence, commencing 13 February 2015 the Relevant Licensees notify the Authority as soon as reasonably practicable of any material changes (new versions coming into force) of E.ON's Group Policy FP-22 - Transfer Pricing.

# E.ON UK plc Group's Consolidated Segmental Report for the year ended 31 December 2019



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## Annex 1 - Independent auditors' report to the Directors of E.ON UK plc and their Licensees

### Opinion

We have audited the statement (E.ON UK plc's Consolidated Segmental Report for the year ended 31 December 2019, the "CSR", which includes the Consolidated Segmental Statement, the "CSS", as defined in the Licence Conditions) of E.ON UK plc's Relevant Licensees (as listed in footnote i) for the year ended 31 December 2019 in accordance with the terms of our agreement dated 16 March 2020. The CSR has been prepared by the Directors of E.ON's Relevant Licensees based on the requirements of Ofgem's Standard Condition 19A of the Gas and Electricity Supply Licences and Standard Condition 16B of the Electricity Generation Licences (together, the 'Licences') and the basis of preparation on pages 10-14, 16, 18-19 and 20-22.

In our opinion the accompanying CSR of E.ON UK plc's Relevant Licensees for the year ended 31 December 2019 is prepared, in all material respects, in accordance with:

- i) the requirements of Ofgem's Standard Condition 19A of the Gas and Electricity Supply Licences and Standard Condition 16B of the Electricity Generation Licences established by the regulator; and
- ii) the basis of preparation on pages 10-14, 16, 18-19 and 20-22.

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 805. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the CSR section of our report. We are independent of E.ON UK plc's Relevant Licensees in accordance with the ethical requirements that are relevant to our audit of the CSR in the United Kingdom, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

# E.ON UK plc Group's Consolidated Segmental Report for the year ended 31 December 2019



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## **Emphasis of matter - Basis of Accounting**

In forming our opinion on the CSS, which is not modified, we draw attention to pages 10-14, 16, 18-19 and 20-22 of the CSR, which describe the basis of preparation. The CSS is prepared in order for E.ON UK plc and its Relevant Licensees to meet the Licence requirement of the regulator, Ofgem, rather than in accordance with a generally accepted accounting framework. The CSS should therefore be read in conjunction with the Licences and the basis of preparation on pages 10-14, 16, 18-19 and 20-22. This basis of preparation is not the same as segmental reporting under IFRS and/or statutory reporting. As a result, the schedule may not be suitable for another purpose.

## **Responsibilities of Management and those charged with governance for the CSS**

Management is responsible for the preparation of the CSR in accordance with the Licences and the basis of preparation on pages 10-14, 16, 18-19 and 20-22 and for maintaining the underlying accounting records and such internal control as management determine is necessary to enable the preparation of the CSR that is free from material misstatement, whether due to fraud or error.

In preparing the CSR, management is responsible for assessing E.ON UK plc's Relevant Licensees' ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate E.ON UK plc's Relevant Licensees or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing E.ON UK plc's Relevant Licensees' financial reporting process.

## **Auditors' responsibilities for the audit of the CSR**

Our objectives are to obtain reasonable assurance about whether the CSR as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs UK will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this CSS. The materiality level that we used in planning and performing our audit is set at £15 million for each of the segments.

A further description of our responsibilities for the audit of the CSS is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.



# E.ON UK plc Group's Consolidated Segmental Report for the year ended 31 December 2019



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## Use of this report

This report, including our opinion, has been prepared solely for the Board of Directors of E.ON UK plc and its Relevant Licensees to assist the Directors in reporting on the CSS to the regulator Ofgem, in accordance with our engagement letter dated 16 March 2020 and for no other purpose.

We permit this report to be disclosed in the Company reporting section of the E.ON UK plc website<sup>(1)</sup>, [www.eonenergy.com](http://www.eonenergy.com), to enable the Directors of the E.ON UK plc Relevant Licensees to show how they have addressed their governance responsibilities by obtaining an independent assurance report in connection with the CSS. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Board of Directors of E.ON UK plc's Relevant Licensees for our work or this report except where terms are expressly agreed between us in writing.

A handwritten signature in blue ink, appearing to read 'PricewaterhouseCoopers UK'.

PricewaterhouseCoopers LLP

East Midlands

24 April 2020

- i) Relevant Licensees: Electricity supply licensees: E.ON Energy Solutions Limited and E.ON UK plc. Gas supply licensees; E.ON Energy Gas (Eastern) Limited, E.ON Energy Gas (North West) Limited, E.ON Energy Solutions Limited, E.ON UK plc and Economy Power Limited. Generation licensees; Citigen (London) Limited, E.ON UK plc, RWE Renewables UK Humber Wind Limited and Rampion Offshore Wind Limited.
- ii) The maintenance and integrity of E.ON UK plc website is the responsibility of the Directors of E.ON UK plc; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the CSS since it was initially presented on the website.