# UNIPER UK LIMITED

## Strategic Report, Directors' Report and Financial Statements

**for the Year Ended 31 December 2018**



**Company number: 02796628**

## UNIPER UK LIMITED
## STRATEGIC REPORT
## for the Year Ended 31 December 2018

The directors present their strategic report of the Company for the year ended 31 December 2018.

**Fair review of the business**

The Company provides capacity and generation of electricity at a fleet of conventional power stations in the UK. It is a wholly owned subsidiary of Uniper SE whose shares are traded on the Frankfurt Stock Exchange. On 8 January 2018, E.ON SE exercised the right to tender its 46.65% stake in Uniper as part of Fortum Oyj's public takeover offer of 7 November 2017. The public takeover offer was completed on 26 June 2018. At the date of signing of these financial statements, Fortum holds approximately 49.99 percent of Uniper shares. These events have no impact on the 2018 financial statements.

The Company's turnover during the year was £3,372 million (2017: £743 million), with an operating profit of £105 million (2017: operating loss of £107 million). The directors believe that the current level of conventional operating activity of the Company will continue for the foreseeable future, with any material deviations being a direct impact of the capacity market reinstatement and future auction results. On 1 January 2018 the Company implemented a new transfer pricing arrangement in collaboration with Uniper Global Commodities SE ("UGC") which has also impacted the 2018 results. Through the new system, UGC locks in a future selling price for the electricity expected to be generated by the power plant operating companies by entering into hedges at current market prices in the context of a portfolio management contract, so that the Company shows the financial effect of the price hedging of their generation positions. The change in mechanism is also reflected in a corresponding increase in the cost of materials.

During the year, the Company made a profit before taxation, write ups and impairment of £24 million (2017: loss of £58 million). Impairment charges in the year were £8 million (2017: £54 million) and write ups of assets were £83 million (2017: £nil).

At 31 December 2018, the Company had net assets of £529 million (2017: net assets of £423 million). Further information regarding the financial position of the Company at the year-end is provided in the Directors Report.

Trading

The Company's main activity is that of power generation. The generation business forms part of Uniper SE's European Generation division and focuses on maintaining a low cost, efficient and flexible conventional electricity generation business in order to compete effectively in the wholesale electricity market. As of 31 December 2018, the Company owned conventional power stations in the UK with an attributable registered generating capacity of 6,399 MW (2017: 6,386 MW).

The Company generates electricity from various fuel sources. In 2018, a total of 15.1 TWh (2017: 13.1 TWh) was generated of which 76% was fuelled by gas and 24% by coal. The Company regularly monitors the economic status of its plants in order to respond to changes in market conditions.

In February 2018, the UK T-1 capacity market auction for delivery period October 2018 to September 2019 took place with only two of the Company's modules at Killingholme participating as all other operational assets already have agreements for this delivery period in place. On 1st February 2018, the auction cleared with a clearing price of £6 per kilowatt of de-rated capacity. Killingholme was successful in the auction.

On 8 February 2018 the capacity market T4 auction took place for delivery period 2021-22. The clearing price was £8.40 per kilowatt per year which was well below market expectations, where the consensus view was between £15/kW and £20/kW. All of the Company's generating units that prequalified were successful in gaining an agreement except for one generating unit at Ratcliffe-on-Soar. As a result of the lower than forecast clearing price, an impairment charge of £54 million was booked against the company's assets in the 2017 financial statements.

On 15 November 2018, the European Union Court of Justice overturned the state-aid approval for payments from the British capacity market due to possible procedural errors in the approval by the EU Commission. As a result, payments from the capacity market are currently suspended. The EU Commission has now resumed state aid proceedings and, according to public sources, has appealed the court decision. Payments, including retroactive payments, may be resumed after renewed approval by the EU Commission or an annulment of the decision. The Company did not recognise capacity market income from October 2018 onwards and as of 31 December 2018 the company had a contingent asset of £30 million relating to the income not received.

The Company's converted biomass plant at Ironbridge ceased operations in November 2015, having fully utilised its available running hours under the Large Combustion Plant Directive. Decommissioning continued in the financial year. Subsequently the Ironbridge site was sold on 18 June 2018.

The Company also carries out central support services delivering facilities management, human resources, procurement, insurance, property, legal and finance support to other Uniper companies operating in the UK.

Future developments

Further discussion of future developments is included in the Directors' Report.

**Subsequent events**

Capacity Market

On 22 March 2019, the European Commission published its Opening Decision on State Aid clearance of the GB Capacity Market (CM), launching a one month consultation at the start of a phase II investigation process. This is in response to the decision on 15 November 2018, by the European Union Court of Justice to annul the original state-aid approval following a challenge by Tempus Energy. The European Commission has also appealed the court decision; the two processes will run in parallel. Tempus Energy is seeking to challenge the way the UK government implemented suspension of the CM through a judicial review in the UK. Payments remain suspended until state aid clearance is granted, when retroactive payments may also be made. The UK government is running replacement auctions (year ahead, and three year ahead) for those cancelled in 2018.

In June 2019, the UK T-1 capacity market auction for delivery period October 2019 to September 2020 took place with both units at Killingholme participating as all other operational assets already have agreements for this delivery period in place. On 12 June 2019, the auction cleared with a clearing price of £0.77 per kilowatt of de-rated capacity. Both Killingholme units were successful in the auction.

Decommissioning Provision review

Following a reassessment of budget cost estimates for the decommissioning and demolition of the Uniper UK's owned generation assets in the UK, the undiscounted cost was updated during the quarter ending 31 March 2019. This led to a reduction in the decommissioning provision of £37,000,000, with the main drivers being the increase in scrap metal prices and business rate reliefs. There was also a reduction in the tangible fixed assets of £35,000,000, with the remaining £2,000,000 being credited to the income statement.

**Principal risks and uncertainties**

The key business risks and uncertainties affecting the Company are considered to relate to regulatory risk, credit risks, reputational risks, commodity price risks, asset performance risks, decommissioning and demolition risks and the uncertainty surrounding Brexit.

Regulatory 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, carrying out of certain electricity and gas activities are prohibited unless authorised by a licence or exemption. A number of the Company's activities are authorised by licence and failure to comply with the requirements of such licences risks a fine of up to 10% of the Company's turnover.

The UK government in January 2018, set out its plan on implementing the end of electricity generation from coal fired power stations by 1 October 2025. The instrument to close unabated coal will be a 450g$CO_2$/kWh emissions intensity limit applied on a unit-by-unit basis. Coal plants can continue to participate in the capacity market (CM) auctions for delivery up to that date. Implementing legislation will be prepared in advance of the 2021 CM auction for the 2025/26 delivery year. A further impact assessment will be carried out at the same time.

After seeking advice from the Committee on Climate Change (CCC), the statutory body set up to monitor and advise on progress towards the UK's emission targets, the Government on 12 June 2019, laid secondary legislation to introduce a net-zero greenhouse gas emissions target replacing the existing target of reducing greenhouse gas emissions by 80% by 2050 compared to 1990 levels, set out in the Climate Change Act 2008. This was written into law on the 27 June 2019. The legislation includes a review within five years to confirm that other countries are taking similar action and to ensure that UK industry is not disadvantaged. For the electricity sector, net-zero represents an increase in ambition but not a fundamental change; it is less likely to be impacted by policy and legislative changes to meet the target than the transport, heating and industrial sectors. The CCC reports that the capacity market is delivering and will be increasingly important as the CCC foresees continued use of gas-fired power stations as a complement to low-carbon generation.

Credit risk

The Company is at risk if a counterparty is unable to meet its obligations, resulting in potential losses. The Company is subject to the Uniper SE group finance policy which sets a credit limit for every financial institution with which the Company does a significant amount of business. The majority of the company's business is with other Uniper SE group companies. The creditworthiness of the institutions with which the Company does significant business is established by the ratings they receive from Standard & Poor's. In addition, other counterparty credit risk is subject to the Uniper SE group credit risk management policy supported by individual business unit policies to establish internal ratings for limit setting. Credit risk assessment involves quantitative and qualitative criteria including ratings by independent rating agencies where these are available.

Reputational risk

The Company is part of a prominent European energy group and may be mentioned expressly or impliedly during public discussions of significant energy issues. Trust and credibility are essential for the Company to remain successful over the long term. The foundation for earning trust and credibility is built by clear and consistent communications with the Company's key stakeholders and customers. The Company works hard to engage in dialogue and maintain good relationships with its key stakeholders and customers. This is achieved by paying attention to environmental and social issues. The Company's objective is to minimise its reputational risks and garner public support so that it can continue to operate its business successfully.

Commodity price risk

The Company sells the majority of its output to Uniper Global Commodities SE ('UGC') using a transfer pricing mechanism which manages all of the associated short-term commodity price risk of the Company during the year. UGC then trades this volume on the wholesale market. Residual commodity price risks are managed through the use of derivative financial instruments and the financial impact of these is mirrored in the Company's financial statements under the new transfer price agreement effective from 1 January 2018. The key risk under the transfer pricing mechanism for the Company is the potential for unscheduled power station outages for which the Company could incur financial liabilities. This risk is discussed separately under 'Asset performance risks'.

Asset performance risks

If shutdowns or outages involving the Company's generation assets occur, the Company's business and results of operations could be negatively affected. In order to minimise the impact of reduced asset performance, the Company undertakes regular maintenance and adopts good maintenance practice. The Company also continues to implement operational and infrastructure improvements that will enhance the reliability of the generation assets. The Company also has insurance contracts in place to cover certain losses due to unforeseen generation outages or shutdowns.

Decommissioning and demolition risks

The Company maintains provisions for the decommissioning and demolition of its power stations. There is a risk that the actual cost will exceed the provision due to unforeseen works being required. In order to mitigate this risk, the Company periodically reviews forecast expenditure and updates the provisions accordingly. Furthermore, the activities involved in decommissioning and demolition carry an inherent risk to the safety and health of the individuals performing this work. The Company has standards, policies and procedures in place to ensure that this risk is minimised. Employees of the Company and employees of other companies who are contracted to perform these works are subject to the same standards, policies and procedures.

Brexit risks

The Brexit negotiations between the EU and the United Kingdom, concluded with a withdrawal agreement and a political declaration, which the UK Parliament has yet to ratify. An extension to the Article 50 period has been granted to 31 October 2019 and the UK can leave at any time if it ratifies the agreement.

The political declaration provides for cooperation on electricity and gas trading. The British government has taken a number of precautions in the event the negotiations fail. These include the introduction of a Carbon Emissions Tax from 1 April 2019 if the United Kingdom were to no longer participate in EU emissions trading. The UK government's stated preference is for a UK ETS linked to the EU ETS and it is consulting on post-Brexit carbon pricing.

In the event of the United Kingdom leaving its membership to the European Union under a no-deal Brexit scenario on 31 October 2019 (or another date), the Company could face additional risks. Potential commodity price and GBP exchange-rate fluctuations as a direct result of a no-deal Brexit could impact the value of the Company's asset portfolio.

These risks, as they would be materialising as part of the general commodity price risks if at all, are monitored closely and managed by the standard measures for managing commodity price by the Uniper SE Group.

In the event of a no-deal Brexit, the UK government has announced that a new Carbon Emissions Tax (CET) would be introduced from 1st day of the month following the exit from the EU and would replace the UK's membership in the European Union Emissions Trading System (EU ETS). This tax could present the Company with a potential risk or opportunity as carbon certificates already purchased for the UK portfolio would no longer be needed and could be sold. EU ETS Certificates currently trade at a premium to the UK's proposed Carbon Emissions Tax due to which this opportunity could partially compensate the above mentioned risks.

**Key performance indicators ('KPIs')**

The Company's financial KPIs during the year were as below;

| | **2018** | 2017 |
|---|---|---|
| Adjusted EBITDA | **£60.7m** | £11.5m |
| Cash inflow/(outflow) from operating activities | **£139.4m** | £(22.4)m |

Adjusted EBITDA, a measure of earnings before interest, taxes, depreciation and amortisation, adjusted for non-operating effects, is one of the key measures of the Company for purposes of internal management control and an important element of the profitability of its operations.

The non-operating earnings for which EBITDA is adjusted include, in particular, income and expenses from the fair value measurement of derivative financial instruments, expenses for restructuring/cost management programs and impairment charges on non-current assets.

The adjusted EBITDA in the year was favourable compared to the prior year due mainly to the transfer pricing agreement changes, for which the company benefits from effective price hedging and the capacity market income received before the mechanism was suspended. The cash inflow for the year was in line with expectations and was a result of continued operating activities.

However the above KPIs are based on group reporting IFRS numbers. If we were to use the statutory FRS 101 numbers in these financial statements, the adjusted EBITDA would be lower by £8 million producing a value of £53 million (2017: lower by £13 million at a value of -£1 million).

The directors do not believe there are any further financial KPIs that are not already disclosed within these financial statements.

The Company's non-financial KPIs during the year were as below;

| | **2018** | **2017** |
|---|---|---|
| Plant scheduled availability<br>(taking account of planned outages) | **91.7%** | 92.1% |
| Available generating capacity at year end (MW) | **6,399** | 6,386 |
| Generation production during the year (TWh) | **15.11** | 13.10 |

Approved by the Board of Directors on 26 July 2019 and signed on its behalf by:

**M Bayes**
Director

Uniper UK Limited
Company No: 02796628
Compton House
2300 The Crescent
Birmingham Business Park
Birmingham
B37 7YE

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2018.

**Directors of the Company**

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

M J Lockett
D Bryson
M F Lerch (resigned 31 December 2018)
M Bayes
A Mitchell

**Principal activities**

The Company's principal activity during the year was the provision of capacity and the generation of electricity at a fleet of conventional power stations. The Company also provides central support services to other Uniper companies operating within the UK and acts as a holding company.

**Results and dividends**

The Company's profit for the financial year is £79 million (2017 loss: £92 million). No interim dividends were paid during the year (2017: £nil). The directors do not recommend the payment of a final dividend (2017: £nil).

**Financial instruments**

**Objectives and policies**

The Company, in common with other companies within the Uniper SE group, must comply with Uniper SE's group finance guidelines that set out the principles and framework for managing group-wide finances. The Company also has its own local operational treasury team which services the treasury requirements of the business. Further information on the Uniper SE group's policies and procedures is available in the financial statements of the Uniper SE group.

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

The Company operates its own specific treasury procedures within the overall Uniper SE treasury framework. The Uniper SE treasury team liaise closely with the Company to ensure that liquidity and risk management needs are met within the requirements of the Uniper SE policies and procedures.

**Transfer Pricing System**

All energy-related contracts with Uniper Group companies are accounted for at market prices or market-price-based transfer prices. In forward transactions, transfer prices are derived from current forward prices for a specified time prior to delivery.

At the beginning of 2018, the transfer pricing system previously used in connection with the electricity generation of the Uniper Group was replaced by a new portfolio management system, in which Uniper Global Commodities SE (UGC) hedges the expected electricity generation of the power plant companies by concluding hedging transactions (physical and financial) on the basis of current market prices and makes uses of spot optimisation.

The previous contracts were terminated at the end of 2017 and the delivery and acceptance obligations existing at that time were transferred to the new system.

Through the new system, UGC locks in a future selling price for the electricity expected to be generated by the power plant operating companies by entering into hedges at current market prices in the context of a portfolio management contract, so that the Company shows the financial effect of the price hedging of their generation positions. The change in mechanism is also reflected in a corresponding increase in the cost of materials.

**Uniper SE's central financing strategy**

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

The Company's 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. The treasury team works in close liaison with the other 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 Uniper SE for incorporation into Uniper SE group forecasting processes on a weekly and quarterly basis.

The Company does not enter into speculative treasury arrangements. Accordingly, all transactions in financial instruments are matched to an underlying business requirement, such as committed purchases or forecast funding requirements. Treasury activities are reviewed by internal audit on a regular basis.

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

Foreign exchange risk management

The Company primarily trades in Sterling but its principal currency exposure is to the Euro. The Company operates within the framework of Uniper SE's guidelines for foreign exchange risk management. The Company has local policies dealing with operational exposures (typically cash flows arising on construction and maintenance which impact the cash flow and profit and loss account).

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

Interest rate risk management

The Company operates within the Uniper SE framework for interest rate risk management. The Company has a number of funding arrangements and is exposed to movements in interest rates. These interest rate exposures are managed primarily through the use of a mixture of fixed and floating rate borrowings.

Credit risk management

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

Liquidity planning, trends and risks

The Company has sufficient committed borrowing facilities to meet planned liquidity needs with headroom, through facilities provided by Uniper SE. The Company also has a bank overdraft facility to support daily liquidity management. As electricity generation is a capital intensive business, planned capital spending remains at significant levels. 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 (2017: £nil).

**Equal opportunities**

The Company's employment policies 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 gender, race, marital status, age or disability.

Employment practices and procedures are regularly reviewed to ensure that they provide equality of opportunity to all employees within the current legislative framework. The Company encourages the use of flexible working arrangements where practicable.

The Group has a focus on diversity and inclusion, with an improvement plan in place for 2018 to 2020 to increase awareness and to ensure it is embedded into the culture of the organisation, with the ultimate aim of making diversity a way of life. The plan currently covers leadership and culture, communications, infrastructure and compliance as well as the timeline for improvement.

**Employee involvement**

Recognising that the success of the Company depends on the quality of performance of its employees, increased emphasis is being put on communication programmes to ensure that employees understand the business strategy and can contribute towards its achievements. Throughout the year, principally through regular team briefings and meetings with employees and their representatives, individual businesses have continued to improve their arrangements for employee consultation and communication on matters relating to business performance and objectives. There are also well established consultative and negotiating arrangements involving employees, employee representatives and trade union officials to ensure that employees' views are considered in relation to employment conditions, safety and health, welfare and training issues.

The Company provides appropriate training in order to satisfy business needs and to develop the talents and skills of employees, benefiting the individual, the Company and its customers.

**People with disabilities**

The Company fully recognises its responsibility to encourage and assist the recruitment, employment, training and career development of people with disabilities. If employees become disabled during their service with the Company arrangements are discussed to enable continuity of employment and development as appropriate.

**Safety, health and corporate responsibility**

The Company is committed to operating in a sustainable way with a top priority of safety and health at the workplace. More information on the Company's corporate responsibility efforts is available on the Uniper group's website www.uniper.energy.

**Future developments**

The Company's strategy is aligned with the strategy of Uniper group which is set out on the group's website at www.uniper.energy and can also be found within the Uniper SE annual accounts. The principal activity of the Company is expected to continue for the foreseeable future.

**Directors' indemnities**

The Company maintains liability insurance for its directors and officers. This is a qualifying third party indemnity provision for the purposes of the Companies Act 2006. This insurance cover was in force during the year and is still in force at the date of approving the Directors' Report.

**Going concern**

Notwithstanding the fact that the Company has net current liabilities, the directors have prepared these financial statements on the going concern basis. The directors believe that it is probable that funding will continue to be provided by other Uniper SE group companies and hence the Company can meet its obligations as they fall due for a period of at least twelve months from the date of the directors' approval of these financial statements. In addition, the Directors have received a letter of comfort from Uniper SE, confirming its support in terms of continuing to provide a credit facility of £400 million to the Company for the foreseeable future.

**Statement of disclosure of information to the auditor**

In accordance with section 418, 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. The directors confirm that there is no relevant audit information that they know of and which they know the auditors are unaware of.

**Statement of directors' responsibilities in respect of the financial statements**

The directors are responsible for preparing the Strategic Report, Directors report and the Financial Statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

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

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

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

Approved by the Board of Directors on 26 July 2019 and signed on its behalf by:

**M Bayes**
Director

Uniper UK Limited
Company No: 02796628
Compton House
2300 The Crescent
Birmingham Business Park
Birmingham
B37 7YE

**Independent Auditor's Report to the Members of**
**UNIPER UK LIMITED**

## Report on the audit of the financial statements

### Opinion

In our opinion, Uniper UK Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Strategic Report, Directors' Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2018; the statement of comprehensive income for the year, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

### Basis for opinion

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

*Independence*

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

### Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

### Reporting on other information

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

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

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

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

*Strategic Report and Directors' Report*

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

### Responsibilities for the financial statements and the audit

*Responsibilities of the directors for the financial statements*

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements set out on page 7 and 8, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

*Auditors' responsibilities for the audit of the financial statements*

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

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

*Use of this report*

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

## Other required reporting

### Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Nicholas Stevenson

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

26 July 2019

## UNIPER UK LIMITED
## STATEMENT OF COMPREHENSIVE INCOME
## for the Year Ended 31 December 2018

| | Note | 2018 £000 000 | 2017 £000 000 |
|---|---|---|---|
| **Turnover** | 3 | **3,372** | 743 |
| Cost of sales | | **(3,225)** | (618) |
| **Gross profit** | | **147** | 125 |
| Administrative expenses | | **(183)** | (200) |
| Reversal of impairment of tangible assets | 10 | **83** | - |
| Impairment of tangible assets | 10 | **(8)** | (54) |
| Other operating income | | **66** | 22 |
| **Operating profit/(loss)** | 4 | **105** | (107) |
| Interest payable and similar expenses | 8 | **(6)** | (5) |
| **Profit/(loss) before taxation** | | **99** | (112) |
| Tax on profit/(loss) | 9 | **(20)** | 20 |
| **Profit/(loss) for the financial year** | | **79** | (92) |
| **Other comprehensive income/(expense)** | | | |
| Items that will not be reclassified to profit and loss; | | | |
| Remeasurements of post-employment obligations | 21 | **32** | (11) |
| Income tax relating to these items | 9 | **(5)** | 2 |
| **Other comprehensive income/(expense) for the year, net of tax** | | **27** | (9) |
| **Total comprehensive income/(expense) for the year** | | **106** | (101) |

Turnover and operating profit/(loss) for the year derive wholly from continued operations.

The notes on pages 14 to 39 form an integral part of these financial statements.

## UNIPER UK LIMITED
## BALANCE SHEET
## as at 31 December 2018

| | Note | 2018 £000 000 | 2017 £000 000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Tangible assets | 10 | **779** | 677 |
| Investment property | 11 | **3** | 4 |
| Investments | 12 | **-** | - |
| | | **782** | 681 |
| **Current assets** | | | |
| Stocks | 13 | **93** | 75 |
| Debtors: amounts falling due within one year | 14 | **229** | 131 |
| Debtors: amounts falling due after more than one year | 15 | **137** | 156 |
| Cash at bank and in hand | | **2** | 1 |
| | | **461** | 363 |
| **Creditors: amounts falling due within one year** | 16 | **(463)** | (426) |
| **Net current liabilities** | | **(2)** | (63) |
| **Total assets less current liabilities** | | **780** | 618 |
| **Creditors: amounts falling due after more than one year** | 24 | **(5)** | - |
| **Provisions for liabilities** | 19 | **(246)** | (195) |
| **Net assets** | | **529** | 423 |
| **Capital and reserves** | | | |
| Called up share capital | 20 | **15** | 15 |
| Share premium account | 20 | **1,044** | 1,044 |
| Capital contribution | | **26** | 26 |
| Profit and loss account | | **(556)** | (662) |
| **Total shareholders' funds** | | **529** | 423 |

The financial statements on pages 11 to 39 were approved by the Board of Directors on 26 July 2019 and signed on its behalf by:

**M Bayes**
Director
Uniper UK Limited
Company No: 02796628

The notes on pages 14 to 39 form an integral part of these financial statements.

**UNIPER UK LIMITED**
**STATEMENT OF CHANGES IN EQUITY**
**for the Year Ended 31 December 2018**

| | Called up share capital £000 000 | Share premium account £000 000 | Capital contribution £000 000 | Profit and loss account £000 000 | Total Shareholders' funds £000 000 |
|---|---|---|---|---|---|
| At 1 January 2017 | 15 | 1,044 | 26 | (561) | 524 |
| Loss for the financial year | - | - | - | (92) | (92) |
| Other comprehensive expense | - | - | - | (9) | (9) |
| At 31 December 2017 | 15 | 1,044 | 26 | (662) | 423 |
| Profit for the financial year | - | - | - | 79 | 79 |
| Other comprehensive income | - | - | - | 27 | 27 |
| **At 31 December 2018** | **15** | **1,044** | **26** | **(556)** | **529** |

The notes on pages 14 to 39 form part of these financial statements.

## 1. Accounting policies

### General information

The Company provides capacity and generates electricity through the use of conventional power stations and acts as a holding company providing central support services to other Uniper companies, all operating in the UK.

The Company is a private company limited by shares and is incorporated and domiciled in England. The address of the Company's registered office is Compton House, 2300 The Crescent, Birmingham Business Park, Birmingham, B37 7YE.

### Significant accounting policies

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

### New standards, amendments and IFRIC interpretations

IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers are new accounting standards that are effective for the year ended 31 December 2018 and have not had a material impact on the Company (see note 26).

IFRS 16 Leases had been published but not mandatory for the 31 December reporting periods, but has been early adopted by the Company using simplified transition approach and have not had a material impact on the Company (see note 26).

There are no other amendments to the accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2018 that have had a material impact on the company.

### Basis of preparation of financial statements

These financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). These financial statements have been prepared under the going concern basis, historic cost convention as modified by the revaluation of financial instruments held at fair value through profit and loss and in accordance with the Companies Act 2006 as applicable to companies using FRS 101. The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

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

- The requirements of IAS 1 Presentation of Financial Statements as referred to in FRS 101 p8(f) and 8(g) a applicable
- 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 (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective)
- The requirements of Paragraph 17 of IAS 24 Related Party Disclosures (key management compensation)
- The requirements of IFRS 7 Financial Instruments: Disclosures
- The requirements of IFRS 10 Consolidated Financial statements
- 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 paragraphs 45(b) and 46 to 52 of IFRS 2 Share based payments (details of the number and weighted average exercise prices of share options and how the fair value of goods or services received was determined)

## 1. Accounting policies (continued)

- The requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 "Impairment of assets" (disclosures when the recoverable amount is fair value less cost of disposal, assumptions involved in estimating recoverable amounts of cash-generating units goodwill or intangible assets with indefinite useful lives, and management's approach to determining these amounts).

**Exemption from preparing group financial statements**

The Company is a wholly-owned subsidiary undertaking of Uniper SE, the ultimate parent undertaking, and is included in the publicly available consolidated financial statements of Uniper SE. Consequently, the Company has taken advantage of the exemption from preparing consolidated financial statements under the terms of Section 400 of the Companies Act 2006.

These Company's financial statements present information about it as an individual undertaking and not about its group.

**Related party transactions**

The Company is exempt from the requirements of IAS 24 'Related Party Disclosures' to disclose related party transactions with wholly owned entities that are part of the Uniper SE group or investees of the Uniper SE group.

**Going concern**

Notwithstanding the fact that the Company has net current liabilities, the directors have prepared these financial statements on the going concern basis. The directors believe that it is probable that funding will continue to be provided by other Uniper SE group companies and hence the Company can meet its obligations as they fall due for a period of at least twelve months from the date of the directors' approval of these financial statements. In addition, the Company has received a letter of comfort from Uniper SE, confirming its support in terms of continuing to provide a credit facility to the Company for the foreseeable future.

**Turnover**

Turnover generated by the Company during the year arose from generation sources representing capacity fees received for making plant available to customers. Capacity fees are recognised over the period for which plant is made available for use, which happens over time. Under the new transfer pricing agreement with UGC, income is received for ancillary services provided to National Grid as well as income from hedges on commodities . Ancillary service income is recognised on provision of the service, which happens over time. Hedge income is based on market prices and recognised as deals mature. UGC provide monthly invoices detailing the turnover to be recognised and these are settled 20 days after month end. Turnover excludes value added tax.

**Accrued income**

Income recognised in advance of receipt is debited to an accrued income account and is recognised in the profit and loss account in the period to which it relates.

**Corporation tax**

The tax expense/credit for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current tax charge/credit is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company operates and generates taxable income.

**Exceptional and material items**

The Company presents as exceptional items those material items of income or expense which, because of the nature and expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in the year, so as to facilitate comparison with prior periods and to assess better trends in financial performance.

## 1. Accounting policies (continued)

### Leases

As explained above, the Company has changed its accounting policy for leases and early adopted IFRS 16. Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company and are initially measured on a present value basis. The corresponding rental obligations are included in creditors (short and long term). The right-of-use asset is depreciated over the asset's useful life, or the lease term, whichever is shorter. Finance costs are charged to the profit or loss over the period of the lease.

Lease liabilities include the net present value of fixed payments less any lease incentives receivable, variable lease payments that are based on an index or rate, amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Company's incremental borrowing rate

Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability, any lease payments made at or before the commencement date less any lease incentives received, any initial direct costs and restoration costs.

### Pensions

Payments to defined contribution schemes are charged against profits as incurred. The Company has no further payment obligation once contributions have been paid. Contributions are recognised in the profit and loss account as employee costs when they are due and prepaid contributions are recognised as an asset to the extent that a cash refund or reduction in the future payments is available.

The Company also contributes to a funded group defined benefit pension scheme operated by the Company, the assets of which are invested in a separate trustee-administered fund. The liability recognised on the balance sheet in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the end of the year less the fair value of the plan assets.

On the 23 March 2016, the Company's pension scheme, Uniper UK Group of the Electricity Supply Pension Scheme, acquired assets and liabilities from the E.ON UK plc pension scheme in respect of employees which transferred to the Uniper group. The liabilities used when preparing the disclosures by the independent actuaries, has been derived from the first actuarial valuation of the scheme, which was completed as at 31 March 2017, at which point a schedule of contributions and a recovery plan were agreed.

Re-measurement gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to shareholders' funds in other comprehensive income in the period in which they arise. The amount charged or credited to finance costs is a net interest amount calculated by applying the liability discount rate to the net defined benefit liability or asset. Past service costs are recognised immediately in the statement of comprehensive income.

### Share-based payments

Certain senior management personnel participate in cash settled share-based payment schemes administered by the ultimate parent company. One scheme is currently relevant to the Company – being the Share Performance Plan. The Company accounts for this scheme in accordance with IFRS 2 "Share–based payment". The liability is measured initially and at each reporting date, based on fair value, taking into account rights granted and service rendered to date. Costs are recognised in the income statement over the expected vesting period.

### 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 as a provision is the best estimate of the expenditure required to settle the 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 risks specific to the liability. Future operating costs are not provided for.

## 1. Accounting policies (continued)

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.

A shortfall in emission rights is recognised within other provisions at closing market value for any unhedged amounts and cost for the amounts prepaid. The expenses incurred for the consumption of emission rights are reported under cost of sales.

**Intangible assets**

Emission rights held under national and international emissions rights systems are reported as intangible assets. Emission rights are capitalised at their acquisition costs when issued for the respective reporting period as (partial) fulfilment of the notice of allocation from the responsible national authorities, or purchased from third parties. The consumption of emission rights is recognised at average cost based on emissions made. A shortfall in emission rights is recognised within other provisions at cost. The expenses incurred for the consumption of emission rights and the recognition of a corresponding, provision are reported under cost of goods sold.

**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. Land and buildings and plant and machinery relate primarily to generating assets.

Major assets in the course of construction are included in tangible 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. Where borrowings are used to finance the construction of a major capital project with a long period of development, interest payable is capitalised as part of the cost of the asset and written off over the economic useful life of the asset. Where specific borrowings are used, the amount capitalised is based on actual interest payable. Where general borrowings are used, the amount capitalised is based on the weighted average cost of capital of the Uniper SE group not exceeding the actual expenditure incurred during the relevant period of construction.

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

| **Asset class** | **Depreciation method and rate** |
|---|---|
| Freehold land and buildings | Straight-line basis over 25-40 years |
| Plant and machinery | Straight-line basis over 35-40 years |
| Fixtures and fittings | Straight-line basis over 3-40 years |
| Leased right of use assets | Straight-line basis over 1-8 years |

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

**Overhaul of generation plant**

Major periodic overhaul, costs on generation plant are capitalised as part of generating assets and depreciated on a straight-line basis over their useful economic life, typically the period until the next major overhaul. That period is usually four years.

**Investment properties**

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties are stated at cost less accumulated depreciation.

**Investment in subsidiary undertakings**

Investments in subsidiary undertakings are held at cost less accumulated impairment losses.

**Impairment**

Impairments are recognised in the profit and loss account and, where material, are disclosed separately. See note 2 for further information regarding critical judgments for impairments.

## 1. Accounting policies (continued)

### Stock

Stock is 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. Fuel stocks and stores are considered to be raw materials under this definition.

### Financial instruments

The Company's financial risk management policies are consistent with those of the Uniper SE group and are described in the Uniper SE's group Financial Statements.

Debt instruments

All borrowings are initially stated at the fair value of consideration received after deduction of directly attributable transaction costs. The issue costs and interest payable on bonds are charged to the profit and loss account at a constant rate over the life of the bond. Any premium or discount arising on the early repayment of borrowings is written off to the profit and loss account as incurred or received.

Derivative instruments

The Company uses a range of derivative instruments, cross-currency swaps, energy-based options and futures contracts and foreign exchange contracts. Derivative instruments are used for hedging purposes, apart from, certain energy-based options and futures contracts, which are used for trading purposes.

See note 17 for further details of the fair values of the financial instruments.

Derivative instruments 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.

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.

### Inter-company balances

Inter-company payable and receivable trading balances within the Uniper SE group 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. The Company applies the IFRS 9 simplified approach to measuring expected credit losses, which uses an expected lifetime expected credit loss allowance for intercompany receivables (see note 26).

### 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.

### Decommissioning costs

The fair value of a liability arising from the decommissioning of an asset is recognised in the period in which the asset is commissioned and when a reasonable estimate of the fair value can be made. When the provision is recorded, the Company capitalises the costs of the provision by increasing the carrying amount of the tangible fixed assets. In subsequent periods, the provision is accreted through the profit and loss account to its present value and the carrying amount of the asset is depreciated over its useful life. Changes to estimates arise, particularly when there are deviations from original cost estimates or changes to the payment schedule or the level of relevant obligation. The provision must be adjusted in the case of both negative and positive changes to estimates. Such an adjustment is usually affected through a corresponding adjustment to tangible fixed assets and is not recognised directly in the profit and loss account.

### Cash and short-term deposits

Short-term deposits include cash at bank and in hand.

## 1. Accounting policies (continued)

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

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

## 2. Critical accounting estimates and judgements

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 the financial statements and the reported amounts of incomes and expenses during the reporting year. These judgements are based on management's best knowledge of the relevant facts and circumstances, having regard to prior experience, but actual results may differ from the amounts included in the financial statements.

**Critical accounting estimates and assumptions**

Areas of significant judgement in application of accounting policies and critical accounting estimates that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Impairment

Impairment tests are based on respective remaining useful life and on other plant-specific valuation parameters. Appropriate compensation elements are considered by means of scenario evaluations, to include elements such as capacity market auction results and commodity prices. The recoverable amounts were generally calculated as fair values. 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.

Significant judgements, as detailed above, are required in determining the fair value as this represents the present value of expected future cash flows, discounted using a post-tax discount rate of 6.6% that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Where such an asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the income generating unit.

Decommissioning costs

Significant judgements and estimates are made about the costs of decommissioning the Company's power stations at the end of their useful lives. The estimated costs of decommissioning and subsequent site restoration are reviewed periodically and a provision is made for the estimated decommissioning cost at the balance sheet date. The payment dates of total expected future decommissioning costs are uncertain and dependent on the lives of the power stations.

**Critical judgements in applying the entity's accounting policies**

Current and Deferred Tax

Significant judgement is required in determining the Company's provision for corporation taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Company recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax assets and liabilities in the period in which such determination is made

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. See note 2 for further information regarding critical judgments relating to current and deferred tax.

## 2. Critical accounting estimates and judgements (continued)

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred 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 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 (see further consideration in note 15).

Emissions trading scheme

The Company has been subject to the European Emissions Trading Scheme since 30 September 2015. The Company has adopted an accounting policy which recognises a shortfall in emissions rights within provisions. Expenses incurred for the consumption of emission rights are reported in cost of sales. Forward contracts for sales and purchases of allowances are measured at fair value.

Defined benefit pension assumptions

The Company's actuaries provide a report which sets out their advice to the Company to help reach a decision on the assumptions to be used to produce pension cost information in relation to the Uniper Group of the ESPS ("the Scheme") under International Accounting Standard IAS 19.

The economic and demographic assumptions used for the purpose of compliance with IAS 19 are selected by the Directors of the Company and are required to be individually a best estimate and mutually compatible. The actuaries have taken best estimate to mean that there is an even chance that assumptions will over or under estimate future experience over the medium to long term.

Any assumptions that are affected by economic conditions (financial assumptions) should be based on market expectations, at the balance sheet date, for the period over which the obligations are settled. The specific actuarial assumptions of the scheme are included within note 21.

Contingent asset

Due to the suspension of the UK Capacity Market, the company has a £30 million contingent asset relating to the income for 2018 not received. The process to reinstate clearance has started, but until clearance is granted it is not certain that the income will be received, however the Government have indicated that they expect retrospective payments will be made when the clearance has been received.

## 3. Turnover

Turnover generated by the Company during the year arose from generation sources representing capacity fees received for making plant available to customers. Capacity fees are recognised over the period for which plant is made available for use, which happens over time. Under the new transfer pricing agreement with UGC, income is received for ancillary services provided to National Grid as well as income from hedges on commodities . Ancillary service income is recognised on provision of the service, which happens over time. Hedge income is based on market prices and recognised as deals mature. UGC provide monthly invoices detailing the turnover to be recognised and these are settled 20 days after month end. The Company's turnover, all of which arises in the course of the Company's principal activity, arises in the UK and Europe

## 3. Turnover (continued)

| | **2018 £000 000** | 2017 £000 000 |
|---|---|---|
| UK | **121** | 33 |
| Europe | **3,251** | 710 |
| **Total turnover** | **3,372** | 743 |

The turnover in respect of Europe relates to sales to Uniper Global Commodities SE.

## 4. Operating profit/(loss)

Operating profit/(loss) is stated after charging/(crediting):

| | **2018 £000 000** | 2017 £000 000 |
|---|---|---|
| Staff costs (note 6) | **63** | 63 |
| Operating leases | **1** | 1 |
| Depreciation of owned assets (note 10) | **54** | 60 |
| Depreciation of leased assets (note 10) | **1** | - |
| Foreign currency gains | **(32)** | (8) |
| Impairment of tangible assets (note 10) | **8** | 54 |
| Write up of tangible assets (note 10) | **(83)** | - |
| Stores inventory recognised as an expense | **1** | 2 |
| Profit on disposal of tangible assets | **(4)** | - |
| Other operating income | **(66)** | (22) |

Operating lease expense during the year relates to short term leases not capitalised under IFRS 16 which amounted to £545,000. The 2017 expense was £1,394,000 and included approximately £940,000 of expense for leases capitalised under IFRS 16.

Other operating income comprises income from release of provisions no longer required, compensation for damages, recharges to other group companies and services provided to a third party for non-generational services including use of the gas treatment plant at Connah's Quay Power Station.

## 5. Auditors' remuneration

Auditors' remuneration of £325,000 (2017: £335,000) was charged for the audit of these financial statements, of which £18,000 (2017: £18,000) related to the audit of subsidiary companies which was not recharged. The Company incurred fees of £29,000 (2017: £29,100) in relation to audit-related assurance services. No other fees were paid.

## 6. Employee information

The monthly average number of persons employed by the Company (including directors) and whose costs were not recharged to other companies during the year analysed by category, was as follows:

| | **2018 No.** | 2017 No. |
|---|---|---|
| Production | **450** | 448 |
| Administration and support | **154** | 153 |
| | **604** | 601 |

## 6. Employee information (continued)

The following salaries and related costs of employees, including directors and key management, were incurred during the year:

| | 2018 £000 000 | 2017 £000 000 |
|---|---|---|
| Wages and salaries | **40** | 34 |
| Social security costs | **5** | 5 |
| Other pension costs | **20** | 25 |
| | **65** | 64 |
| Less: pension costs recharged to other companies | **-** | - |
| Less: capitalised in fixed assets | **(2)** | (1) |
| | **63** | 63 |

## 7. Directors' remuneration

The directors' remuneration for the year was as follows:

| | 2018 £ | 2017 £ |
|---|---|---|
| Aggregate emoluments (including benefits in kind) | **1,055,027** | 950,403 |
| Compensation for loss of office | **-** | 170,030 |

The above amounts relate to four directors (2017: five) who were remunerated by the Company. Certain directors spent part of their management time on other companies within the Uniper SE group. As a result £388,179 (2017: £381,225) of the above costs were recharged by the Company.

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

| | 2018 No. | 2017 No. |
|---|---|---|
| Received or were entitled to receive shares under long term incentive schemes | **2** | 2 |
| Accruing benefits under a defined contribution pension scheme | **2** | 1 |
| Accruing benefits under a defined benefit pension scheme | **3** | 4 |

During the year, two directors (2017: no) exercised Performance Rights over shares in Uniper SE, that they were awarded for past services to the E.ON SE group under Long Term Incentive (LTI) arrangements. Total payments under the LTI were £1,014,988 (2017: £nil).

During the year, the Company paid, or treated as paid, contributions to a pension scheme in respect of money purchase benefits totalling £10,000 (2017: £10,500).

In respect of the highest paid director:

| | 2018 £ | 2017 £ |
|---|---|---|
| Aggregate emoluments | **439,126** | 492,948 |
| Long term incentive payments | **451,868** | - |
| Company contributions to defined contribution pension scheme | **10,000** | 10,500 |

## 8. Interest payable and similar expenses

| | **2018 £000 000** | 2017 £000 000 |
|---|---|---|
| Interest payable to group undertakings | **3** | 3 |
| Interest - provision unwind | **2** | 1 |
| Other interest payable | **1** | 1 |
| | **6** | 5 |

## 9. Tax on profit/(loss)

| | **2018 £000 000** | 2017 £000 000 |
|---|---|---|
| **Current tax** | | |
| UK corporation tax on profit/loss for the year | **(1)** | - |
| Total current tax credit | **(1)** | - |
| **Deferred tax** | | |
| Origination and reversal of timing differences | **20** | (21) |
| Adjustment in respect of prior periods | **1** | 1 |
| Total deferred tax charge/(credit) | **21** | (20) |
| **Total tax on profit/loss on ordinary activities** | **20** | (20) |

**Tax on Other Comprehensive Income/Expense**

Tax expense/income included in other comprehensive income/expense consists of:

| | **2018 £000 000** | 2017 £000 000 |
|---|---|---|
| Current tax | **-** | - |
| Deferred tax: origination and reversal of timing differences | **5** | (2) |
| **Tax on Other Comprehensive Income/Expense** | **5** | (2) |

## 9. Tax on profit/(loss) (continued)

Tax expense (2017: income) for the year is higher than (2017: lower than) the standard rate of corporation tax in the UK for the year ended 31 December 2018 of 19% (2017: 19.25%). The differences are explained below:

| | **2018 £000 000** | 2017 £000 000 |
|---|---|---|
| Profit/(loss) before taxation | **99** | (112) |
| Profit/(loss) multiplied by the standard rate of tax in the UK of 19% (2017: 19.25%) | **19** | (22) |
| *Effects of:* | | |
| Expenses not deductible for tax purposes | **-** | 1 |
| Income not subject to tax | **-** | - |
| Re-measurement of deferred tax – change in UK tax rate | **-** | - |
| Adjustment in respect of prior periods – deferred tax | **1** | 1 |
| **Total tax charge/(credit) for the year** | **20** | (20) |

The tax rate for the current year is lower than the prior year due to changes in the UK Corporation tax rate which decreased from 20% to 19% from 1 April 2017.

Changes to the UK Corporation tax rates were substantively enacted as part of Finance Bill 2016 (on 6 September 2016). These include reductions to the main rate to reduce the rate to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

The corporation tax receivable has been reduced by £602,000 (2017: £195,000) because of group relief surrendered to a fellow group undertaking for which a payment will be received. Tax losses are available for carry forward of £137,599,000 (2017: £139,233,000).

## 10. Tangible assets

| | Freehold land and buildings £000 000 | Leasehold land and Buildings £000 000 | Plant and machinery £000 000 | Fixtures and fittings £000 000 | Assets in the Course of Construction £000 000 | Total £000 000 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 January 2018 | 46 | 2 | 1,408 | 1 | 26 | 1,483 |
| Additions | - | 4 | 69 | 1 | 9 | 83 |
| Transfers | - | - | 22 | - | (22) | - |
| Disposals | - | - | (44) | - | - | (44) |
| **At 31 December 2018** | **46** | **6** | **1,455** | **2** | **13** | **1,522** |
| **Accumulated depreciation** | | | | | | |
| At 1 January 2018 | 3 | - | 803 | - | - | 806 |
| Charge for the year | 1 | 1 | 52 | 1 | - | 55 |
| Impairment | - | - | 8 | - | - | 8 |
| Reversal of impairment | - | - | (83) | - | - | (83) |
| Disposals | - | - | (43) | - | - | (43) |
| **At 31 December 2018** | **4** | **1** | **737** | **1** | **-** | **743** |
| **Net book value** | | | | | | |
| **At 31 December 2018** | **42** | **5** | **718** | **1** | **13** | **779** |
| At 31 December 2017 | 43 | 2 | 605 | 1 | 26 | 677 |

Disposals in the year mainly relate to overhaul assets at Grain power station.

The closing net book value of plant and machinery include acquired capitalised finance costs of £65 million (2017: £67 million), there have been no additions in the year. Also included in the closing net book value of plant and machinery is £62 million (2017: £69 million) related to assets associated with the costs of decommissioning.

## 11. Investment property

| | Total £000 000 |
|---|---|
| **Cost** | |
| At 1 January 2018 and 31 December 2018 | 4 |
| **Accumulated depreciation** | |
| At 1 January 2018 | - |
| Charge for the year | 1 |
| **At 31 December 2018** | **1** |
| **Net book value** | |
| **At 31 December 2018** | **3** |
| At 31 December 2017 | 4 |

The Company owns an office building within the Ratcliffe power station site which is occupied entirely by a fellow group undertaking. This building is held as an investment property under the cost model.

There are no restrictions on the realisability of the investment property. The property is depreciated based on a straight-line basis over 25-40 years. The fair value of the property cannot be determined due to a lack of comparable properties within a comparable location.

## 12. Investments

Shares in subsidiary undertakings amounted to £1,024 (2017: £1,024) and other investments amounted to £22,000 (2017: £22,000) and related to Electricity Pension Trustees Limited ("EPTL").

EPTL is the overarching Trustee of the Electricity Supply Pension Scheme (the Scheme is two tier, with each of the main electricity companies then having their own independent group as the second tier). The Company has a group of the industry wide scheme, the Uniper Group of the Electricity Supply Pension Scheme ("ESPS").

In order to establish an ESPS group and join, a new employer must become a shareholder by subscribing for 22,000 £1 shares at par. This is then immediately loaned back to the shareholder. If EPTL is subsequently wound up, the loan is recalled and shareholders are repaid their original subscription. The registered address of EPTL is 42-50 Hersham Road, Walton-on-Thames, Surrey, KT12 1RZ.

**Details of subsidiary undertakings**

Details of the investments which the Company holds and wholly owned are as follows:

| Undertaking | Holding | Proportion of voting rights and shares held | Principal activity |
|---|---|---|---|
| Uniper UK Corby Limited | Ordinary shares | 100% / 100% share | Historical holding company |
| Registered address: Compton House, 2300 The Crescent, Birmingham Business Park, Birmingham, B37 7YE | | | |
| Uniper UK Cottam Limited | Ordinary shares | 100% / 100% share | Dormant |
| Registered address: Compton House, 2300 The Crescent, Birmingham Business Park, Birmingham, B37 7YE | | | |
| Uniper UK Gas Limited | Ordinary shares | 100% / 100% share | Operation & management of pipeline |
| Registered address: Compton House, 2300 The Crescent, Birmingham Business Park, Birmingham, B37 7YE | | | |
| Uniper UK Ironbridge Limited | Ordinary shares | 100% / 100% share | Ownership of power station & associated generation assets until sale of site in June 2018 |
| Registered address: Compton House, 2300 The Crescent, Birmingham Business Park, Birmingham, B37 7YE | | | |
| Holford Gas Storage Limited | Ordinary shares | 100% / 100% share | Commercial operation of natural gas storage facility |
| Registered address: Compton House, 2300 The Crescent, Birmingham Business Park, Birmingham, B37 7YE | | | |
| Uniper UK Trustees Limited | Limited by guarantee | 100% | Acts as a corporate trustee |
| Registered address: Compton House, 2300 The Crescent, Birmingham Business Park, Birmingham, B37 7YE | | | |
| Uniper Energy Limited | Ordinary shares | 100% / 100% share | Dormant |
| Registered address: Compton House, 2300 The Crescent, Birmingham Business Park, Birmingham, B37 7YE | | | |
| Uniper Holdings Limited | Ordinary shares | 100% / 100% share | Dormant |
| Registered address: Compton House, 2300 The Crescent, Birmingham Business Park, Birmingham, B37 7YE | | | |

All of the undertakings disclosed above are incorporated in the United Kingdom.

## 13. Stocks

| | 2018 £000 000 | 2017 £000 000 |
|---|---|---|
| Fuel stocks | **70** | 50 |
| Stores | **23** | 25 |
| | **93** | 75 |

Stores are stated after provisions for impairment of £13 million (2017: £12 million). During the year inventory recognised as an expense was £1 million, which related primarily to Connahs Quay, Grain and Ratcliffe power station (2017: £2 million).

There is no significant difference between the carrying amount of inventory and their replacement cost.

## 14. Debtors: amounts falling due within one year

| | 2018 £000 000 | 2017 £000 000 |
|---|---|---|
| Trade receivables | **8** | 10 |
| Amounts owed by group undertakings | **27** | 105 |
| Commodity and other derivative financial instruments (note 17) | **175** | 1 |
| Other debtors | **19** | 15 |
| | **229** | 131 |

All amounts owed by group undertakings are unsecured and repayable on demand.

Commodity and other derivative financial instruments are due from group undertakings, are unsecured and repayable upon maturity (see note 17 for more information).

## 15. Debtors: amounts falling due after more than one year

| | 2018 £000 000 | 2017 £000 000 |
|---|---|---|
| Deferred tax | **130** | 156 |
| Other debtors | **7** | - |
| | **137** | 156 |

**Deferred tax**

The deferred tax asset comprises:

| | 2018 £000 000 | 2017 £000 000 |
|---|---|---|
| Decelerated capital allowances | **88** | 105 |
| Other timing differences - other provisions | **(3)** | 6 |
| Other timing differences – tax loss carry forwards | **24** | 24 |
| Other timing differences - decommissioning provision | **21** | 21 |
| | **130** | 156 |

## 15. Debtors: amounts falling due after more than one year (continued)

### Analysis of deferred tax

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

| | 2018 £000 000 | 2017 £000 000 |
|---|---|---|
| Deferred tax asset at 1 January | **156** | 134 |
| Deferred tax (charge)/credit to profit and loss account | **(21)** | 20 |
| Deferred tax (charge)/credit to other comprehensive income | **(5)** | 2 |
| **Deferred tax asset at 31 December** | **130** | 156 |

A deferred tax asset of £130 million (2017: £156 million) has been recognised in relation to future capital allowances, decommissioning, other provisions and trading losses carried forward, as we conclude it is probable that the business will continue to generate taxable profits in the future against which we can utilise these tax attributes. Management has Incused the profit forecasts in a consistent manner with the impairment testing (see pages 17 to 19). The ability to utilise the deferred tax asset is dependent on the useful economic life of the assets and any decreases to this or the profit profile may reduce the proportion of the tax attribute that can be utilised.

### Deferred Tax Asset on Tax Loss Carry Forwards

A deferred tax asset of £24 million (2017: £24 million) has been recognised in respect of tax loss carry forwards, as we conclude that it is probable that the company will continue to generate taxable profits in the future against which we can utilise these losses. The company has reviewed the latest forecast under the tax laws substantively enacted as at the balance sheet date. Any future changes in tax law could have a significant effect on the use of these losses, including the period over which they can be utilised.

Based on the current forecasts the losses will be fully utilised over the next 10 to 12 years. A 5% to 10% reduction in forecast pre-tax results would extend the period over which the losses will be fully utilised by 1 to 3 years. A 5% to 10% increase in pre-tax results would accelerate the period over which the losses will be fully utilised by up to 1 year.

## 16. Creditors: amounts falling due within one year

| | 2018 £000 000 | 2017 £000 000 |
|---|---|---|
| Trade payables | **7** | 20 |
| Amounts owed to group undertakings | **295** | 342 |
| Other taxation and social security | **35** | 27 |
| Accruals and deferred income | **29** | 32 |
| Commodity and other derivative financial instruments (note 17) | **96** | 5 |
| Other creditors | **1** | - |
| | **463** | 426 |

Amounts owed to group undertakings include:

A loan from Uniper SE of £235 million (2017: £283 million) which was unsecured, bore interest payable at LIBOR plus 65 basis points with a maturity date of 31 May 2020 and a facility of £400 million.

A deposit from Uniper Technologies Limited of £3 million (2017: £11 million) which is unsecured, bears interest payable at LIBOR less 20 basis points and is a drawdown of a credit facility of £30 million which has a maturity date of 31 May 2020.

A loan from Uniper Energy Trading UK Staff Company Limited of £3 million (2017: £3 million) which is unsecured, bears interest payable at LIBOR less 20 basis points and has a maturity date of 31 May 2020 and a facility of £5 million.

A deposit from Uniper UK Gas Limited of £19 million (2017: £10 million) which is unsecured, bears interest payable at LIBOR less 10 basis points and is a drawdown of a credit facility of £15 million which has a maturity date of 31 May 2020.

A loan from Uniper UK Ironbridge Limited of £7 million (2017: £1 million) which is unsecured, bears interest payable at LIBOR less 10 basis points and has a maturity date of 31 May 2020 and a facility of £10 million.

A loan from Holford Gas Storage Limited of £8 million (2017: £5 million) which is unsecured, bears interest payable at LIBOR less 20 basis points and has a maturity date of 31 May 2020 and a facility of £10 million.

A loan from Uniper Global Commodities London Limited of £2 million (2017: £2 million) which is unsecured, bears interest payable at LIBOR less 20 basis points and has a maturity date of 31 May 2020 and a facility of £5 million.

Commodity and other derivative financial instruments are owed to group undertakings, are unsecured and repayable upon maturity (see note 17 for more information).

All other amounts are unsecured and repayable on demand.

## 17. Financial instruments

Amounts recognised in respect of derivative financial instruments are as follows:

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | 2018 £000 000 | 2017 £000 000 | 2018 £000 000 | 2017 £000 000 |
| Commodity forward contracts | **175** | 1 | **(96)** | (5) |

Derivative financial instruments are classified within current assets and current liabilities. The fair value of these derivatives is equivalent to the carrying value. The above mentioned instruments are expected to mature within 1 month to 3 years.

## 17. Financial instruments (continued)

The notional principal amounts of derivatives are as follows:

| | 2018 £000 000 | 2017 £000 000 |
|---|---|---|
| Commodity forward contracts | **681** | 31 |

The following is a summary of the methods and assumptions for the valuation of derivative financial instruments:

- Currency, electricity, gas, oil and coal forward contracts and swaps, and emissions-related derivatives are valued separately at their forward rates and prices as of the balance sheet date. Whenever possible, forward rates and prices are based on market quotations, with any applicable forward premiums and discounts taken into consideration.
- Market prices for electricity and gas options are determined using standard market pricing models. The fair values of caps, floors and collars are determined using quoted market prices or on the basis of option pricing models.

## 18. Additional disclosures on financial instruments

The carrying amounts of cash and cash equivalents, borrowings under short-term credit facilities, trade receivables, other operating assets, trade payables and other operating liabilities are considered reasonable estimates of their fair values because of their short maturity.

The company adopted the IFRS 9's new expected credit loss model, which is applied to trade receivables, intercompany receivables and other operating assets. The company applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected credit loss allowance for these receivables. This resulted in an increase in the loss allowance on 1 January 2018 by £176,000. The loss allowance increased by £82,000 to £258,000 for intercompany receivables and trade receivables during the current reporting period.

## 19. Provisions for liabilities

| | Post employment benefits £000 000 | Emissions obligations £000 000 | Decommissioning provision £000 000 | Restructuring/severance provisions £000 000 | Other provisions £000 000 | Total £000 000 |
|---|---|---|---|---|---|---|
| At 1 January 2018 | 31 | 33 | 121 | 2 | 8 | **195** |
| Charged to the profit and loss account | 24 | 112 | 7 | (1) | 3 | **145** |
| Utilised during the year | - | (33) | (1) | (1) | (2) | **(37)** |
| Accretion of discount | - | - | 2 | - | - | **2** |
| Released | - | - | (6) | - | - | **(6)** |
| Charge to OCI | (32) | - | - | - | - | **(32)** |
| Contributions | (21) | - | - | - | - | **(21)** |
| **At 31 December 2018** | **2** | **112** | **123** | **-** | **9** | **246** |

Decommissioning provisions comprise amounts set aside for the estimated costs of terminating power station grid connections, decommissioning and subsequent site restoration costs at UK power stations which will be utilised as each power station closes. Current estimates of end dates range from 2023 through to 2050.

Emissions obligations provisions represent amounts payable to national authorities for emissions made during the year. Emission obligations are settled on an annual basis. Settlement is expected in April 2019.

Other provisions relate to land contamination with a current estimated end date of December 2019 and dilapidation provision for Compton House.

Further details on post-employment benefits are provided in note 21.

## 20. Called up share capital and share premium

**Allotted and fully paid**

| | **2018** £000 000 | 2017 £000 000 |
|---|---|---|
| 15,000,000 (2017: 15,000,000) ordinary shares of £1 each | **15** | 15 |
| Share premium account | **1,044** | 1,044 |
| | **1,059** | 1,059 |

There has been no movement in called up share capital and share premium during the year.

## 21. Post-employment benefits

### Defined contribution scheme

The Company operates a defined contribution retirement benefit scheme for all qualifying employees not already a pension scheme member and for new employees joining the Company. The assets of the scheme are held separately from those of the Company in an independent administered fund held by the individual members. The total cost charged to the profit and loss account of £2,313,000 (2017: £2,101,000) represents contributions payable to these schemes by the Company at rates specified in the rules of the plan.

The amount outstanding at 31 December 2018, included within other creditors, relating to pension contributions to this scheme was £132,000 (2017: £119,000). This related to the contributions for December 2018 which were paid in January 2019.

### Defined benefit schemes

At 31 December 2018, the main company pension scheme is the Uniper UK group of the Electricity Supply Pension Scheme ("the Scheme"). This is largely a defined benefit type scheme. An actuarial valuation of the Scheme is normally carried out every three years by the Scheme's independent actuary, who recommends the rates of contribution payable by participating employers. In intervening years, the actuary reviews the continuing appropriateness of the rates. The first actuarial valuation of the Scheme was completed as at 31 March 2017, at which point, a schedule of contributions and recovery plan were agreed. The results of this valuation resulted in a funding shortfall of £43.1 million, of which £10 million was paid in the year as an additional contribution and a further £3.2 million is to be paid each year starting 2020 to 2025.

The amount outstanding at 31 December 2018, included within other creditors, relating to pension contributions to the Scheme was £2,118,000 (2017: £3,139,000). This related to the contributions for December 2018 which were paid in January 2019.

The directors believe that the method the actuaries have used is appropriate and in accordance with the provisions in IAS 19.

The Scheme exposes the Company to a number of risks, the most significant of which are:

<u>Asset volatility</u>

The liabilities are calculated using a discount rate set with reference to corporate bond yields. If assets underperform this yield, this will create a deficit.

The scheme holds a significant proportion of growth assets (equities, diversified growth fund and global absolute return fund) which, though expected to outperform corporate bonds in the long-term, create volatility and risk in the short-term. The allocation to growth assets is monitored to ensure it remains appropriate given the scheme's long-term objectives.

<u>Changes in bond yields</u>

A decrease in corporate bond yields will increase the value placed on the scheme's liabilities for accounting purposes, although this will be partially offset by an increase in the value of the scheme's bond holdings.

## 21. Post-employment benefits (continued)

Inflation risk

The majority of the scheme's benefit obligations are linked to inflation, and higher inflation leads to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation).

The scheme's matching assets provide some protection against inflation meaning that an increase in inflation will also increase the value of the scheme's matching assets.

Life expectancy

The majority of the scheme's obligations are to provide benefits for the lifetime of the member, so increases in life expectancy will result in an increase in the liabilities.

The amounts recognised in the balance sheet are as follows:

| | **2018 £000 000** | 2017 £000 000 |
|---|---|---|
| Fair value of plan assets bfwd | **434** | 363 |
| Transfer in of plan assets for employees' transferred to Uniper pension scheme | **-** | 17 |
| Fair value of assets movement in the year | **(1)** | 54 |
| | **433** | 434 |
| Present value of funded obligations bfwd | **(465)** | (390) |
| Transfer in of obligations for employees' transferred to Uniper pension scheme | **-** | (17) |
| Present value of funded obligations movement in the year | **30** | (58) |
| | **(435)** | (465) |
| Net liability | **(2)** | (31) |

Movements in the net defined benefit scheme liability:

| | Present value of obligation | | Fair value of plan assets | | Net defined liability | |
|---|---|---|---|---|---|---|
| | **2018 £000 000** | 2017 £000 000 | **2018 £000 000** | 2017 £000 000 | **2018 £000 000** | 2017 £000 000 |
| **Balance as 1 January** | **(465)** | (390) | **434** | 363 | **(31)** | (27) |
| Included in income statement | | | | | | |
| Current service cost | **(22)** | (18) | **-** | - | **(22)** | (18) |
| Past service cost | **(2)** | (7) | **-** | - | **(2)** | (7) |
| Loss on settlement of employee transfer | **-** | (2) | **-** | - | **-** | (2) |
| Interest (expense)/income | **(12)** | (12) | **12** | 12 | **-** | - |
| **Total amount recognised in profit and loss** | **(36)** | (39) | **12** | 12 | **(24)** | (27) |
| **Other** | | | | | | |
| Contributions paid by employer | **-** | - | **21** | 34 | **21** | 34 |
| Benefits paid | **8** | 7 | **(8)** | (7) | **-** | - |
| **Total other** | **8** | 7 | **13** | 27 | **21** | 34 |

## 21. Post-employment benefits (continued)

| | Present value of obligations | | Fair value of plan assets | | Net defined liability | |
|---|---|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 |
| | **£000 000** | £000 000 | **£000 000** | £000 000 | **£000 000** | £000 000 |
| **Re-measurements** | | | | | | |
| Movements in relation to employees transferred to the scheme | **-** | (17) | **-** | 17 | **-** | - |
| Return on scheme assets excluding amounts included in interest income | **-** | - | **(26)** | 15 | **(26)** | 15 |
| Actuarial losses due to financial assumptions | **49** | (54) | **-** | - | **49** | (54) |
| Actuarial gains due to liability experience | **9** | 28 | **-** | - | **9** | 28 |
| **Total amount recognised in other comprehensive expense** | **58** | (43) | **(26)** | 32 | **32** | (11) |
| **Balance at 31 December** | **(435)** | (465) | **433** | 434 | **(2)** | (31) |

### Plan assets

| | **2018** | 2017 |
|---|---|---|
| | **£000 000** | £000 000 |
| Cash and cash equivalents | **17** | 38 |
| Debt instruments | **30** | 33 |
| Real Estate | **12** | 22 |
| Other | **374** | 341 |
| **Total** | **433** | 434 |

Other assets include equity instruments and financial instruments. Audited valuations of the invested assets were provided by the actuaries using a bid value of assets.

### Actuarial assumptions

The results of the initial funding assessment of the Scheme have been adjusted to the balance sheet date taking account of experience over the period since 31 March 2016, changes in market conditions, and difference in the financial and demographic assumptions. The present value of the defined benefit obligation, and the related current service cost, were measured using the Projected Unit Credit Method by the independent actuaries.

The principal actuarial assumptions used to calculate the defined benefit pension balances under IAS 19 in these financial statements were:

| | **2018** | 2017 |
|---|---|---|
| Duration | **28.0 years** | 28.8 years |
| Discount rate | **3.0%** | 2.6% |
| RPI inflation | **3.2%** | 3.3% |
| CPI inflation | **2.1%** | 2.2% |
| Expected rate of salary increases | **3.2%** | 3.3% |
| Expected rate of increase of pensions in payment | **3.1%** | 3.1% |

Post retirement mortality assumptions use the same base tables as were adopted for the 2017 funding valuation of the Scheme. The base tables were scaled using the Aon Hewitt Longevity Model using best-estimate scaling factors.

## 21. Post-employment benefits (continued)

### GMP equalisation

Guaranteed Minimum Pension ("GMP") is a portion of pension that was accrued by individuals who were contracted out of the State Second Pension prior to 6 April 1997. Historically, there was an inequality of benefits between male and female members who have GMP.

A High Court case concluded on 26 October 2018 which confirmed that GMPs need to be equalised. The Court did not specify the method to use to equalise GMP but did set out a number of possible approaches.

The balance sheet liabilities as at 31 December 2018 include an allowance for the potential cost of equalising GMP for the impact between males and females. The effect of this was immaterial.

These assumptions translate into an average life expectancy in years for a pensioner retiring at age 65:

| | **2018 Years** | 2017 Years |
|---|---|---|
| Longevity at age 65 for current pensioners | | |
| - Men | **22** | 23 |
| - Women | **25** | 25 |
| Longevity at age 65 for future pensioners | | |
| - Men | **24** | 24 |
| - Women | **26** | 26 |

### Sensitivity analysis

The calculation of the defined benefit obligation is sensitive to the assumptions set out above. The following table summarises the impact on the defined benefit obligation at the end of the reporting period as a result of a change in the respective assumptions.

| | **2018 £000 000** | 2017 £000 000 |
|---|---|---|
| Current reported figure | **3** | 31 |
| Following a 0.2% decrease in the discount rate | **24** | 56 |
| Following a 0.25% increase in the salary increase assumption | **12** | 42 |
| Following a 10% decrease in the mortality rates | **14** | 44 |
| Following a 0.25% increase in the pension increase assumption | **16** | 49 |

The sensitivity information shown above has been prepared using the same method as adopted when adjusting the results of the initial funding assessment to the balance sheet date.

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the defined benefit liability recognised in the balance sheet.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the prior period.

## 22. Share based payments

The Uniper Group's share-based compensation plans are classified as cash-settled share-based payments. A provision in the amount of the prorated fair value of the payment obligation is recognised as of the balance sheet date. Changes in the fair value are recognised in income. The fair value is determined using accepted financial industry methods. Additional information on the Uniper Performance Cash Plan can be found in the Compensation Report, which is part of the Combined Management report of the Uniper Group.

The amount recharged for 2018 included within creditors amounted to £1,188,000 (2017: £638,000) and the amount paid was £1,812,000 (2017: £152,000).

## 23. Contingent assets and liabilities

As of 31 December 2018 the company had a contingent asset of £30,000,000, which relates to the 2018 Capacity market income not received following the European Court of Justice decision.

In the normal course of business the Company gives certain indemnities and guarantees which are not considered to be material in the context of these financial statements and on which no losses are anticipated to arise.

## 24. Commitments

### Operating lease commitments

As at 31 December, the Company had total commitments under non-cancellable operating leases payable as follows:

| | **2018**<br>**£000 000** | 2017<br>£000 000 |
|---|---|---|
| **Land and buildings** | | |
| Within one year | - | 1 |
| Within one to five years | - | 2 |
| More than five years | - | 2 |
| **Vehicles** | | |
| Within one year | - | - |
| Within one to five years | - | 1 |
| More than five years | - | - |

### Lease commitments

As at 31 December, the Company had total commitments under non-cancellable operating leases payable as follows:

| | **2018**<br>**£000 000** | 2017<br>£000 000 |
|---|---|---|
| **Land and buildings** | | |
| Within one year | 1 | - |
| Within one to five years | 3 | - |
| More than five years | 1 | - |
| **Vehicles** | | |
| Within one year | - | - |
| Within one to five years | 1 | - |
| More than five years | - | - |

### Other commitments

The Company has committed to sell all power generated to Uniper Global Commodities SE "UGC". The volumes generated are at the discretion of UGC and therefore this commitment cannot be quantified.

## 25. Related party transactions

**Transactions with related parties**

The Company has taken advantage of the exemption under paragraph 8 (k) of FRS 101 not to disclose any transactions with fellow wholly owned subsidiaries of the Uniper SE group.

## 26. Changes in accounting policies

This note explains the impact of the adoption of IFRS 9 Financial Instruments, IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases on the Group's financial statements.

**26(a) IFRS 9 Financial instruments**
IFRS 9 financial instruments replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS financial instruments from 1 January 2018 resulted in changes in accounting policies and adjustment to the amounts recognised in the financial statements. The new accounting policies are set out in note 1. In accordance with the transitional provisions in IFRS 9 (7.2.15) and (7.2.26), comparative figures have not been restated.

*Impairment of financial assets*

The company had two types of financial asset that was subject to IFRS 9's new expected credit loss model, which were intercompany receivables and trade accounts receivables.

The company applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected credit loss allowance for these receivables. This resulted in an increase in the loss allowance on 1 January 2018 by £176,000. The loss allowance increased by £82,000 to £258,000 for intercompany receivables and trade receivables during the current reporting period.

**26(b) IFRS 15 Revenue from Contracts with Customers**
IFRS 15 revenue from contracts with customers replaced the provisions of IAS 18. The company has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies but no adjustments to the amounts recognised in the financial statements.

**26(c) IFRS 16 Leases**
IFRS 16 Leases replaced the provisions of IAS 17. A number of leases were recognised on 1 January 2018 at a value of £5,000,000. This was booked as a lease liability and a fixed asset, in line with the accounting policy set out in the accounting policies in note 1. The Company has used the exemption in IFRS 16 to not restate previous years for the lease.

(i) Amounts recognised in the balance sheet
The balance sheet shows the following amounts relating to leases:

| | Note | **2018 £000 000** | 2017 £000 000 |
|---|---|---|---|
| **Right-of-use assets*** | | | |
| Leasehold land and buildings | *10* | 4 | - |
| Leased vehicles | | 1 | - |
| | | **5** | - |
| **Lease liabilities**** | | | |
| Current | *16* | 1 | - |
| Non-current | *24* | 5 | - |
| | | **6** | - |

## 26. Changes in accounting policies (continued)

*Included in the balance sheet line item "tangible assets".
**Included in the balance sheet line item "other creditors". In the prior year, the Company did not recognise any finance lease liabilities under IAS 17 - Leases.

(ii) Amounts recognised in the statement of comprehensive income
The statement of comprehensive income shows the following amounts relating to leases:

| | Note | **2018 £000 000** | 2017 £000 000 |
|---|---|---|---|
| **Depreciation charge of right-of-use assets** | | | |
| Leasehold land and buildings | *10* | - | - |
| Leased vehicles | | - | - |
| Interest expense (included in Interest payable and similar charges) | *8* | - | - |

The total cash outflow for leases in 2018 was £1,000,000, which relates to the lease payments.

On adoption of IFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of IAS 17. The leasehold building liabilities were measured at the present value of the remaining lease payments, discounted using discount rate as of 1 January 2018 of 2.19%.

The leased vehicles liabilities were measured at the present value of the remaining lease payments, the effects of discounting were deemed immaterial based on discount rates ranging between 1.31% and 1.50% depending on the length of each lease.

| | **2018 £000 000** |
|---|---|
| Operating lease commitments disclosed as at 31 December 2017 | 6 |
| Discounted using the Group's borrowing rate of 2.19% | 6 |
| *Lease liability recognised as at 1 January 2018* | **6** |

## 27. Subsequent events

Capacity Market

On 22 March 2019, the European Commission published its Opening Decision on State Aid clearance of the GB Capacity Market (CM), launching a one month consultation at the start of a phase II investigation process. This is in response to the decision on 15 November 2018, by the European Union Court of Justice to annul the original state-aid approval following a challenge by Tempus Energy. The European Commission has also appealed the court decision; the two processes will run in parallel. Tempus Energy is seeking to challenge the way the UK government implemented suspension of the CM through a judicial review in the UK. Payments remain suspended until state aid clearance is granted, when retroactive payments may also be made. The UK government is running replacement auctions (year ahead, and three year ahead) for those cancelled in 2018.

In June 2019, the UK T-1 capacity market auction for delivery period October 2019 to September 2020 took place with both units at Killingholme participating as all other operational assets already have agreements for this delivery period in place. On 12 June 2019, the auction cleared with a clearing price of £0.77 per kilowatt of de-rated capacity. Killingholme was successful in the auction.

## 27. Subsequent events (continued)

Decommissioning Provision review

Following a reassessment of budget cost estimates for the decommissioning and demolition of the Uniper UK's owned generation assets in the UK, the undiscounted cost was updated during the quarter ending 31 March 2019. This led to a reduction in the decommissioning provision of £37,000,000, with the main drivers being the increase in scrap metal prices and business rate reliefs. There was also a reduction in the tangible fixed assets of £35,000,000, with the remaining £2,000,000 being credited to the income statement.

## 28. Ultimate parent

The immediate parent company is Uniper Holding GmbH, a company registered in Germany whose registered address is Holzstrasse 6, Düsseldorf, 40221 Germany. The ultimate controlling party is Uniper SE, which is the parent company of the largest and smallest group to consolidate these financial statements. Copies of Uniper SE's financial statements are available from the offices of Uniper SE at the following address, which is also its registered address:

Uniper SE Investor relations
Holzstrasse 6
40221 Düsseldorf
Germany