E.ON UK Group of the ESPS
Statement of Investment Principles

Defined Benefit Section

The Trustee aims to provide sufficient assets to pay benefits as they fall due.

In order to meet this aim the Trustee has set a return objective for the Group's investments.

Return Objective

The investment return objective states the level of return on the assets relative to the liabilities that the Trustee is targeting. By the liabilities we mean the expected future benefit payments discounted using nominal gilt yields.

The current investment return objective is to achieve a return on the Group's assets of 2% p.a. in excess of the return on the liability benchmark (net of fees). The liability benchmark is the portfolio of Nominal Gilts and Inflation Swaps that best matches the liability profile of the Group.

The Trustee has received a Parent Company Guarantee ("PCG") from E.ON SE ("the Guarantor") in respect of the Group's liabilities. This PCG falls away if the Trustee changes the investment return objective prior to ten years after the Effective Date as defined in the PCG without the agreement of the Guarantor.

The Trustee is committed to ensuring that it (including its Investment Committee) and its Investment Consultant implement the investment strategy in a manner which is targeted to achieve the investment return objective. In the light of the PCG, during the period prior to ten years after the Effective Date as defined in the PCG, the Trustee will ensure that the Investment Consultant provides quarterly confirmation that the implementation of the investment strategy is consistent with the investment return objective.

Risk Statement

The Risk Statement defines the level of active risk in seeking to achieve the return objective. Active risk is the risk that Group's investments do not perform in line with the liabilities, defined as the percentage underperformance of assets versus liabilities which might be expected to occur over a one-year period in every six years. In calculating this risk the liabilities will be discounted on a gilts basis but with an additional allowance for risk associated with potential mismatch between a gilt liability benchmark and the actual liabilities.

The current target active risk of the Group's portfolio is 4-5% p.a. The Trustee recognises that this will fluctuate over time as the composition of the portfolio changes and levels of risk in markets change.

The Trustee believes that it should only take as much risk as is necessary in order to meet its objectives. The Trustee expects the active risk to reduce over time as a result of increased interest rate and inflation hedging and through taking other opportunities to reduce risk.

In monitoring the risk level the Trustee is mindful of the investment return objective. In the event of an increase in the required risk to achieve this objective, the Trustee will generally seek to maintain the objective. However, in the event of a material increase in risk, the Trustee will review the investment return objective. During the period to ten years after the Effective Date as defined in the PCG the Trustee recognises that any change to the investment return objective without Guarantor agreement will mean that the PCG falls away.

The Trustee will make decisions on the level of interest rate and inflation hedging in the context of their overall portfolio position and after taking written advice from their Investment Consultant.

Trustee Principles

In the long term, the Trustee aims to be fully funded on a lower risk basis (Nominal Gilt and Inflation Swap yields with no premium) than is used to calculate the Group's Technical provisions.

The Trustee will consider opportunities to reduce risk over time consistent with this aim. The Trustee recognises that during the period to ten years after the Effective Date as defined in the PCG any change to the investment return objective without sponsor agreement will mean that the PCG falls away.

Process for setting the Investment Objectives

In setting investment strategy, the Trustee first considered the lowest risk asset allocation that it could adopt in relation to the Group's liabilities. The asset allocation strategy it has selected is designed to achieve a higher return than the lowest risk strategy while maintaining a prudent approach to meeting the Group's liabilities.

It also follows a consultation with the Sponsoring Employer in line with the agreed Consultation Protocol.

ASSET ALLOCATION

The asset allocation chosen to meet the above objective will normally fall within the ranges set out in the table below. The actual allocation at any point in time is based on advice from the Trustee's Investment Consultant and will take into account prevailing economic conditions and the wider investment environment in order to meet the target return over time while remaining within the risk level described in the Risk Statement above. The Trustee monitors the actual allocation versus the ranges set out below. The Trustee will consider advice and take appropriate action should the allocation fall outside of the ranges set out in this document. This is likely to result in a plan to ensure that the allocation returns within range over a defined period of time and / or according to defined market triggers.

	Minimum (%)	Maximum (%)
Hedge Ratio		
Interest rate hedge ratio (as % of the liabilities on a swaps+0% basis)	55	100
Inflation hedge ratio (as % of the liabilities on a swaps+0% basis)	55	100
Fund Structures for Return Seeking Assets		
Non-traditional	0	40
Hedge Funds	0	40
Illiquids	0	30
Asset Classes		
Return seeking assets:		
Credit	0	30
Equities	0	25
Property	0	15
Multi-Strategy and Macro Oriented	0	40
Niche Assets	0	10
Cash	0	10
LDI Assets	45	100

The table above sets out the ranges within which the Trustee will operate during the normal course of implementing the investment strategy.

Hedge Ratio – This is the proportion of interest rate and inflation exposures present in the liabilities that the Group will hedge. The percentages are stated as proportions of the liabilities on a swaps+0% basis. Consideration will be given to the translation of the above hedge ratios when measured on a gilts+0% basis and any resulting implications on achieving the return objective.

Fund Structures for Return Seeking Assets – This section describes the limits placed on the type of fund that may be used across any of the return seeking asset classes.

"Non-traditional" describes any assets that are not traditional long-only equities or credit. Examples include a long-short equity fund or a macro oriented fund.

"Hedge Funds" describes funds that employ leverage either through borrowing or by shorting stocks. Examples include a long-short credit fund or a long-only equity fund that is allowed to borrow monies to generate extra return.

"Illiquids" are funds that tie up investor monies for a period of 12 months or longer.

It is important to recognise that these are not mutually exclusive categories. To clarify, a Macro-oriented fund (see below for definition) that locks up investor monies for a minimum of two years is classed as "non-traditional" (because it is not a long-only equity or a long-only credit fund), a "hedge fund" by nature (because it employs leverage by shorting investments) and "illiquid" (because the investor cannot withdraw their monies for a period lasting longer than 12 months). A two percent allocation to this fund would consume two percent of the "Non-traditional" allocation, two percent of the "hedge fund allocation", two percent of the "illiquids" allocation and two percent of the "multi-strategy and macro oriented" allocation. If this macro-oriented fund allowed investors to withdraw their monies within a period of 6 months then it would consume all the allocations described above but not the "illiquids" category which would still retain a full 15% allocation available for other investments.

Asset Classes - The asset classes in this section of the table reflect the underlying investment assets (in the case of credit, equities, property or cash) or a combination of underlying assets that produce distinct expected risk reward characteristics (in the case of multi-strategy and macro oriented or niche asset investments). To clarify, the asset class categories are mutually exclusive such that a multi-strategy fund may combine credit, equity and even macro strategies but this does not constitute an allocation to these asset classes for the purpose of the above allocations.

The asset classes are divided into return seeking assets (credit, equities, property, multi-strategy, macro-oriented and niche assets), liquidity assets (cash) to provide daily liquidity to the Group and LDI (Liability Driven Investment) assets whose purpose is to reduce risks such as interest rates or inflation.

"Credit" category includes government and corporate bonds.

"Multi-strategy" category describes funds that combine different strategies including credit, equity and even macro oriented.

"Macro oriented" funds focus on markets rather than individual shares and bonds and include positions in commodities, currency, equity and bonds, typically via derivatives.

"LDI Assets" are Liability Driven Investment assets to hedge the Group's interest rate and inflation exposures. These assets may include Gilts, Swaps, Repurchase Agreements and Cash as a hedging asset or collateral for a hedging asset.

"Niche Assets" are a portfolio of alternative niche assets investments that are expected to comprise mainly Private Equity funds but also Hedge Funds and other fund structures.

The investment strategy was determined with regard to the actuarial characteristics of the Group, in particular the strength of the funding position and the liability profile. It assumes that active fund management can be expected to add value (although it is recognised that this is not guaranteed).

The Trustee considered written advice from its Investment Consultant when choosing the asset allocation and, in doing so, addressed the following:

- A full range of asset classes.
- The risks and rewards of a range of alternative asset allocation strategies.
- The suitability of each asset class.
- The need for appropriate diversification.

The Defined Benefit ("DB") section of the plan includes active, deferred and pensioner members of the final salary sections of the East Midlands, Midlands, Eastern, Powergen, MEPS, EGPS and EME PP categories, and the Retirement Balance ("RB") Plan.

RISK MEASUREMENT AND MANAGEMENT

The Trustee recognises that the key risk to the Group is that it has insufficient assets to make provisions for 100% of its liabilities ("funding risk"). The Trustee has identified a number of risks which have the potential to cause deterioration in the Group's funding level and therefore contribute to funding risk. These are as follows:

- The possibility of failure of the Group's Sponsoring Employer ("covenant risk"). The Trustee and its advisers considered this risk when setting investment strategy and consulted with the sponsoring employer as to the suitability of the proposed strategy.
- The risk of a significant difference in the sensitivity of asset and liability values to changes in financial and demographic factors ("mismatching risk"). The Trustee and its advisers considered this mismatching risk when setting the investment strategy and have specifically structured the Group's assets so as to manage this risk.
- The risk of a shortfall of liquid assets relative to the Group's immediate liabilities ("cash flow risk"). The Trustee and its advisers will manage the Group's cash flows taking into account the timing of future payments in order to minimise the probability that this occurs.
- The failure by the fund managers to achieve the rate of investment return assumed by the Trustee ("manager risk"). This risk is considered by the Trustee and its advisers both upon the initial appointment of the fund managers and on an ongoing basis thereafter.
- The failure to spread investment risk ("risk of lack of diversification"). The Trustee and its advisers considered this risk when setting the Group's investment strategy and have also mandated to each of the fund managers employed that a suitably diversified portfolio of assets should be maintained at all times.
- The risk of fraud, poor advice or acts of negligence ("operational risk"). The Trustee has sought to minimise such risk by ensuring that all advisers and third party service providers are suitably qualified and experienced and that suitable liability and compensation clauses are included in all contracts for professional services received.

Due to the complex and interrelated nature of these risks, the Trustee considers the majority of these risks in a qualitative rather than quantitative manner (normally triennially). Some of these risks may also be modelled explicitly during the course of such reviews. In particular, the mismatching risk is modelled explicitly as part of each investment strategy review.

Having set an investment objective which relates directly to the Group's liabilities and implemented it using a range of fund managers, the Trustee's policy is to monitor, where possible, these risks quarterly. The Trustee receives quarterly reports showing:

- Approximate funding level versus the Group specific funding objective.
- Performance versus the Group investment objective, including risk taken.
- Performance of individual fund managers versus their respective targets.
- Any significant issues with the fund managers that may impact their ability to meet the performance targets set by the Trustee.

GOVERNANCE

The Trustee is responsible for the investment of the Group's assets. The Trustee takes some decisions itself and delegates others. When deciding which decisions to take itself and which to delegate, the Trustee has taken into account whether it has the appropriate training and expert advice in order to take an informed decision. The Trustee sets part of its regular meetings aside for training on investment matters and investments form a key element of its regular individual training. The Trustee has established the following decision making structure:

<table>
<tr><td colspan="2">Trustee
• Monitors actual returns versus Group's investment objective
• Sets structures and processes for carrying out its role
• Selects and monitors planned asset allocation strategy
• Selects and monitors direct investments (see below)
• Selects and monitors investment advisers and fund managers
• Makes ongoing decisions relevant to the operational principles of the Group's investment strategy</td></tr>
<tr><td>Investment Consultant
• Advises on all aspects of the investment of the Group assets, including implementation
• Advises on this statement
• Provides training
• Supports the Trustee in implementing its investment decisions</td><td>Fund Managers
• Operate within the terms of this statement and their written contracts
• Select individual investments with regard to their suitability and diversification
• Advise Trustee on suitability of the indices in its benchmark</td></tr>
</table>

The Trustee has established an Investment Committee with agreed terms of reference. The purpose of the Committee is to consider all matters related to the Group's investments with the exception of the overall investment strategy (meaning assessment of the appropriate target investment return and associated level of risk). The membership and terms of reference for the Committee are reviewed from time to time.

The Pensions Act 1995 distinguishes between investments where the management is delegated to a fund manager with a written contract and those where a product is purchased directly, e.g. the purchase of an insurance policy or units in a pooled vehicle. The latter are known as direct investments.

The Trustee's policy is to review its direct investments and to obtain written advice about them at regular intervals (normally annually). When deciding whether or not to make any new direct investments the Trustee will obtain written advice and consider whether future decisions about those investments should be delegated to the fund managers.

The written advice will consider the issues set out in the Occupational Pension Schemes (Investment) Regulations 2005 and the principles contained in this statement. The regulations require all investments to be considered by the Trustee (or, to the extent delegated, by the fund managers) against the following criteria:

- The best interests of the members and beneficiaries
- Security
- Quality
- Liquidity
- Profitability
- Nature and duration of liabilities
- Ability to trade on regulated markets
- Diversification
- Use of derivatives

The Trustee's investment adviser for the defined benefit section is Cardano Risk Management Ltd ('Cardano'). The principal named advisor is Kerrin Rosenberg with Tom Binks as the alternative day to day contact. Cardano was appointed in 2010 after a tendering process that specifically assessed investment advice.

Advice is evaluated under three main criteria:-

- Timeliness;
- Ease of understanding;
- Effectiveness.

A number of the Group's fund managers are remunerated on a performance related fee basis. This structure has been chosen to align the fund managers' interests with those of the Group. The remaining fund managers are remunerated on a fixed or ad valorem basis. The level of remuneration is reviewed by the Trustee on a regular basis. In addition, fund managers pay commissions to third parties on many trades they undertake in the management of the assets and also incur other ad hoc costs.

The Trustee has The Bank of New York Mellon as the Group's custodian. The custodian provides safekeeping for all the Group's assets and performs administrative duties, such as the collection of interest and dividends and dealing with corporate actions. Where the Group has holdings in pooled funds, different custodians may be used who are appointed by the investment managers.

The Trustee will review this SIP at least every three years and immediately following any significant change in investment policy. The Trustee will take investment advice and consult with the Sponsoring Employer over any changes to the SIP.

IMPLEMENTATION

Cardano, as the selected DB Investment Consultant to the Trustee, operates under an agreement which ensures that the Trustee is fully briefed both to take the decisions it takes itself and to monitor those it delegates. Cardano is paid on a fixed fee for all the work undertaken for the Group. This structure has been chosen to ensure that cost-effective, independent advice is received.

The Trustee implements its strategy using a range of professional fund managers with varying mandates. The Trustee reviews the structure of fund manager briefs and individual fund managers regularly. Changes to the structure are made having taken advice from the Trustee's investment consultant.

RESPONSIBLE INVESTMENT AND STEWARDSHIP

The Trustee has a long-term time horizon in relation to the Group's investment strategy and therefore acknowledges the importance of being a responsible investor. The Trustee considers responsible investment to be the integration of non-financial matters such as environmental, social and governance considerations into investment decisions in respect of the Group's investment portfolio where financial risk and / or return is, or could be, materially affected.

The Group assets are typically held in pooled arrangements, managed by investment managers who are in a position to exert significant influence on the companies in which they invest on the Group's behalf.

The Trustee therefore expects its appointed investment managers to integrate social, environmental and governance considerations (including but not limited to climate change) and opportunities within their investment process as applied to the assets of the Group.

In relation to corporate governance and activism (including the way in which any rights attaching to investments, such as voting rights, are exercised) the Trustee supports the policies set out in the Stewardship Code as published by the Financial Reporting Council and expects:

- UK-regulated investment managers to comply with these principles where possible and be rated Tier 1
- Non-UK regulated managers to exercise their voting rights in a manner consistent with a focus on medium and longer term investment performance

Where relevant, the Trustee expects its investment managers to have an explicit strategy, outlining the circumstances in which they will engage with a company (or issuer of debt or stakeholder) on relevant matters (including performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance matters) with the aim to protect and enhance the value of assets and how they will measure the effectiveness of this strategy.

Stewardship policies and voting records are reviewed (and discussed with the investment managers) at least annually by the Investment Consultant, who will collate the qualitative and quantitative information required to allow the Trustee to review all of the above aspects in sufficient detail each year. The Trustee will challenge any arrangements or stewardship practices that do not align with their Responsible Investment approach.

Where relevant the Trustee encourages its managers to comply with the UN Principles for Responsible Investment or to explain why they do not consider it necessary to do so.

The Trustee, assisted by their appointed Investment Advisor, assesses and monitors how managers take account of environmental, social and governance considerations in their investment decisions. This takes the form of:

- Assessment prior to, and as part of, the appointment of an investment manager
- Regular ongoing monitoring of managers' "ESG rating" included in quarterly manager monitor reports
- Periodic recap and review of managers' approach, typically on an annual basis.

APPOINTMENT AND MONITORING THE INVESTMENT MANAGERS

As part of the appointment process, the Trustee reviews the investment objectives and contract terms of each asset manager, including financial incentives, to ensure consistency with their investment strategy and investment policies, including their Responsible Investment Requirements (see "Responsible Investment and Stewardship"). Investment managers are appointed on an ongoing basis which helps to incentivise them to focus on medium- and longer-term performance.

The Trustee sets an overall target return net of fees for the Scheme and for each manager. Subsequently they monitor each asset manager's overall costs (fees and expenses, including transaction costs) using the MiFID II framework and conduct a value for money exercise on an annual basis.

The Investment Adviser meets the investment managers from time to time to discuss their investment performance and strategy and their performance as Responsible Investors and to discuss any issues of concern. They provide quarterly updates to assist the Trustees in fulfilling their responsibility for monitoring and reporting on the asset managers' financial performance.

An investment manager's appointment may be terminated due to a change in the overall investment strategy or changes in expectations of their ability to deliver against the agreed mandate or in line with the investment policies of the Trustees.

ARRANGEMENTS WITH INVESTMENT MANAGERS

The Trustee believes that an understanding of, and engagement with, investment managers' arrangements is required to ensure they are aligned with Trustee policy, including its Responsible Investment policy. In accordance with latest regulation, it is the Trustee's policy to ensure that the following are understood and monitored:

- How investment manager arrangements incentivise investment managers to align their strategy and decisions with the Trustee's policies
- How investment manager arrangements incentivise investment managers to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term
- How the method (and time horizon) of the evaluation of investment managers' performance and their remuneration are in line with the Trustee's policies
- Portfolio turnover costs incurred by the investment managers, in the context of the investment manager's targeted portfolio turnover (defined as the frequency within which the assets are expected to be bought or sold)
- Duration of the arrangement with the investment manager

The responsibility for monitoring these aspects day to day has been delegated to the Investment Consultant. At the time of appointment of an investment manager, the Trustee takes advice from the Investment Consultant on the alignment of the investment manager with the Trustee policies. The Investment Consultant is also required to report back to the Trustee on any areas of potential divergence between Trustee policy and investment manager practice on an ongoing basis

In addition to this Statement the Trustee maintains other investment related documentation including:

- An 'Investment Arrangements' document which provides further detail on advisers, investment managers, and related third parties.

- A policy relating to environmental, social and governance matters.

This Statement of Investment Principles is available to members on request.

Signed:

Martine Trouard-Riolle
Chairman of the Trustee Board

30 September 2020