

E.ON ENERGY SOLUTIONS LIMITED
STRATEGIC REPORT, DIRECTORS' REPORT AND FINANCIAL STATEMENTS
for the Year Ended 31 December 2017



Registered No: 03407430

E.ON ENERGY SOLUTIONS LIMITED
STRATEGIC REPORT
for the Year Ended 31 December 2017

The directors present their strategic report of the Company for the year ended 31 December 2017.

Fair review of the business

The Company's turnover during the year was £5,930 million (2016: £6,248 million), a reduction of £318 million compared to the prior year, primarily due to lower sales volumes arising from lower customer numbers and customers' energy saving behaviour.

Operating profit before impairment and derivative losses and gains for the year was £167 million compared to £296 million in the prior year. The Company's operating loss for the year including the impact of impairment and derivative losses and gains was £141 million (2016: operating profit of £915 million).

During the year, the Company made a loss after tax of £116 million (2016: profit after tax of £740 million). The reduction in the profit for the year was primarily attributable to the impairments recognised during the year and the derivative mark-to-market losses compared to the derivative mark-to-market gains in the prior year.

As a result of the annual review of fixed assets, an impairment charge of £55 million has been recognised for plant and machinery associated with certain Community Energy sites where connection or technology related issues in the year have changed the assessment of the net present value of these projects. A further £37 million impairment for meter equipment has been recognised for analogue and non-compliant smart meters associated with the smart metering roll-out. In addition, an impairment of £10 million relates to a software project that will no longer be taken forward by the Company following a review during the year and which has been impaired to £nil.

The Company incurred a derivative loss during the year of £206 million (2016: gain of £619 million) primarily relating to the unwind of the prior year derivative asset arising from a change to the purchase power and gas arrangements. Previously the Company purchased its net power and gas requirements from Uniper Global Commodities SE ('UGC'), a related undertaking, via a series of individual purchase and sale trades and elected to account for approximately 50% of its forward power and gas trades at fair value through the profit and loss account with the remaining 50% being accounted for as own use.

As of May 2017, the Company began to purchase power and gas from E.ON UK Energy Markets Limited ('EEM'), a related undertaking, through a requirements contract and has elected to account for the purchases as own use on an accruals basis. The change in contractual arrangements from UGC to EEM crystallised a £206 million derivative loss in the year and significantly reduced the on-going mark-to-market volatility in the profit and loss account. Please see the Price risk section below for further detail.

The directors believe that the present level of activity will be sustained in the current year.

At 31 December 2017, the Company had net assets of £1,036 million (2016: net assets of £1,752 million).

The Company sells electricity and gas to the residential and business sector; the latter encompassing both Small and Medium Enterprises ('SME') and Industrial and Commercial ('I&C') customers throughout the United Kingdom. As of 31 December 2017, the Company supplied approximately 6,794,000 (2016: 6,973,000) customer accounts, of which 6,255,000 (2016: 6,376,000) were residential customer accounts and 539,000 (2016: 597,000) were SME and I&C accounts.

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

In the industry as a whole, electricity consumption in England, Scotland and Wales during the year was 266 billion kWh compared with 275 billion kWh in 2016, a decrease of 3.3%. Gas consumption (excluding power stations) was 542 billion kWh in 2017 compared with 548 billion kWh in 2016, a decrease of 1.1%.

The Company continues to focus on its Net Promoter Score ('NPS') given by residential customers as a key measure of satisfaction. NPS stood at -8 (2016: +3) (in a scale of -100 to +100) at the year end. This reflects the competitive nature in the market with most larger suppliers experiencing a decline in score during the year.

2017 continued to be marked by considerable political and regulatory scrutiny which looks set to continue for the foreseeable future.

E.ON ENERGY SOLUTIONS LIMITED
STRATEGIC REPORT
for the Year Ended 31 December 2017 (continued)

Residential customers

In the residential sector, the Company sold 14.0 TWh of electricity and 31.4 TWh of gas in 2017, compared with 15.4 TWh of electricity and 35.8 TWh of gas in 2016. The decrease in consumption was driven by lower number of customer accounts and continued reduction in average consumption volume per customer, which is influenced by continued customer energy efficiency measures.

SME and I&C customers

In the SME and I&C sectors, the Company sold 19.7 TWh of electricity and 11.1 TWh of gas in 2017, compared with 21.0 TWh of electricity and 12.6 TWh of gas in 2016. The decrease in consumption is due to the factors outlined above for the residential sector but also additionally for I&C customers, from changes in the customer portfolio (including relative size and number of sites supplied).

Other services

Aside from energy supply, the Company is involved in the following activities:

- New Customer Solutions - delivering new, innovative energy solutions to residential and business customers.
- Community Energy - designing, building and operating, local, lower carbon energy centres; producing power, heat and hot water for residential and business customers.
- Smart Metering - the roll-out of the next generation of intelligent gas and electricity meters to customers by 2020.
- Obligation and Installation Services - designing and installing home energy efficiency and heating measures as part of the Government mandated scheme, as well as for 'able to pay' customers.
- Infrastructure Services - offering end to end infrastructure solutions for housing developers, towns and cities.
- Field Operations - encompassing metering activity.

Key performance indicators ('KPIs')

The Board of Management of E.ON SE manages the group's operations on a divisional basis. For this reason, the Company's directors believe that analysis using financial KPIs for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of the Company. The development, performance and position of the Customer Solutions UK division of E.ON SE, which includes the Company, are discussed within the group's annual report which does not form part of this report. The directors do not believe there are any further relevant KPIs that are not already disclosed within these financial statements.

The Company's non-financial KPIs during the year were as follows. The directors do not believe there are any further relevant financial KPIs that are not already disclosed within these financial statements.

KPIs	2017	2016	Comment
Volumes of electricity sold (TWh)	33.7	36.4	Electricity sales decreased due to lower average customer numbers in 2017, combined with a reduction in average size due to customer energy efficiency and embedded generation effects.
Volumes of gas sold (TWh)	42.5	48.4	Gas sales decreased due to lower average customer numbers than in 2016, warmer weather and a reduction in the average size of sites supplied.
Residential customer NPS (range of -100 to +100)	-8	+3	NPS has declined during 2017, in line with most major suppliers. NPS has increased by +1 compared to a basket of competitor scores during the year but remained -2 behind the basket as at 31 December 2017.
Customer account numbers (million)	6.79	6.97	Customer account numbers are lower than in 2016 due to losses in the first half of the year due to the competitive environment, although the second half of 2017 saw growth following several successful product launches.

E.ON ENERGY SOLUTIONS LIMITED
STRATEGIC REPORT
for the Year Ended 31 December 2017 (continued)

Principal risks and uncertainties

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

The key business risks and uncertainties affecting the Company are considered to relate to:

Price risk

Aside from the usual competitive pressure on prices, there is a price risk that the Company faces from competitors' ability to amend their selling prices in response to movements in wholesale energy markets and the variability of costs in meeting other non-energy commitments such as supporting social and environmental programmes. This ability is a factor of their purchasing strategies and internal structures. The Company's responses are similarly constrained or enabled by the same factors. The Company uses long-term and short-term market based derivative financial instruments to buy its required supply of power and gas from EEM, a related undertaking, with effect from May 2017 and previously from UGC, also a related undertaking. These instruments smooth fluctuations in the wholesale cost of power and gas. The Company also strives to meet its social and environmental targets in a timely and cost effective manner.

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. For example, the energy price cap bill currently progressing through parliament is causing additional uncertainty in the marketplace. The Company manages these risks by engaging in intensive and constructive dialogue with government agencies and policy makers.

Credit risk

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

Weather risk

This risk arises due to the impact that weather has on the demand for energy and the impact on the Company's sales. The Company uses a demand management system and weather derivatives to manage this risk.

Market risk

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

Further discussion of these risks and uncertainties, in the context of the E.ON SE consolidated group as a whole, is provided within the financial review section of the group's annual report which does not form part of this report.

Approved by the Board of Directors on 18 June 2018 and signed on its behalf by:



M D Lewis
Director

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

E.ON ENERGY SOLUTIONS LIMITED
DIRECTORS' REPORT
for the Year Ended 31 December 2017

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2017.

Directors of the Company

The directors who held office during the year and up to the date of signing these financial statements are given below:

S L Vaughan
B Wagner
M D Lewis (appointed 26 April 2017)
C J Lovatt (appointed 14 September 2017)
D A Bird (resigned 31 January 2017)
A D Cocker (resigned 31 July 2017)
J T Lightfoot (resigned 8 December 2017)
A Groth (resigned 30 May 2018)

Principal activities

The Company's principal activities during the year and at the year end were the supply of electricity, the shipping and supply of natural gas and the provision of other energy related services to residential, SME and I&C customers.

Results and dividends

The Company's loss for the financial year is £116 million (2016: profit of £740 million). Interim dividends of £600 million of 75.8 pence per share were paid during the year (2016: £110 million of 13.9 pence per share). The directors do not recommend the payment of a final dividend (2016: £nil).

Financial risk management

Objectives and policies

The Company, in common with other E.ON SE subsidiaries, must comply with the E.ON SE group's finance guidelines that set out the principles and framework for managing group-wide finances. The Company also utilises the E.ON UK plc operational treasury team which services the treasury requirements of the business. Further information on the E.ON SE group's policies and procedures is available in the financial statements of the E.ON SE group.

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

The Company operates its own specific treasury procedures within the overall E.ON SE treasury framework. The E.ON UK plc treasury team liaise closely with the Company to ensure that liquidity and risk management needs are met within the requirement of the E.ON SE group's policies and procedures.

E.ON SE's central financing strategy

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

The E.ON UK plc treasury team employs a continuous forecasting and monitoring process to ensure that the Company complies with all its banking and other covenants that apply to the financing of the UK business. This team works in close liaison with the other E.ON companies operating within the UK, when considering hedging requirements related to their activities. A group-wide cash forecasting and currency exposure reporting process exists which ensures regular reporting into UK treasury of future positions, both short and medium term. Information is submitted to E.ON SE for incorporation into E.ON 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 underlying business requirement, such as committed purchases or forecast funding requirements. Treasury activities are reviewed by internal audit on a regular basis.

E.ON ENERGY SOLUTIONS LIMITED
DIRECTORS' REPORT
for the Year Ended 31 December 2017 (continued)

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

Price risk

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

Credit risk management

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

Liquidity and cash flow risks

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

Political donations

No political donations were made during the year (2016: £nil).

Future developments

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

Employees

The Company has no employees but it is recharged by E.ON UK plc for the services of certain employees. The Company ensures that E.ON UK plc has employment policies which are designed to attract, retain and motivate the very best people recognising that this can only be achieved through offering equal opportunities for all, irrespective of sex, race, marital status, age or disability. The employment practices and procedures of E.ON UK plc are regularly reviewed to ensure that they provide equality of opportunity to all employees within the current legislative framework.

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.

Disclosure of information to auditors

So far as each of the directors is aware, there is no relevant audit information of which the Company's auditors are unaware and they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

E.ON ENERGY SOLUTIONS LIMITED
DIRECTORS' REPORT
for the Year Ended 31 December 2017 (continued)

Statement of directors' responsibilities in respect of these financial statements

The directors are responsible for preparing the Strategic Report, the Directors' Report and these 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 these 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 these financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of financial statements; 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 these financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approved by the Board of Directors on 18 June 2018 and signed on its behalf by:



M D Lewis
Director

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

Independent Auditors' Report to the Members of E.ON ENERGY SOLUTIONS LIMITED

Report on the audit of the financial statements

Opinion

In our opinion, E.ON Energy Solutions Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Strategic Report, Directors' Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2017; the profit and loss account, 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

We have nothing to report in respect of the following matters in relation to which 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.

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.

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.

Independent Auditors' Report to the Members of E.ON ENERGY SOLUTIONS LIMITED (continued)

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 2017 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, 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.

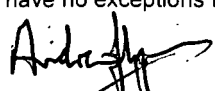
Other required reporting

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.


Andrew Lyon (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
East Midlands

Date 18 June 2018

E.ON ENERGY SOLUTIONS LIMITED
PROFIT AND LOSS ACCOUNT
for the Year Ended 31 December 2017

	<i>Note</i>	2017 £000 000	2016 £000 000
Turnover	2	5,930	6,248
Cost of sales		(5,006)	(5,298)
Gross profit		924	950
Administrative expenses	3	(810)	(705)
Operating profit before other operating income		114	245
Other operating income - other	3	53	51
Operating profit before impairment and derivative losses and gains		167	296
Impairment of fixed assets	3	(102)	-
Other operating (expense)/income - derivatives	3	(206)	619
Operating (loss)/profit	3	(141)	915
Interest receivable and similar income	7	1	4
(Loss)/profit on ordinary activities before taxation		(140)	919
Tax on (loss)/profit on ordinary activities	8	24	(179)
(Loss)/profit for the financial year		(116)	740

The Company has no other comprehensive income for the year, other than the results above and therefore no separate statement of comprehensive income has been presented.

The notes on pages 13 to 29 form part of these financial statements.

E.ON ENERGY SOLUTIONS LIMITED
BALANCE SHEET
as at 31 December 2017

	Note	2017 £000 000	2016 £000 000
Fixed assets			
Intangible assets	9	1,022	961
Tangible assets	10	196	242
Investments	11	22	22
		1,240	1,225
Current assets			
Stocks	12	39	36
Debtors	13	1,341	1,896
Cash at bank and in hand		97	88
		1,477	2,020
Creditors: amounts falling due within one year	14	(1,134)	(993)
Net current assets		343	1,027
Total assets less current liabilities		1,583	2,252
Creditors: amounts falling due after more than one year	15	(4)	(8)
Provisions for liabilities	16	(543)	(492)
Net assets		1,036	1,752
Capital and reserves			
Called up share capital	17	763	763
Share premium account		41	41
Profit and loss account		232	948
Total shareholders' funds		1,036	1,752

The financial statements on pages 10 to 29 were approved by the Board of Directors on 18 June 2018 and signed on its behalf by:



M D Lewis
Director
E.ON Energy Solutions Limited
Company No: 03407430

The notes on pages 13 to 29 form part of these financial statements.

E.ON ENERGY SOLUTIONS LIMITED
STATEMENT OF CHANGES IN EQUITY
for the Year Ended 31 December 2017

	Called up share capital £000 000	Share premium account £000 000	Profit and loss account £000 000	Total shareholders' funds £000 000
At 1 January 2016	763	41	318	1,122
Profit for the financial year and total comprehensive income	-	-	740	740
Dividends and total transactions with owners recognised directly in equity	-	-	(110)	(110)
At 31 December 2016	763	41	948	1,752
Loss for the financial year and total comprehensive expense	-	-	(116)	(116)
Dividends and total transactions with owners recognised directly in equity	-	-	(600)	(600)
At 31 December 2017	<u>763</u>	<u>41</u>	<u>232</u>	<u>1,036</u>

The notes on pages 13 to 29 form part of these financial statements.

E.ON ENERGY SOLUTIONS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the Year Ended 31 December 2017

1. Accounting policies

General information

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

The Company is a private company limited by shares and is incorporated and domiciled in the UK. The address of the Company's registered office is Westwood Way, Westwood Business Park, Coventry, England, CV4 8LG.

Basis of preparation of financial statements

The Company has prepared these financial statements in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' ('FRS 101'). These financial statements have been prepared under the going concern basis, historical cost convention, as modified by the revaluation of derivative financial assets and financial liabilities measured at fair value through profit or loss, and in accordance with the Companies Act 2006 as applicable to companies using FRS 101. The principal accounting policies, which have been applied consistently throughout the year, are set out below.

The Company has adopted disclosure exemptions in relation to the following:

- The comparative information requirements of paragraph 38 of IAS 1 Presentation of Financial Statements in respect of paragraph 79(a)(iv) of IAS 1, paragraph 73(e) of IAS 16 Property, Plant and Equipment and paragraph 118(e) of IAS 38 Intangible Assets (reconciliations between the carrying amount at the beginning and end of the year)
- The requirements of paragraphs 10(d) (statement of cash flows), 16 (statement of compliance with all IFRS), 111 (cash flow statement information) and 134-136 (capital management disclosures) of IAS 1 Presentation of Financial Statements
- The requirements of IAS 7 Statement of Cash Flows
- The requirements of Paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- The requirements of Paragraph 17 of IAS 24 Related Party Disclosures (key management compensation)
- The requirements of IAS 24 Related party disclosures to disclose related party transactions entered into between two or more members of a group
- The requirements of IFRS 7 Financial Instruments: Disclosures
- The requirements of paragraphs 91 to 99 of IFRS 13 Fair value measurement (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)

Exemption from preparing group financial statements

The Company is a wholly-owned subsidiary undertaking of E.ON SE, the ultimate parent undertaking, and is included in the publicly available consolidated financial statements of E.ON 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.

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

E.ON ENERGY SOLUTIONS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the Year Ended 31 December 2017 (continued)

Judgement in applying accounting policies and key sources of estimation uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of these financial statements, and the reported amounts of revenues and expenses during the reporting year. These judgements are based on management's best knowledge of the relevant facts and circumstances, having regard to prior experience, but actual results may differ from the amounts included in these financial statements.

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:

Revenue recognition - unread gas and electricity meters

Revenue for energy supply activities includes an assessment of energy supplied to customers between the date of the last meter reading and the year end. Unread gas and electricity is estimated using historical consumption patterns taking into account the industry reconciliation process for total gas and total electricity usage by supplier. The industry reconciliation process is required as differences arise between the estimated quantity of gas and electricity the Company deems to have supplied and billed customers, and the estimated quantity the industry system operator deems the individual suppliers, including the Company, to have supplied to customers.

Commodity derivatives

Forward power and gas contracts entered into to meet the Company's physical energy requirements meet the definition of derivatives under IAS 39. Previously the Company accounted for approximately 50% of its forward power and gas trades at fair value through the profit and loss account ('FVTPL'), with the remaining 50% being accounted for as own use. The 50% election was deemed appropriate given the individual nature of the trades. The fair value of forward contracts was recognised as an asset or liability on the balance sheet from the date the contract was entered into. Movements were recorded at FVTPL. The own use forward contracts were accounted for on an accruals basis.

As of May 2017, following a change in counterparty to its power and gas purchase arrangements, the Company now accounts for 100% of its forward power and gas contracts required for physical delivery as own use on an accruals basis. The Company also enters into a small volume of forward power and gas contracts which are not required for physical delivery, but act as a partial price hedge for future illiquid periods, in addition to entering into weather derivatives to hedge against the effects of weather on prices and value. These proxy and weather hedges also meet the definition of derivatives under IAS 39 but are accounted for at fair value through the profit and loss account. Fair values of the proxy and weather hedges are estimated by reference in part to published price quotations in active markets and in part by using valuation techniques and are recognised as an asset or liability on the balance sheet from the date the contract is entered into. Movements are recorded at FVTPL.

Forward contracts are not designated in hedge accounting relationships, and thus fair value movements are recognised in the profit and loss account. The hedged items (such as forecast sales and firm commitments) are not fair valued.

Valuation of goodwill

Positive goodwill is capitalised, classified as an asset on the balance sheet. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable. Impairments of assets are calculated as the difference between the carrying value of the asset and its recoverable amount, if lower. Recoverable amount is defined as the higher of fair value less costs to sell and estimated value in use at the date the impairment review is undertaken. Significant judgement is required in determining value in use as this represents the present value of expected future cash flows, discounted using a pre-tax discount rate, that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. Where such an asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the income generating unit.

E.ON ENERGY SOLUTIONS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the Year Ended 31 December 2017 (continued)

Impairment of fixed assets

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

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

Impairment of trade debtors

Valuation allowances against trade receivables are provided for identifiable individual risks where the loss is probable. The estimates and assumptions used to determine the level of provisions are reviewed periodically. Although the provisions recognised are considered appropriate, the use of different assumptions or changes in economic conditions could lead to changes in the provisions and therefore impact profit or loss for the year.

Corporation tax

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. The Company establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Going concern

These financial statements have been prepared on the going concern basis. The directors of the Company believe that there are no material uncertainties that may cast significant doubt about the ability of the Company to continue as a going concern. The directors of the Company also believe that the Company has adequate resources to continue in operational existence for the foreseeable future, being a period of at least twelve months from the date of approval of these financial statements.

Turnover

Turnover comprises revenue from the sale of electricity, gas and energy services to residential, SME and I&C customers. Turnover excludes value added tax.

Turnover is recognised when earned on the basis of a contractual agreement with the customer. It reflects the value of the volume supplied, including an estimated value of the volume supplied to customers between the date of their last meter reading and the year end. Both billed and unbilled amounts receivable are included within trade debtors.

Turnover from providing other energy related services to customers is recognised as the work is performed and the services provided to the customer.

Accrued income

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

Intangible fixed assets

Goodwill is capitalised and classified as an asset on the balance sheet. It is reviewed for impairment annually and impaired if events or changes in circumstances indicate that the carrying value may not be recoverable.

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

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

E.ON ENERGY SOLUTIONS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the Year Ended 31 December 2017 (continued)

Third Party Intermediaries ('TPI') commissions representing the cost of non-residential customer acquisition are stated at cost and amortised over the average customer contract life.

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

Amortisation

Amortisation is provided on intangible fixed assets so as to write off the cost, less any estimated residual value, over their expected useful economic life.

ROCs are surrendered to national authorities on an annual basis and no amortisation is provided on goodwill.

Asset class	Amortisation method and rate
Software	Straight-line basis over 3 to 5 years
Other intangibles	Straight-line basis over 17 to 25 years
TPI commissions	Straight-line basis over 1 to 3 years

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.

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 the weighted average cost of capital of the E.ON 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 or valuation, less any estimated residual value, over their expected usefully economic lives, which are reviewed annually, as follows:

Asset class	Depreciation method and rate
Plant and machinery	Straight-line basis over 25 to 76 years
Fixtures and fittings	Straight-line basis over 3 to 5 years
Meter equipment*	Straight-line basis over 7 to 10 years

*Meter equipment includes installation costs.

Fixed asset investments

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

Long term contracts

Long term contracts are measured at cost net of amounts transferred to cost of sales after deducting foreseeable losses and payments on account not matched with turnover. These contracts are included in stock as work in progress along with all other energy connections contract costs. The amount by which payments on account exceed turnover is shown under creditors as deferred income. The amount by which recorded turnover is in excess of payments on account is included in debtors as amounts recoverable on contracts. The amount by which accruals for foreseeable losses exceed costs incurred, after transfers to cost of sales, is deducted from the value of work in progress in the balance sheet and recognised as a cost in the profit and loss account.

E.ON ENERGY SOLUTIONS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the Year Ended 31 December 2017 (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 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.

Financial instruments

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

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

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

See the directors' report and notes 13 and 14 for further details of the fair values of the financial instruments.

Inter-company balances

Inter-company payable and receivable trading balances within the E.ON 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.

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.

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

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

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

E.ON ENERGY SOLUTIONS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the Year Ended 31 December 2017 (continued)

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

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.

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profit and loss account evenly over the term of the lease.

Current and deferred income tax

The tax credit for the year comprises current and deferred tax.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in respect of the relevant years, in the countries where the Company operates and generates taxable income.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in these financial statements. Deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; or arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profits or losses.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes 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.

Pensions costs

The Company contributes to a defined contribution pension scheme, and also a defined benefit group pension scheme operated by E.ON UK plc, the assets of which are invested in a separate trustee-administered fund. Further details of these schemes are available in E.ON UK plc's financial statements.

The Company is unable to identify its share of the underlying assets and liabilities of the group pension scheme. The Company has accounted for its contribution to the group pension scheme as if the scheme was a defined contribution scheme and accounts for contributions payable to the group pension scheme in the accounting period in which they fall due.

E.ON ENERGY SOLUTIONS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the Year Ended 31 December 2017 (continued)

2. Turnover

Turnover, which excludes value added tax, primarily represents the value of electricity and gas supplied to residential, SME and I&C customers. Turnover from the delivery and sale of electricity and gas are recognised upon delivery, primarily on the basis of meter readings, and include an estimate of services provided but not yet billed incorporating historical consumption patterns. The value of services not yet billed is also included within trade debtors. Turnover from providing other energy related services to customers is recognised as the work is performed and the services provided to customers. The Company's turnover, all of which arises in the course of the Company's principal activity, arises in the UK.

3. Operating (loss)/profit

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

	2017 £000 000	2016 £000 000
Operating lease	9	11
Foreign currency gains	(8)	(9)
Derivative losses/(gains)	206	(619)
Depreciation of tangible fixed assets (note 10)	53	50
Impairment of tangible fixed assets (note 10)	92	-
Amortisation of intangible assets (note 9)	54	49
Impairment of intangible fixed assets (note 9)	10	-

Other operating (expense)/income relates mainly to derivative gains and losses, prepayment infrastructure usage and other sundry income.

No inventories were recognised as an expense during the year (2016: £4 million).

The impairment of trade receivables recognised as an expense during the year was £86 million (2016: £93 million).

4. Auditors' remuneration

Auditors' remuneration was £233,000 (2016: £292,000) for the audit of these financial statements. The Company also incurred £204,000 (2016: £80,000) in relation to other assurance services.

5. Employee information

The Company had no employees during the year (2016: none). The monthly average number of persons recharged by E.ON UK plc for the services of employees (including directors) during the year was as follows:

	2017 Number	2016 Number
Sales, marketing and distribution	7,673	7,423

E.ON ENERGY SOLUTIONS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the Year Ended 31 December 2017 (continued)

The aggregate payroll costs recharged were as follows:

	2017 £000 000	2016 £000 000
Wages and salaries	210	194
Social security costs	19	18
Other pension costs	40	30
	<u>269</u>	<u>242</u>
Less: capitalised in fixed assets	(38)	(30)
	<u>231</u>	<u>212</u>

6. Directors' remuneration

The directors' remuneration for the year was as follows:

	2017 £	2016 £
Aggregate emoluments (including benefits in kind)	<u>3,446,026</u>	<u>3,397,489</u>

The above amounts relate to eight (2016: eight) directors whose emoluments were paid by other E.ON group companies. Of the emoluments disclosed above, £3,446,026 (2016: £3,397,489) was recharged by other E.ON group companies to the Company based on the proportion of time that the directors spent on the Company's business.

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

	2017 No.	2016 No.
Received or were entitled to receive shares under long term incentive schemes	8	8
Accruing benefits under a defined contribution pension scheme	2	2
Accruing benefits under a defined benefit pension scheme	<u>6</u>	<u>4</u>

During the year, five directors (2016: five) exercised Performance Rights over shares in the ultimate parent company, E.ON SE, that they were awarded for services to the E.ON SE group under Long Term Incentive ('LTI') schemes. Total payments under the LTI arrangements were £478,744 (2016: £244,848).

During the year the Company paid, or treated as paid, contributions to a pension scheme in respect of money purchase benefits in respect of the above directors totalling £10,569 (2016: £55,567).

E.ON ENERGY SOLUTIONS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the Year Ended 31 December 2017 (continued)

In respect of the highest paid director:

	2017 £	2016 £
Aggregate emoluments (including benefits in kind)	<u>930,171</u>	<u>864,847</u>

The above amounts relate to amounts recharged to the Company by other E.ON group companies that employ the director. Of the emoluments disclosed above, £930,171 (2016: £864,847) was recharged to the Company based on the proportion of time that the highest paid director spent on the Company's business.

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

7. Interest receivable and similar income

	2017 £000 000	2016 £000 000
Interest receivable from group undertakings	<u>1</u>	<u>4</u>

8. Tax on (loss)/profit

	2017 £000 000	2016 £000 000
Current tax:		
UK corporation tax charge	14	51
Adjustment in respect of prior years	(1)	-
Total current tax charge	13	51
Deferred tax:		
Origination and reversal of timing differences	(36)	128
Adjustment in respect of prior years	1	-
Movement due to changes in tax rates	(2)	-
Total deferred tax (credit)/charge	(37)	128
Tax (credit)/charge on (loss)/profit	<u>(24)</u>	<u>179</u>

E.ON ENERGY SOLUTIONS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the Year Ended 31 December 2017 (continued)

Factors affecting current tax charge for the year

The tax credit for the year is lower (2016: tax expense lower) than the standard rate of corporation tax in the UK for the year ended 31 December 2017 of 19.25% (2016: 20.00%). The differences are explained below:

	2017 £000 000	2016 £000 000
(Loss)/profit on ordinary activities before taxation	(140)	919
Tax (credit)/charge on (loss)/profit on ordinary activities before taxation at 19.25% (2016: 20.00%)	(27)	184
<i>Effects of:</i>		
Initial recognition exemption	1	-
Impact of rate change between corporation tax and deferred tax	2	(5)
Adjustment in respect of prior years - current tax	(1)	-
Adjustments in respect of prior years - deferred tax	1	-
Tax (credit)/charge for the year	(24)	179

Reductions to the UK corporation tax rate were included in the Finance Act (No.2) 2015 reducing the main rate to 19% from 1 April 2017. A further reduction in the UK corporation tax rate was included in the Finance Act 2016 to reduce the rate to 17% from 1 April 2020. These changes were substantively enacted at the balance sheet date and their impact have been included in these financial statements.

The corporation tax payable has been reduced by £13 million because of group relief received from a fellow group undertaking for which a payment will be made (2016: payment made of £51 million).

E.ON ENERGY SOLUTIONS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the Year Ended 31 December 2017 (continued)

9. Intangible assets

	Goodwill £000 000	ROCs £000 000	Software £000 000	TPI commissions £000 000	Other intangibles £000 000	Total £000 000
Cost						
At 1 January 2017	584	225	143	87	15	1,054
Additions	-	556	55	37	2	650
Disposals	-	(524)	(37)	-	-	(561)
At 31 December 2017	584	257	161	124	17	1,143
Accumulated amortisation						
At 1 January 2017	-	-	49	42	2	93
Charge for the year	-	-	16	38	-	54
Disposals	-	-	(36)	-	-	(36)
Impairments	-	-	10	-	-	10
At 31 December 2017	-	-	39	80	2	121
Net book value						
At 31 December 2017	584	257	122	44	15	1,022
At 31 December 2016	584	225	94	45	13	961

Disposals relate to ROCs settled to national authorities on an annual basis and obsolete software.

Impairments of intangibles of £10 million relate to a software project that will no longer be taken forward by the Company following a review and which has been impaired to £nil as no value is expected to be recovered from the project.

Software includes the net book value of assets in the course of construction of £55 million (2016: £57 million).

Other intangibles include the net book value of assets in the course of construction of £4 million (2016: £3 million).

E.ON ENERGY SOLUTIONS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the Year Ended 31 December 2017 (continued)

10. Tangible assets

	Plant and machinery £000 000	Fixtures and fittings £000 000	Meter equipment £000 000	Total £000 000
Cost or valuation				
At 1 January 2017	73	7	379	459
Additions	15	-	84	99
Disposals	-	(6)	(66)	(72)
At 31 December 2017	88	1	397	486
Accumulated depreciation				
At 1 January 2017	3	6	208	217
Charge for the year	2	-	51	53
Disposals	-	(6)	(66)	(72)
Impairments	55	-	37	92
At 31 December 2017	60	-	230	290
Net book value				
At 31 December 2017	28	1	167	196
At 31 December 2016	70	1	171	242

As a result of the annual review of fixed assets, an impairment charge of £55 million based on a value-in-use calculation has been recognised for plant and machinery associated with certain Community Energy sites where connection or technology related issues in the year have changed the assessment of the net present value of these projects. A further £37 million impairment for meter equipment based on a value-in-use calculation has been recorded for analogue and non-compliant smart meters associated with the smart metering rollout.

Plant and machinery includes the net book value of assets in the course of construction of £1 million (2016: £15 million).

E.ON ENERGY SOLUTIONS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the Year Ended 31 December 2017 (continued)

11. Investments

	2017 £000 000	2016 £000 000
Shares in group undertakings and participating interests	22	22
Shares in group undertakings and participating interests		
		Subsidiary undertakings £000 000
Cost or valuation		
At 1 January 2017		33
At 31 December 2017		33
Provision for impairment		
At 1 January 2017		11
At 31 December 2017		11
Net book value		
At 31 December 2017		22
At 31 December 2016		22

The directors believe that the carrying value of the investments is supported by their underlying net assets.

Details of undertakings

Details of the investments which the Company holds are as follows:

Undertaking	Holding	Proportion of voting rights and shares held	Principal Activity
Subsidiary undertakings			
E.ON Energy Gas (Eastern) Limited	Ordinary shares	100%	Dormant
E.ON Energy Gas (Northwest) Limited	Ordinary shares	100%	Dormant
E.ON Project Earth Limited	Ordinary shares	100%	Leasing of ground source heating systems
E.ON UK Industrial Shipping Limited	Ordinary shares	100%	Dormant
Economy Power Limited	Ordinary shares	100%	Dormant
Energy Collection Services Limited	Ordinary shares	100%	Dormant
Utility Debt Services Limited	Ordinary shares	100%	Dormant

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

E.ON ENERGY SOLUTIONS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the Year Ended 31 December 2017 (continued)

12. Stocks

	2017 £000 000	2016 £000 000
Stores	35	32
Work in progress	4	4
	<u>39</u>	<u>36</u>

There are no provisions for impairment of stocks (2016: £nil).

13. Debtors

	2017 £000 000	2016 £000 000
Trade receivables	586	563
Amounts owed by group undertakings	647	1,068
Commodity and other derivative financial instruments	2	205
Deferred tax	33	-
Other debtors	43	22
Prepayments and accrued income	30	38
	<u>1,341</u>	<u>1,896</u>

Amounts owed by group undertakings include a £639 million floating rate deposit to E.ON UK plc (2016: £1,063 million), which is unsecured, repayable on demand and incurs interest at LIBOR minus 5 basis points to plus 55 basis points. The remaining amounts owed by group undertakings relate to the funding of subsidiary companies and utilisation of liquid funds by the parent and are unsecured, interest free and repayable on demand.

Derivative financial instruments consist of weather derivatives, commodity derivatives (excluding those required for physical delivery accounted for as own use) and other derivatives. During 2016 and until May 2017, commodity derivative financial instruments included approximately 50% of its forward power and gas contracts following an election to account for these forward contracts as FVTPL.

Weather and commodity derivative instruments were valued separately at their forward rates and prices at the balance sheet date. Forward rates and prices were based on market quotations, with forward premiums and discounts taken into consideration. Amounts recognised in the income statement relating to derivatives were disclosed in note 3. No amounts were recognised in reserves (2016: £nil). The notional principal amounts of the weather, commodity and other derivative financial instruments were £3 million (2016: £1,321 million).

Trade receivables are stated after provisions for impairment of £160 million (2016: £165 million).

Debtors includes £48 million (2016: £14 million) receivable after more than one year. This can be analysed as follows:

	2017 £000 000	2016 £000 000
Deferred tax	33	-
Other debtors	15	14
	<u>48</u>	<u>14</u>

E.ON ENERGY SOLUTIONS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the Year Ended 31 December 2017 (continued)

The deferred tax asset/(provision) comprises:

	2017 £000 000	2016 £000 000
Decelerated capital allowances	16	8
Intangible fixed assets	12	26
Other timing differences	5	(38)
	<u>33</u>	<u>(4)</u>

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

	2017 £000 000
Provision for deferred tax at 1 January 2017	(4)
Deferred tax credited to the profit and loss account	37
At 31 December 2017	<u><u>33</u></u>

The Finance Act (No. 2) 2015 included legislation to reduce the main rate of corporation tax to 19% with effect from 1 April 2017. The Finance Act 2016 further reduced the main rate to 17% from 1 April 2020. The deferred tax asset at 31 December 2017 has been measured accordingly.

Within the deferred tax credit of £37 million, the amount that relates to the change in the tax rate is a £2 million credit.

14. Creditors: amounts falling due within one year

	2017 £000 000	2016 £000 000
Trade payables	253	495
Amounts owed to group undertakings	683	278
Other taxation and social security	64	65
Accruals and deferred income	127	140
Commodity and other derivative financial instruments	5	14
Other creditors	2	1
	<u><u>1,134</u></u>	<u><u>993</u></u>

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

E.ON ENERGY SOLUTIONS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the Year Ended 31 December 2017 (continued)

15. Creditors: amounts falling due after more than one year

	2017 £000 000	2016 £000 000
Accruals and deferred income	4	8

16. Provisions for liabilities

	Deferred tax £000 000	ROCs £000 000	TPI commissions £000 000	Other provisions £000 000	Total £000 000
At 1 January 2017	4	400	48	40	492
Charged to the profit and loss account	-	565	40	46	651
Utilised during the year	-	(525)	(49)	(22)	(596)
Transfer to deferred tax asset	(4)	-	-	-	(4)
At 31 December 2017	-	440	39	64	543

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

TPI commissions represent the cost of non-residential customer acquisition payable to third parties and expected to be settled over a period of 1 to 3 years.

Other provisions relate primarily to amounts payable for onerous contracts, customer reward points and meter related costs. These obligations are expected to be settled over a period of 2 to 17 years.

17. Called up share capital

	2017 £000 000	2016 £000 000
Allotted, called-up and fully paid		
760,000,000 ordinary shares of £1.00 each	760	760
31,625,436 ordinary shares of £0.10 each	3	3
	763	763

18. Dividends

	2017 £000 000	2016 £000 000
Dividends paid		
Interim dividend paid: 75.8 pence (2016: 13.9 pence) per ordinary share	600	110

E.ON ENERGY SOLUTIONS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the Year Ended 31 December 2017 (continued)

19. Commitments

Other Commitments

The Company is committed to purchase power and gas under various supply contracts put in place to meet customer demand. At 31 December 2017, the minimum commitment under these contracts was £1,663 million (2016: £1,482 million).

The Company is recharged for certain operating leases from E.ON UK plc. Further information on these lease commitments is available in the financial statements of E.ON UK plc.

20. Related party transactions

During the year (2016: in the period from 13 September 2016 to 31 December 2016) the Company had the following related party transactions with companies in the Uniper Group, by virtue of it being 47% owned by E.ON SE, the ultimate controlling party of the Company:

Uniper Global Commodities SE ('UGC')

The Company had costs of £992 million (2016: £827 million) relating primarily to the supply of power and gas under a transfer pricing mechanism. The agreement with UGC terminated on 31 May 2017. The balance outstanding at the year end was a liability of £nil (2016: £258 million).

The Company also had a derivative mark-to-market loss of £198 million relating to the reversal of the prior year mark-to-market position. In 2016 there were gains of £193 million relating to the forward purchase of power and gas from UGC. There were no balances outstanding at the year end for commodity derivative assets (2016: £197 million), commodity derivative liabilities (2016: £12 million) and prepayments (2016: £13 million).

The only remaining arrangement with UGC at the year end was a weather derivative. The balance outstanding at the year end in relation to this was a liability of £2 million.

21. Ultimate holding company

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

E.ON SE
Brüsseler Platz 1
45131 Essen
Germany