



EDF ENERGY HOLDINGS LIMITED

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ANNUAL REPORT AND FINANCIAL STATEMENTS

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STRATEGIC REPORT

Principal activities

The principal activities of EDF Energy Holdings Limited (the "Company") and subsidiaries (together the "Group" or "EDF Energy") during the year continued to be the provision and supply of electricity and gas to commercial, residential and industrial customers, and the generation of electricity through a portfolio of generation assets including nuclear, coal, gas and renewable generation. The Group is also involved in the construction of nuclear new build assets.

Long-term strategy

EDF Energy's strategy targets a sustainable long-term business, meeting customers' needs for energy and associated services in an efficient and responsible way while focused on supporting the transition to a lower-carbon economy through generation of safe, reliable and affordable low-carbon electricity. As part of its 2020 project EDF Energy has developed detailed action plans which build on the high-level vision and objectives defined by EDF Group's CAP 2030. All these actions are underpinned by a focus on maintaining industry leading safety performance and improving cost efficiency across the business.

In its customer-facing business, EDF Energy aims to make energy easy for customers by doing things better, faster and cheaper and enabling customer engagement by applying digital technologies and innovation. This also involves installing smart meters to our customers' homes and small business premises, as part of the national programme. EDF Energy helps customers to make the most of their energy consumption and production and of their increasingly connected, smart homes (and similarly connected public buildings, communities and cities), whilst providing excellent service and convenience. Through its energy services joint venture with Dalkia, including the recently acquired company Imtech, EDF Energy aims to help businesses explore and develop solutions that deliver energy, carbon and cost savings. In response to the major transformations within the energy industry, it has also launched Blue Lab, which aims to rapidly identify, develop and trial new business opportunities and services for customers.

In generation, EDF Energy seeks to create value through continued operational excellence of existing assets and by developing a portfolio of new investments. In partnership with China General Nuclear Corporation (CGN), EDF is building two new nuclear units (3.2GW capacity in total) at Hinkley Point in Somerset, based on the Areva EPR technology. EDF Energy is also working with CGN to progress a similar 3.2GW EPR project at Sizewell in Suffolk, where a second stage public consultation was completed in February 2017. The feedback from this is being reviewed and EDF Energy continues to engage with its stakeholders through further pre-development consent order application consultation. Further it is proposing to develop a new nuclear power station based on CGN's UK HPR1000 technology at Bradwell in Essex. Through EDF Energy Renewables (a joint venture with EDF Énergies Nouvelles), EDF Energy operates around 700MW of wind farms and is also continuing to develop new renewable generation projects; it is also exploring options for flexibility assets including the development of a new 49MW battery storage project at West Burton B, which will provide frequency response services to the National Grid.

EDF Energy aims to secure value from its existing nuclear, coal and gas assets through continued operational excellence and safe, reliable generation. Since 2009, we have extended the lifetime of all of our Advanced Gas Reactors (AGRs) by an average of 8 years. This has allowed the UK to continue to benefit from existing nuclear low carbon energy for as long as possible, as well as providing ongoing nuclear employment opportunities and the maintenance of nuclear industry skills within the UK. However, due to large non-replaceable components, there is a technical limit to the AGR lifetimes, and as we approach this limit, we will be seeking to optimise the end of life value of the stations. This may include the small, incremental extension of individual reactors, where safety and technical considerations allow. As part of adding value from the end of AGR lifetimes, EDF Energy is also exploring opportunities to develop new activities in nuclear decommissioning, building on its expertise in operating the UK's existing nuclear stations.

Other important strategic actions concerning the company's generation fleet include optimising the operations of the West Burton B Combined Cycle Gas Turbine power station and the remaining lifetime value of coal generation capacity under the UK capacity market mechanism.

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Key performance indicators

In 2017, we continued to measure progress against our key ambitions. Our key company ambitions and related measures for 2017 were:

Group Wide KPIs:

- **Zero Harm** - Measured through the Total Recordable Incident Rate "TRIR" (the number of fatalities, lost time incidents, medical treatments and restricted work injuries per 1,000,000 hours worked) – covers both employees and contractors. Each incident is equally weighted – thus the total result is the sum of all TRIR incidents in the year (per 1,000,000 hours worked in the year).
- **People to be a Force for Good** - Measured through results of our annual employee engagement survey from a subset of 12 questions called the "High Performance Index" (HPI). The questions used relate to topics on which high performing companies are differentiated from others and for which comparative norm data exists. The responses against each of the 12 questions are then averaged to produce a total % result.
- **Strong Financial and Ethical Performance** - Measured through (a) Profit before depreciation, amortisation, tax and finance costs (b) net cash from operating activities.

Business unit specific KPIs:

- **Safe, Secure and Responsible Nuclear Electricity** – Measured through Nuclear Generation Target Achievements – Nuclear Output and performance levels of the Plants. Note both the TRIR and HPI measures cover our nuclear, coal and gas business areas. Both of the measures are given a minimum, a target and a maximum performance level and the final index score is a weighted average of the performances of the two measures.
- **Power Society without Costing the Earth** – Measured through Nuclear New Build target achievements - this includes Hinkley Point C Budget and Milestone Achievements - actions relating to progress on procurement, engineering, construction, project control and consultations for our new build project. Both of the measures are given a minimum, a target and a maximum performance level and the final index score is a weighted average of the performances of the two measures.
- **Best and Most Trusted for Customers** – Measured through our Trust Index – a combination of two measures covering customer survey and complaints monitoring across our Residential, SME and I&C businesses. Each measure is given a minimum, a target and a maximum performance level and the final trust index score is an average of the performances of each measure.

The results for 2017 and 2016 for the Group wide KPIs were:

Ambition	Measure	2017	2016
Zero Harm	TRIR (per 1,000,000hrs)	0.59	0.68
People to be a Force for Good	High Performing Index (%)	66	67
Strong Financial and Ethical Performance	Profit before depreciation, amortisation, tax and finance costs (£m)	899 ⁽¹⁾	1,399
	Net cash from operating activities (£m)	1,467	1,443

⁽¹⁾ Profit before depreciation, amortisation, tax and finance costs excludes gain on derivatives, restructuring costs and profit on disposal of the two windfarms. For the purposes of the KPIs, profit on disposal of the two windfarms is included in the performance measure.

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Results

The loss for the year before taxation amounted to £299m (2016: profit of £305m). The loss for the year after taxation was £213m (2016: profit of £293m). Dividends of £146m were paid to the parent company, EDF Energy (UK) Limited during the year (2016: £242m).

The consolidated segmental statement which is required by Ofgem provides more detail around profitability of the generation and supply businesses and will be available on the Group's website.

Review of the business

Generation

Coal, Gas and Renewable Generation

In 2017, Cottam and West Burton A coal-fired power plants generated 4.8TWh of electricity. This is higher than last year, and represented a good performance in a year of particularly low dark spreads, in addition to outages at seven of the eight units. West Burton B CCGT generated 6.6TWh, driven by improved market spark spreads and continued Balancing Mechanism activity.

In February 2017, all of the coal units, including OCGTs, and all of the CCGT Units, secured a one year Capacity Market agreement starting in 2017, at the clearing price of £6.95/kW.

EDF Energy operates two mid cycle gas storage facilities in Cheshire. Hole House, purchased from EDF Trading in April 2014, is operational with a total working gas capacity of c.18 million therms. Hill Top Farm became commercially operational in mid-January 2015 with three cavities. The remaining two cavities are being developed and are scheduled to come on-line by the end of 2018.

Through EDF Energy Renewables (EDF ER), a joint venture between EDF Energy and EDF Énergies Nouvelles, EDF Energy is developing its renewable assets. In addition, EDF Energy has signed power purchase agreements with renewable generators and supports independent developers. This ensures a balanced approach for compliance with its Renewables Obligations (RO) and the provision of renewable electricity to its customer base.

EDF ER currently operates 36 wind farm sites with a total generation capacity of 704.2MW, including Beck Burn (31MW) which was brought into operation in 2017. One other onshore wind farm is currently in construction, Dorenell (177MW), EDF ER's largest onshore wind farm to date, expected to commence operation early 2019.

EDF ER continues to expand its scope of technologies with a 49MW battery storage facility under construction. This facility will be constructed adjacent to the West Burton coal and CCGT stations. In addition, the facility has successfully secured a 15 year Capacity Market agreement for delivery commencing October 2020 in the 2016 Capacity Market Auction held in December 2016.

EDF EN Services UK Limited, a joint venture between EDF Energy and EDF Énergies Nouvelles, which commenced operations in October 2015, continues to expand and now provides operation and maintenance activities for 25 wholly and partly owned wind farms and 2 externally owned wind farms.

Nuclear Generation

EDF Energy owns and operates eight nuclear power stations in the UK (15 reactors) with a total capacity of 8.9GW. Seven of the eight nuclear power stations are Advanced Gas-Cooled Reactor (AGR) power stations (Dungeness B, Hartlepool, Heysham 1, Heysham 2, Hinkley Point B, Hunterston B and Torness) and the eighth, Sizewell B, is a Pressurised Water Reactor (PWR) power station.

The nuclear generation fleet produced 63.9TWh during 2017, 1.2TWh less than 2016 (65.1TWh). The reduction in output is largely due to an additional statutory outage in 2017, two more core inspection outages at Hinkley Point B and Hunterston B, higher unplanned losses and one less day of generation (2016 being a leap year), offset by fewer off-load refuellers and the first full year of seven out of eight boiler operation at Heysham 1 Reactor 1 since its load was constrained, following the discovery of a defect in a boiler spine in 2014.

The 2017 output is the second highest since Hinkley Point B and Hunterston B were derated in 2006. In addition, the load factor, which through revision of station capacities takes account of these deratings, was 82%; the second best performance over the lifetime of the fleet. Planned statutory outages were completed on Dungeness B Reactor 21, Heysham 1 Reactor 1, Hunterston B Reactor 4 and Torness Reactor 1, and a planned statutory outage was started at Sizewell B.

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The AGRs were designed with a nominal 25 year lifetime, and Sizewell B with a 40 year lifetime. However, with the aggregation of technical information, and operational and safety experience, it has been possible to revise the expected AGR lifetimes. Prior to EDF Energy ownership, the AGRs had been extended by an average of 10 years, and it has been EDF Energy's intention, where possible and economic, to seek further lifetime extensions. This may require additional investment in the plant, and requires technical, safety, and economic justifications to be made; and since it may result in increasing the nuclear liabilities, the consent of the Nuclear Decommissioning Authority (NDA).

Since British Energy was acquired by EDF, the AGRs have been further extended by an average of eight years. The last extensions were declared in February 2016. Hartlepool and Heysham 1 were extended by a further five years, and Heysham 2 and Torness were extended by seven years.

Although the work has not yet been carried out to support the extension of Sizewell B, EDF Energy expects that it should be possible to extend it by c.20 years.

The power generated by the generation fleet is sold via the Wholesale Markets Optimisation (WMO) division within EDF Energy's customers business. Since April 2010, 20% of the output from nuclear generation is separately sold to Centrica, the minority shareholder of the current nuclear fleet, under the agreements made at the time of the Centrica transactions. The remaining 80% is sold to WMO under the same transfer price as used for the transaction with Centrica, based on published market prices, smoothed over forward electricity prices where liquidity allows.

Optimisation and hedging

The policies surrounding EDF Energy's energy purchasing and risk management activities are carried out in accordance with EDF group's policies and ensure that EDF Energy's activities are optimised and its services delivered at a competitive price while limiting its gross margin volatility.

The WMO division's purpose is to manage the wholesale market risk of EDF Energy in one place within pre-defined risk limits and control framework. It provides a unique interface with the wholesale markets, via EDF Trading. WMO also provides modelling services to the whole of EDF Energy, as well as negotiating and managing asset backed commercial structures with third parties e.g. NDA and Centrica.

Over and above its own generation, EDF Energy also sources electricity through export power supplied from power purchase agreements which are mainly with renewable and CHP generators. In 2017, EDF Energy acquired approximately 6.1TWh through this channel.

For delivery in 2017, EDF Energy's net position on the wholesale market was a sale of approximately 21.6TWh (including structured trades). In 2017, EDF Energy sold approximately 48.7TWh and bought 27.1TWh.

Coal and gas contracts (physical and financial) and CO2 emissions rights are entered by EDF Energy to hedge the requirements of its power plants and gas consumers.

Purchases are based on coal and gas asset generation forecasts and target coal stock levels. All EDF Energy's 2017 coal deliveries were from domestic suppliers.

Customers

The Customers business is responsible for the supply of gas and electricity to residential and business customers across the United Kingdom and the wholesale market optimisation of EDF Energy's generation and customer assets.

EDF Energy sells energy to two major customer segments: domestic and business customers. The size of business customers ranging from large industrial businesses to small privately-owned businesses. EDF Energy adopts different risk management strategies for domestic and non-domestic customers.

Domestic customers

During 2017, EDF Energy supplied 12.4TWh of electricity and 27.8TWh of gas for the domestic segment. As at 31 December 2017, EDF Energy had 3.2 million electricity accounts and 2.0 million gas accounts on this segment.

The latest market share data from Cornwall to the end of October 2017 showed that the combined market share of small and medium suppliers is now around 21%, up from 16.5% at the end of January 2017. There were 57 small and medium suppliers at the end of June (excluding white labels and licence lites), including Engie and Vattenfall, who acquired iSupply Energy.

EDF Energy had 5.16 million product accounts at end of December 2017, a decrease of 60k since the beginning of the year. The volume of product accounts has remained overall constant with last year's

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level whilst undergoing two Standard Variable tariff price changes and a significant volume of fixed price tariff closures. Market share has been retained over last 12 months and is currently 10.3% (at 31 October 2017 – latest figure available).

EDF Energy has partnered with both “EnergyHelpline” and “MoneySuperMarket”/ “MoneySavingExpert” to offer very competitive collective switch tariffs which has secured substantial sales during 2017. In 2017, it has launched its first ‘bundled’ tariff, offering customers one year’s free heating insurance with their energy tariff (Blue +Heating Protect).

Standard Variable price increase announcements have been made in 2017 by all major suppliers. Following the publication of the political parties’ manifestos prior to the General Election in June, and intense media speculation about the extent of a wider price cap, the introduction of a cap has now been confirmed by the Government from February 2018 for vulnerable consumers, though details (including the level it will be set at for remaining consumers) are not available at present. Ofgem announced in July it was considering introducing a more targeted safeguard tariff for vulnerable consumers, and it also suggested it will continue to run trials relating to the disengaged customer database (on Standard Variable for over three years), although the planned April 2018 national rollout being deferred.

Ofgem will consult on the full removal of the Whole of Market view on price comparison websites in 2017, following a consultation on a new Confidence Code and related trials. This could allow price comparison websites to exclude suppliers who do not pay them a fee from any comparisons.

Following the General Election, the UK government’s Department for Business, Energy and Industrial Strategy (BEIS) has reinforced its commitment to delivering smart meters to domestic and business customers by 2020. In 2017, EDF Energy installed c. 340,500 smart meters for its customers, the majority being installed by its in-house field force. It is working with its contracted outsourced field force providers to support the required ramp up in their installation rates for 2018 and beyond. All reasonable actions have been taken to keep delivering the Smart Metering programme. The national IT and communications infrastructure (the DCC) is now live, after delays, and suppliers are beginning to trial low volumes of second generation smart meters connected to it. EDF Energy has completed the associated internal IT system changes, including the required interfaces to the DCC, and plans to transition to installing second generation meters connected to the DCC in 2018.

In the Citizen’s Advice complaints (domestic) league table, EDF Energy has maintained its 2nd place of all major suppliers, which was first achieved in 2016, as at Q3 of 2017. EDF Energy is 15 points behind SSE and over 50 points ahead of British Gas in 3rd place.

In 2017 we responded to 78% of all customer emails within 24 hours, started 83% of Live Chats within 1 minute. Customer Services Telephony Average Speed of Answer (ASA) was 2 min 51 secs for domestic customers; this was impacted by the volume of Smart Metering calls received throughout the year, our service to customers compares favourably to other energy suppliers according to a recent Which survey.

Our customers are very positive regarding the service received across contact channels providing an Advisor Recommendation Score of +56. We also achieved a Digital Net Ease score of 4 out of 5, showing our customers are happy using our digital applications, during the year 67% of transactions were completed by customers using inbound self-serve channels. There have been significant changes in the Digital arena helping the ease in which our customers can interact with us.

Non-domestic customers

In 2017, the non-domestic segment supplied a total of 31.4TWh of electricity, 1.9TWh to 198,471 small business customers (“SME”) and 29.5TWh to medium and large business customers (“I&C”) accounts. The business customer electricity market in the UK is c.180TWh in total, making EDF Energy the largest supplier to business customers. Almost half of the business electricity market is serviced by just three main players.

Medium business continues its strong performance, with high volume and gross margin wins. Volume in this segment continues to grow month on month. The October 2017 round was, as usual, very competitive with pressure on £/MWh margins, though overall performance was, again, excellent.

On the partnerships side, all opportunities for 2017 delivery have been successfully renewed at anticipated margins including extensions of Scottish Procurement (SP) and Royal Mail Group, retention of B&Q (and gain of Screwfix), Jaguar Land Rover and Veolia. Additional successes included being

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awarded a place at the Crown Commercial Services (CCS) demand side response framework. Large business successfully retained Anglo Beef Processors (October 2017, 12 months, 6GWh). 2017 sprint campaign is underway to meet gross margin target.

Nuclear New Build

On 21 October 2015, EDF and China General Nuclear Power Corporation (CGN) signed a Strategic Investment Agreement leading to co-investment in the construction of two EPR reactors at the Hinkley Point C (HPC) in Somerset. The agreement also includes a broad partnership in the UK to develop nuclear power plants, at Sizewell C (SZC) in Suffolk and Bradwell B (BRB) in Essex.

Final contracts for HPC were signed on 29 September 2016 following the final investment decision (FID) made by EDF SA's Board of Directors on 28 July 2016. HPC is owned by EDF (66.5%) and CGN (33.5%).

It marks the beginning of the new nuclear build programme in the UK, and marks the end of the project's development phase following ten years of preparation and planning, from achieving the Generic Design Assessment for the EPR and the Nuclear Site Licence to the start of enabling works on site.

Since the contracts were formally signed for HPC, in late September 2016, there has been a tremendous amount of construction activity resulting in many significant milestones being delivered. These include the pouring of first nuclear safety concrete for the first permanent structures on site, the completion of two concrete batching plants, the signing of nearly £9.5 billion of contracts and the start of jetty construction. Some of the contracts signed include the Campus Accommodation and the manufacture of the cooling water pipes (CRF). Safety is a key focus of the EPR design. The same EPR technology is already being deployed at the new nuclear power stations currently being constructed by EDF at Flamanville in France (see section 1.4.1.1.5 "Preparing for the future of the nuclear fleet in France") and at Taishan in China. Using the same technology, adapted for UK regulatory requirements and Hinkley Point C site specifics, will enable the efficiencies that come with standardisation of design in the construction and operation of a series of plants to be realised.

Hinkley Point C (HPC)

Interactions with Office of Nuclear Regulations (ONR)

The UK Nuclear Regulator - ONR recently undertook a first of a kind inspection of arrangements for control of quality in the supply chain. The inspection explored the adequacy of arrangements and also considered the application of key learning from Areva Creusot Forge and First Nuclear Safety Concrete (FNSC) to the broader supply chain activities.

Overall ONR was pleased with the outcome of the inspection and recognised the significant efforts many had put in to preparation for the inspection activities.

Equipment Manufacturing

The ONR inspected manufacturing at Areva Creusot Forge (ACF) looked at the adequacy of arrangements for the control of quality in the supply chain and the application of learning from ACF and FNSC.

Overall they reported that they were satisfied with the current action plan. It helped to identify learning which will strengthen Supply Chain.

- Restart of forging at Areva le Creusot Forge (ACF) was approved by the Board in July 2017, allowing it to start pouring an ingot for Hot Legs.

Additionally, we are monitoring the Areva improvement plan on safety culture and quality through a joint steering committee chaired by HPC Management Team.

Progress on Site Implementation

The project continues to maintain the critical path schedule, with key project goals achieved in 2017:

- The start of the construction of the site campus accommodation;
- The First Nuclear Safety Concrete of galleries (the galleries are a network of connected tunnels which will carry cabling; they will be some of the first permanent structures on the site);
- The handover of the design studies for the Pre-Stressing Gallery (PSG) from the Engineering Command Centre to the Delivery Command Centre (the PSG is a circular tunnel structure which sits below the inner containment of the reactor building); this 'stressing' of tendons in construction allows the reactor building containment to withstand high internal pressures in case of an accident;

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- The handover of design studies for the foundation of the Pump House to the Delivery Command Centre; the pump house building itself forms the interface between the reactor unit and the cooling seawater, via an intake tunnel and Forebay - artificial pool of water in front of a larger body of water to keep the intake tunnel clean of sediments;
- The site has opened its doors to its new East Office Welfare facility; this is the first of four large scale modular welfare buildings (North, South, East and West) on site; the building is fully equipped with over 5,000 lockers and changing facilities, 520 desk spaces, a canteen as well as meeting and conference rooms, IT and Facilities Management support spaces and a shop;
- The commencement of installation of cooling water pipes also known as CRF pipes. The first earthworks platform in the unit 1 'deep dig' has been made available to our CRF contractor to start their construction activities. The CRF system consists of over 1,400 metres of reinforced concrete pipes with a steel cylinder that carry the cooling sea water as part of the secondary cooling; and
- There are currently 2,839 people working on site each day.

At the end of 2017, total expenditure amounted to £4.6 billion, supported at 66.5% by EDF and at 33.5% by CGN.

The CfD was signed on 29 September 2016 alongside all the other contracts with the UK Government and it is a contract to provide security in respect of revenues generated from electricity produced and sold by HPC through compensation based on the difference between the Strike Price and the market price, for a period of 35 years from commissioning.

From the plant's start date, if the reference price at which the generator, sells electricity on the market is lower than the strike price set under the terms of the contract, the generator will receive an additional payment. If the reference price is higher than the strike price, the generator will be liable for the difference. The key elements of the CfD are:

- The strike price for HPC is set at £92.50/MWh or £89.50/MWh if the SZC project is launched (i.e. if a final investment decision is taken), in order to reflect the fact that the first of a kind costs of EPR reactors are shared across the HPC and SZC sites;
- The strike price is fully indexed to UK inflation through the Consumer Price Index (CPI);
- The contract will last for 35 years;
- The project will be protected from certain qualifying changes in law; and
- Should there be savings from the construction of the HPC project, these will be shared with consumers through a lower strike price.

Guarantee agreements by the Infrastructure and Projects Authority (IPA) were also signed on 29 September 2016 with Her Majesty's Treasury. Under these agreements, a first tranche of up to £2 billion of guarantee is available subject to fulfilment of conditions precedent. EDF does not intend to avail itself of the guarantee and has engaged into a cancellation process in 2018. Currently the project is equity financed.

Contracts for the Funded Decommissioning Programme (FDP) were signed on 29 September 2016. There is a statutory requirement for nuclear operators to have a FDP under which an independent Fund Company will collect contributions and manage the money built up to pay for decommissioning of the nuclear reactor at the end of the generation.

The Nuclear Decommissioning Fund Company (FundCo) was set up in compliance with the Energy Act 2008 as its purpose is to provide costs of decommissioning by implementing the FDP.

FundCo had its first board meeting since the contracts were signed at which the 2016 statutory accounts were approved.

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The overall objective of the FDP is to ensure that operators make prudent provision for:

- The full costs of decommissioning their installations;
- Their full share of the costs of safely and securely managing and disposing of their waste; and that in doing so the risk of recourse to public funds is remote.

Following the Final Investment Decision in September 2016, EDF has undertaken a detailed review of the HPC project. This review focused on three key areas: design, schedule and costs.

The review concluded that:

- The milestone for the first nuclear safety concrete for the building of Unit 1, scheduled for mid-2019, is confirmed, assuming that the final design, which is on a tight schedule, is completed by the end of 2018.
- Project completion costs are estimated at £19.6 billion real terms in 2015 sterling, an increase of £ 1.5 billion in 2015 sterling compared to previous evaluations. This estimate includes successful operational action plans, in partnership with suppliers. The estimated additional costs result mainly from a better understanding of the design adapted to the requirements of the British regulators, the volume and sequencing of work on site and the gradual implementation of supplier contracts. EDF's projected rate of return (IRR) is now estimated at about 8.5% compared to about 9% initially.
- The risk of deferral of delivery (COD) is estimated at 15 months for Unit 1 and 9 months for Unit 2. This risk would entail an additional potential cost of around 0.7 billion in 2015 sterling. Under this assumption, the IRR for EDF would be around 8.2%.

Regarding the overall schedule, the project teams are fully mobilised and working towards delivering Unit 1 by the end of 2025 as originally agreed. The teams are identifying and implementing action plans to reduce costs and risks. HPC project remains on track to achieve completion of the final pour of nuclear safety concrete for the common raft in mid-2019.

The project continues to maintain the critical path schedule with key project goals delivered to date including first safety related concrete in gallery and handover of civils works design studies for the reactor pre-stressing gallery.

Sizewell C

The SZC Project equity documents were signed on 29 September 2016 alongside the HPC contracts. EDF and CGN signed the main terms of an agreement in principle to develop Sizewell C in Suffolk, till a final investment decision with the project to build and operate two EPR reactors.

EDF will participate in the development phase at 80% and CGN at 20%.

In compliance with the planning process, the second phase of formal consultation was completed in February 2017, where many responses were received. The feedback is being reviewed and will help develop plans for the next stage of public consultation and proposals for the station.

Bradwell B

EDF and CGN signed an agreement on 29 September 2016 for the joint submission to the British safety authority for a design certification (Generic Design Assessment) for a British version of the HPR1000 third-generation Hualong reactor. The HPR1000 will be based on Unit 3 of the CGN plant in Fangchenggang, China, which is the reference power plant for both companies developing the British design of Hualong. During the development phase, CGN will have a stake of 66.5% and EDF of 33.5%.

In January 2017, CGN and EDF Energy began the GDA process for the UK the UK HPR1000 nuclear technology. This follows the department of Business, Energy & Industrial Strategy asking the regulators to begin the assessment and marks the first step in the robust and thorough process for the permission to build a nuclear power station at Bradwell in Essex.

The Office for Nuclear Regulation (ONR) and the Environment Agency announced in November 2017 they have permissioned entry into step 2. This marks the start of the high level technical assessment of the design of the UK version of the HPR1000 technology.

The assessment follows preparatory work by General Nuclear System Ltd (GNS) and the regulators.

The Bradwell B project is at an early stage. A variety of technical studies to understand the site and surrounding environment in more detail needs to be completed. As part of this, early site investigation and assessment work is required, which CGN and EDF Energy are now beginning to plan and undertake.

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This will involve drilling bore holes and other survey work. Planning application for these works was approved by the local council in December 2017.

The results of these works and findings will be used to inform the power station proposals.

The EDF group and its partner are committed to financing the development of Sizewell and Bradwell in the amount of £1.1 billion, and a final investment decision on the construction is expected to be taken at a later date.

Regulatory environment

Price Cap

In April 2017 a temporary cap on prices charged to domestic customers supplied through a pre-payment meter was introduced. The introduction of the cap was brought in to effect by the Competition & Markets Authority (CMA) following the conclusion of its Energy Market Investigation in 2016. The price cap is transitional measure which will run until December 2020 and applies to around four million households. Later in 2017, Ofgem made a decision to extend this cap, with effect from 2 February 2018, to an additional 1 million households who are in receipt of the Warm Home Discount (WHD) and are assumed to be customers who have vulnerable characteristics.

Meanwhile, Ofgem has at the end of the 2017 consulted on further refining the WHD cap and extending it to a broader group of about two million vulnerable customers from Winter 2018. However, these proposals are subject to the Government's own proposals for a wider temporary price for all domestic customers on a standard variable tariff (SVT) or a default tariff. In October 2017, the Government introduced draft legislation that provides for such a cap to be implemented, this was later followed by The Domestic Gas and Electricity (Tariff Cap) Bill laid before Parliament in February 2018. It is the Government's intention that the SVT cap which will apply to approximately 11 million households will apply from Winter 2018 and be in place until 2020 when Ofgem will recommend to Government whether it should be extended on an annual basis up to 2023.

Electricity Market Reform (EMR)

The three most significant elements of EMR are Carbon Price Support (CPS), introduced under the Finance Act 2011, the Capacity Market and Contracts for Difference, introduced under the Energy Act 2013.

CPS, together with the EU Emissions Trading Scheme (EU ETS), sets the price that fossil-fired generators pay for their carbon emissions and is an important driver of the profitability of low carbon generation such as EDF Energy's nuclear and renewable plants. The CPS tax rate is capped at £18/tonne of CO₂ for the four years April 2016 to March 2020 and at £18.52/tonne of CO₂ for the two years April 2020 to March 2022. Recognising uncertainty over the UK's continuing participation in the EU ETS as a consequence of Brexit, the Government has announced the intention to set the CPS tax rate in future by targeting a Total Carbon Price.

The Capacity Market is intended to ensure security of electricity supply. Annual auctions are held to procure capacity four years ahead of delivery with a subsequent auction one year ahead of delivery. Delivery years run from 1 October - 30 September. The most recent four year ahead auction was held in February 2018, procuring 50.4GW of capacity at £8.40/kW for the year 2021/22. All of EDF Energy's nuclear and CCGT generating units have secured capacity agreements for the five years 2017/18 to 2021/22.

EDF Energy's coal-fired generating units at Cottam and West Burton have capacity agreements for the years 2017/18 and 2018/19 and; three of the four units at West Burton A have capacity agreements for 2020/21.

Contracts for Difference are expected to support investment in new low carbon generation including in particular the Hinkley Point C nuclear project. EDF Energy acquired Dorenell Wind Farm, a 177MW onshore windfarm development, which was awarded a CfD with a strike price of £2012 82.50/MWh) in the first CfD allocation round (auction) in February 2015. The Government held a second CfD auction in 2017 and plans to hold a further one in 2019.

STRATEGIC REPORT continued

Network Charging

In June 2017 Ofgem approved changes to transmission network charges which materially reduced the benefits that distribution connected generators could gain from reducing customers' use of the network. Ofgem's decision is being legally challenged through judicial review to stop these reforms. The court is due to make a decision in summer 2018.

In August 2017 Ofgem launched its own review of all network charging (covering both transmission and distribution) to ensure that these arrangements are fair, create a level playing field and are sufficient reflective of network costs. This review in particular will consider the benefits that can be gained from siting generation behind the meter. The reviews are likely to conclude later in 2018 with changes to the charging arrangements (if any) taking effect from 2020/21 at the earliest.

Principal risks and uncertainties

The following is a discussion of the key risks facing the Group together with a summary of the Group's approach to managing those risks.

Financial risks

The Group is exposed to a variety of financial risks including commodity price risk, interest rate risk, credit risk, foreign currency risk and liquidity risk. The Group's policy is to use financial instruments to reduce exposure to fluctuations in commodity prices, exchange rates and interest rates. The Group does not enter into or trade financial instruments, including derivatives, for speculative purposes. See note 41 for further details about the financial risks to which the Group is exposed.

Margin risk

Margin price risk arises from the necessity to forecast customer demand for gas and electricity effectively and to procure the various commodities at a price competitive enough to allow a favourable tariff proposition for our customers. EDF Energy has designed hedging strategies to manage this risk effectively. Exposure to movements in the price of electricity, gas and coal is partially mitigated by entering into contracts on the forward markets, and the exposure to fluctuations in the price of uranium is mitigated by entering into fixed price contracts. Risk management is monitored for the whole of EDF Energy, through sensitivity analysis; both per commodity and across commodities, in line with the Group's risk mandate. Generation margins can also be affected by the capacity market and carbon price floor.

Competition risk

The Group is exposed to significant competition when supplying gas and electricity to residential customers and electricity to businesses, including intermediation, which can impact customer recruitment, retention, supply volume and earnings. The Group manages this risk by offering a mix of fixed price and standard variable tariff products, underpinned by strong customer service and distribution channels that meet customer needs.

Plant operating risk

Failure of an essential component in any of our generation assets may result in loss of generation through plant outage or restriction to operations. EDF Energy's generating assets have been in service for a significant period and ageing is a significant factor in many areas. Significant plant component failure or failure of a critical non-replaceable plant item may affect the operating lifetime of the station. This risk is mitigated through planned maintenance activities, equipment reliability and plant life extension programmes. There is a potential that the nuclear fleet plant inspection programme findings could lead to significant unknown or unplanned risk which may bring forward early closure.

Project delivery risk

The Group has a significant investment portfolio including large capital projects such as Hinkley Point C and Smart Metering. Poor project performance may result in deferral of delivery. The management of the projects is mobilised on their delivery objectives and on the identification and implementation of action plans to reduce costs and risks. Each project of this nature follows specific project management practices including local governance procedures. All significant projects are also subject to central monitoring reviews.

STRATEGIC REPORT continued

Health and safety risk

The health and safety of all our employees, contractors, agency staff and the public is a key risk given the nature of the Group's business. To minimise this risk, the Group is committed to creating a culture that views safe working as the only way of working and to reviewing all our processes and procedures to ensure they deliver this. Training is provided to managers to ensure they understand their responsibility for the safety of the employees that they set to work. In addition there is a confidential helpline for the use of anyone within the organisation to help eradicate unsafe practices and safeguard our employees.

Political and regulatory risk

Political risk arises in relation to public acceptance of building new nuclear power stations, and specifically around obtaining and maintaining the relevant licences and consents to build, operate and decommission our current and planned generating assets. Management is engaged with local residents, regulators and politicians in addressing the safety needs but also the need to meet the current and future national energy demand. The industry has been subject to significant changes to the Energy and Retail Market regulation and through the strong political and media attention on the cost of living debate including focus on the affordability of energy. The proposed Domestic Gas and Electricity (Tariff Cap) Bill 2017-19 could affect the profitability of our Customers business. A dedicated programme is in place to manage the delivery of Smart Meters and we continue to liaise with BEIS to ensure the full implications of this initiative are understood.

The UK Government has announced that the UK will leave the EU on 29th March 2019. EDF Energy has identified the key risks and is developing and deploying mitigating actions.

Nuclear liabilities risk

The Group's nuclear liabilities are in respect of costs for the management of spent fuel, nuclear decommissioning and other uncontracted nuclear liabilities. The Government has provided an indemnity to cover liabilities for spent AGR fuel loaded prior to the British Energy restructuring effective date of 14 January 2005 and in relation to qualifying uncontracted nuclear and decommissioning liabilities. The Government will also indemnify any future funding shortfall of the NLF (nuclear liabilities fund). The Group continues to be responsible for funding certain excluded or non-qualifying nuclear liabilities (if any) and will not be compensated or indemnified by the NLF and the Secretary of State in relation to such liabilities. At 31 December 2017, the Group did not have any excluded or non-qualifying nuclear liabilities; however, there is the possibility of excluded or non-qualifying liabilities arising in the future.

Retirement benefit obligations risk

EDF Energy has three defined benefit pension schemes. Low interest rates and changes in demographic factors have led scheme liabilities to grow at a faster rate than assets, resulting in actuarial deficits that have led to increased pension expense and cash contributions. EDF Energy and the pension scheme trustees keep investment risk under review, concentrating on prudent asset allocation and liability hedging. A pension benefit reform has been implemented effective from 1 January 2016 to reduce the actuarial deficit and the required cash costs. See note 40 for more details of pension risks.

Reputation risk

EDF Energy has based its brand on its customer commitments, its reputation and building trust. Inappropriate communication made to the public and/or to stakeholders, or failure to maintain and demonstrate appropriate standards may result in degradation of the brand and could potentially damage its reputation. Management has introduced key standards of conduct to provide guidance to all staff when making decisions including the Trust Test and the Better Energy Test. A trust index has been developed and performance of this is monitored along with continuous review of compliance programmes.

Cyber risk

Safety is the overriding priority for EDF Energy and it takes the risks of cyber-attack on plant computer systems and IT infrastructure very seriously. EDF Energy have implemented strong controls to protect against cyber threats and incorporated diverse protection measures within the UK's eight operating nuclear power stations, including redundant safety systems which don't rely on software. Information and cyber security is an important issue and EDF Energy is continually reviewing its defences in this area.

STRATEGIC REPORT continued

Supplier risk

EDF Energy is reliant on a number of specialist suppliers, especially in the area of nuclear fuel fabrication and storage and nuclear plant maintenance. The loss of one or more of these key suppliers could result in increased costs or a disruption to EDF Energy's operations. EDF Energy works closely with its supply chain to effectively manage the relationships with critical suppliers.

Taxation risk

Taxation risk is the risk that the Group suffers losses arising from additional tax charges, financial penalties or reputational damage. These risks could arise from failure to comply with procedures required by tax authorities, the interpretation of tax law, or changes in tax law. The Group has mitigated this risk by the implementation of effective, well documented and controlled processes to ensure compliance with tax disclosure and filing obligations. This is further supported by the use of appropriate advice from reputable professional firms. As required by Schedule 19, Finance Act 2016 the Group's tax strategy is published on its website.

Sustainability Risk

The UK Energy market is evolving with the growth of renewable and intermittent generation, distributed generation and development of new grid technologies and operating regimes at a time when number of the Group's generating assets are approaching end of life. Failure to respond and adapt effectively to these changes could adversely affect the profitability and competitiveness of EDF Energy. Therefore, the Group has established a strategy to address these risks and to benefit from the opportunities that they present.

Going concern

The Group manages its capital through focusing on its net debt which comprises borrowings (note 27), including finance lease obligations, accrued interest and derivative liabilities relating to debt instruments, less cash and cash equivalents. Given that the Group is a wholly-owned subsidiary, any change in capital structure is often achieved via additional borrowings from its ultimate parent company or other companies within the EDF S.A. group, although the Group has facilities available from third party bond issues.

After making enquiries and reviewing cash flow forecasts and available facilities (note 41) for at least the next 12 months, the Directors have formed a judgement, at the time of approving the consolidated financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. This judgement has been formed taking into account the principal risks and uncertainties that the Group faces and which have been outlined in more detail elsewhere in the Strategic Report. For this reason the Directors continue to adopt the going concern basis in preparing the consolidated financial statements.

On behalf of the Board



Robert Guyler
Director
18 April 2018

DIRECTORS' REPORT

The Directors present their report and financial statements for the year ended 31 December 2017.

Directors and their interests

Directors who held office during the year, and to the date of the report, were as follows:

Jean-Bernard Lévy	
Robert Guyler	
Pierre Todorov	
Henri Lafontaine	
Xavier Girre	
Veronique Lacour	
Simone Rossi	(appointed 27 July 2017)
Colin Matthews	(appointed 1 November 2017)
Christophe Carval	(appointed 1 November 2017)
Dominique Minière	(appointed 19 December 2017)
Marianne Laigneau	(resigned 27 July 2017)
Vincent de Rivaz	(resigned 31 October 2017)

The persons listed above, are all non-executive Directors, with the exception of Robert Guyler and Simone Rossi who are executive Directors.

Colin Matthews replaced Jean-Bernard Lévy as the chairman from 1 November 2017.

Robert Guyler is employed by and has a service contract with EDF Energy plc. Simone Rossi and Vincent de Rivaz are remunerated for services to the Company. The remaining Directors are employed by the ultimate parent company, Électricité de France SA ("EDF S.A.").

There are no contracts during or at the end of the financial year in which a Director of the Company has a material interest. None of the Directors who held office during or at the end of the financial year had any interests in the shares of the Company or any Group company that are required to be disclosed in accordance with the Companies Act 2006.

There were qualifying third-party indemnity provisions in place for the benefit of one or more Directors of the Company during the financial year and at the date of approval of the consolidated financial statements.

Dividends

Dividends of £146m were paid to the parent company during the year (2016: £242m).

The Group determines its dividend payout for the year based on a percentage of its non-recurring income from the previous year. The dividend which is ultimately paid out of the UK takes into account the financing commitments of EDF Energy (UK) Limited, the immediate parent company, as well as the Group's dividend payment.

Political contributions

During the year, the Group made no political contributions (2016: £nil).

Future developments

Future developments of the Group are outlined in the Strategic Report.

Use of financial instruments

The use of financial instruments in the Group is outlined in the Strategic Report and in note 41.

DIRECTORS' REPORT continued

Taxation policy

The Group will continue to demonstrate a responsible and honest approach to its tax management. It has adopted a tax policy which is aligned with its stated ambitions and values. The Director of Tax is responsible for implementing the tax policy and reports frequently to the Chief Financial Officer.

Specifically the Group's tax policy includes:

- acting with integrity;
- only undertaking tax planning to ensure legitimate business activities are implemented efficiently, and not to undertake artificial schemes or arrangements;
- maintaining an open, honest and positive working relationship with HMRC; and
- where differences of view arise with regard to the interpretation and application of tax law, the Group is committed to addressing the matter in real-time and resolving the matter with HMRC in a constructive manner.

As required by Schedule 19, Finance Act 2016 the Group's tax strategy is published on its website.

Employee involvement

The Group keeps its employees informed on matters affecting them. This is carried out in a number of ways, including formal and informal briefings, departmental meetings and regular reports in staff newsletters and on the Group intranet.

Equal opportunities

The Group is fully committed to ensuring that all current and potential future employees and customers are treated fairly and equally, regardless of their gender, sexuality, marital status, disability, race, colour, nationality or ethnic origin. The Group provides equal opportunities for employment, training and development, having regard to particular aptitudes and abilities. In the event of employees becoming disabled during employment, where possible, assistance and retraining is given so that they may attain positions compatible with their ability.

DIRECTORS' REPORT continued

Auditor

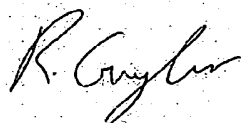
Each of the persons who is a Director at the date of approval of this report confirms that:

1. so far as the Director is aware, there is no relevant audit information of which the Group's auditor is unaware; and
2. the Director has taken all the steps that he / she ought to have taken as a Director in order to make himself / herself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

It is noted that Deloitte LLP, as appointed by the members, are deemed to be re-appointed as the auditor to the Company for the financial year ending 31 December 2018 in accordance with the provisions of Section 487(2) of the Companies Act 2006 and that the Directors have been authorised to fix the remuneration of the auditor.

On behalf of the Board



Robert Guyler
Director
18 April 2018

DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the parent company 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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the 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.

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Group's ability to continue as a going concern.

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 to enable them to ensure that the 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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EDF ENERGY HOLDINGS LIMITED

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2017 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of EDF Energy Holdings Limited (the 'parent company') and its subsidiaries (the 'group') which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated cash flow statement;
- the consolidated and parent company statements of changes in equity; and
- the related notes 1 to 44.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

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

We have nothing to report in respect of these matters.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EDF ENERGY HOLDINGS LIMITED
continued

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 such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in 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 in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors 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 group's and the parent 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 group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

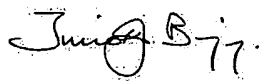
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EDF ENERGY HOLDINGS LIMITED
continued

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

A handwritten signature in black ink, appearing to read 'Timothy Biggs'.

Timothy Biggs, FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor

London, United Kingdom

18 April 2018

**CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017**

	<i>Note</i>	2017 £m	2016 £m
Revenue	4	7,520	7,588
Fuel, energy and related purchases	6	(4,715)	(4,348)
Gross margin		2,805	3,240
Materials and contracting costs		(391)	(210)
Personnel expenses	8	(826)	(764)
Other operating expenses		(731)	(873)
Other operating income		10	6
Operating profit		867	1,399
Gain/(loss) on derivative commodity contracts	5	17	(53)
Depreciation and amortisation	5	(920)	(877)
Impairment of non-current assets	5, 16	(207)	(66)
Profit on disposal of investments	14	33	-
Restructuring costs	11	(4)	(10)
(Loss)/profit before tax and finance costs		(214)	393
Investment income	9	436	342
Finance costs	10	(521)	(437)
Share of profit/(loss) of associates	20	-	7
(Loss)/profit on ordinary activities before taxation		(299)	305
Taxation on (loss)/profit on ordinary activities	12	86	(12)
(Loss)/profit for the year		(213)	293
(Loss)/profit attributable to:			
Equity holders of the parent	37	(233)	186
Non-controlling interest	32	20	107
		(213)	293

All results are derived from continuing operations in both the current and preceding year.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017**

	<i>Note</i>	2017 £m	2016 £m
(Loss)/profit for the year		(213)	293
Items that will not be reclassified subsequently to profit or loss:			
Net actuarial gains on defined benefit pensions	<i>40</i>	262	221
Items that may be reclassified subsequently to profit or loss:			
Net gains/(losses) on cash flow hedges	<i>38</i>	106	(423)
Net gains on available for sale assets		2	1
Total comprehensive income		157	92
Total comprehensive income attributable to:			
Equity holders of the Company		95	(70)
Non-controlling interest	<i>32</i>	62	162
		157	92

**CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2017**

	<i>Note</i>	2017 £m	2016 £m
Non-current assets			
Goodwill	15	6,675	6,675
Intangible assets	17	646	703
Property, plant and equipment	18	11,717	10,572
Other financial assets	19	460	360
Interest in associates	20	152	55
NLF and Nuclear Liabilities receivable	22	7,439	7,224
Post-employment benefits asset	40	812	484
Derivative financial instruments	28	51	58
		27,952	26,131
Current assets			
Inventories	23	2,276	2,380
Trade and other receivables	24	1,710	1,386
Cash and cash equivalents	25	1,065	1,729
Derivative financial instruments	28	91	125
NLF and Nuclear Liabilities receivable	22	236	262
Current tax asset		54	8
		5,432	5,890
Total assets		33,384	32,021
Current liabilities			
Other liabilities	26	(2,216)	(1,932)
Borrowings	27	(6)	(11)
Derivative financial instruments	28	(252)	(338)
Short-term provisions	29	(603)	(518)
Obligations under finance lease	33	(2)	(33)
		(3,079)	(2,832)
Non-current liabilities			
Other liabilities	26	(883)	(1,006)
Borrowings	27	(1,321)	(799)
Derivative financial instruments	28	(118)	(246)
Long-term provisions	29	(8,170)	(7,664)
Deferred tax liability	31	(1,074)	(1,012)
Obligations under finance lease	33	(122)	(226)
Post-employment benefits provision	40	(152)	(165)
		(11,840)	(11,118)
Total liabilities		(14,919)	(13,950)
Net assets		18,465	18,071

CONSOLIDATED BALANCE SHEET continued
AT 31 DECEMBER 2017

	<i>Note</i>	2017 £m	2016 £m
Equity			
Share capital	34	8,382	8,382
Share premium account	35	-	-
Capital reserve	35	9	9
Hedging reserve	38	(178)	(284)
Merger reserve	36	(2)	(2)
Retained earnings	37	5,711	5,868
Equity attributable to equity holders of the Company		13,922	13,973
Non-controlling interest	32	4,543	4,098
Total equity		18,465	18,071

The accounts of EDF Energy Holdings Limited (registered number: 06930266) on pages 21 to 109 were approved by the Board of Directors on 18 April 2018 and were signed on its behalf by:



Robert Guyler
Director

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Notes	2017 £m	2016 £m
Net cash from operating activities	39	1,467	1,443
Investing activities			
Purchase of property, plant and equipment		(2,033)	(1,300)
Purchase of carbon and renewable obligation certificates		(591)	(521)
Purchase of other intangible assets		(75)	(76)
Proceeds from divestment of subsidiaries and joint arrangements		48	763
Acquisition of investment in joint operations		(2)	-
Acquisition of investment in associates		(88)	-
Loans to parent company		(80)	(80)
Loans to associates		(16)	(15)
Interest received		19	8
Dividends received	20	4	4
Net cash used in investing activities		(2,814)	(1,217)
Financing activities			
Dividends paid to parent company	13	(146)	(242)
Dividends paid to non-controlling interests	13	(57)	(110)
Repayment of obligations under finance leases		(27)	(27)
Interest element of finance lease rental payments		(14)	(6)
Borrowings received		515	-
Repayment of borrowings		(23)	(509)
Proceeds on share issue to parent undertakings		-	195
Proceeds on issue of shares to non-controlling interest	32	440	421
Interest paid		(19)	(34)
NLF receipts/(payments)		12	23
Net cash generated from/(used in) financing activities		681	(289)
Net (decrease)/increase in cash and cash equivalents		(666)	(63)
Cash and cash equivalents at 1 January		1,729	1,789
Effect of foreign exchange rates		2	3
Cash and cash equivalents at 31 December	25	1,065	1,729

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £m	Share premium £m	Capital reserve £m	Hedging reserve £m	Merger reserve £m	Retained earnings £m	Total £m	Non- controlling interest £m	Total equity £m
At 31 December 2015	13,914	273	9	139	(2)	229	14,562	2,325	16,887
Profit for the year	-	-	-	-	-	186	186	107	293
Other comprehensive income for the year	-	-	-	(423)	-	167	(256)	55	(201)
Total comprehensive income for the year	-	-	-	(423)	-	353	(70)	162	92
Equity dividends paid	-	-	-	-	-	(242)	(242)	(110)	(352)
Issue of capital	195	-	-	-	-	-	195	421	616
Capital reduction	(5,727)	(273)	-	-	-	6,000	-	-	-
Disposal of minority interest	-	-	-	-	-	(472)	(472)	1,300	828
At 31 December 2016	8,382	-	9	(284)	(2)	5,868	13,973	4,098	18,071
Profit/(loss) for the year	-	-	-	-	-	(233)	(233)	20	(213)
Other comprehensive income for the year	-	-	-	106	-	222	328	42	370
Total comprehensive (loss) / income for the year	-	-	-	106	-	(11)	95	62	157
Equity dividends paid	-	-	-	-	-	(146)	(146)	(57)	(203)
Issue of capital	-	-	-	-	-	-	-	440	440
Capital reduction	-	-	-	-	-	-	-	-	-
Disposal of minority interest	-	-	-	-	-	-	-	-	-
At 31 December 2017	8,382	-	9	(178)	(2)	5,711	13,922	4,543	18,465

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

EDF Energy Holdings Limited (the "Company" or the "parent company") is a private company limited by shares. It is incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales. The address of the Company's registered office is shown on page 1. The nature of the operations of EDF Energy Holdings Limited and its subsidiaries (the "Group") and their principal activities are set out in the Strategic and Directors' Reports on pages 2-16. These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates.

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation.

These consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at revalued amounts or fair values at the end of each reporting period as explained in the accounting policies in note 2. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the balance sheet date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are in scope of IFRS 2, leasing transactions in scope of IAS 17 and measurements which are similar to fair value but are not fair value such as value in use under IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 inputs are inputs, other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Adoption of new and revised International Financial Reporting Standards

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet mandatory and therefore not adopted:

- IFRS 15 Revenue from Contracts with Customers
- IFRS 9 Financial Instruments
- IFRS 16 Leases

IFRS 15 - Revenue from Contracts with Customers

On 22 September 2016, the European Union (EU) adopted IFRS 15 "Revenue from Contracts with Customers", which will be mandatory for financial years beginning on or after 1 January 2018. The associated amendments were adopted on 31 October 2017 and will be applicable at the same date as the standard itself.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

1. General information continued

IFRS 15 - Revenue from Contracts with Customers continued

Preparatory work for application of IFRS 15 continued during 2017. The principal consideration concerned the following:

- **Recognition of income from energy delivery (principal versus agent considerations):**

In accordance with IAS 18, the delivery component of an energy supply contract is automatically included in sales revenues by all Group entities that supply electricity or gas.

IFRS 15 requires analysis of whether or not this energy delivery is a distinct performance obligation within the energy supply contract. It also sets out the conditions in which an entity operates as principal or agent for the supply of a good or service with third party involvement. If the entity is classified as a principal, it can recognise the sales revenue from the delivery service. Otherwise, it is classified as an agent, and can only include the amount of commission, if any, in its sales revenues.

The energy supplier will continue to be classified as a principal for delivery services. The Group has concluded that supply and delivery form a single performance obligation, for which the supplier is the principal.

The other subjects identified as potentially subject to a change of accounting treatment due to application of IFRS 15 should not have any significant impact on the Group's sales or net income.

The Group has concluded that the impact of adopting IFRS 15 will not be material.

The full retrospective approach will be applied. This will have no significant impact on Group's equity.

IFRS 9 Financial Instruments

IFRS 9 "Financial Instruments", adopted by the European Union on 22 November 2016, will replace IAS 39 "Financial Instruments: Recognition and Measurement" from 1st January 2018. This standard introduces new principles for classification and measurement of financial instruments, impairment for credit risk on financial assets, and hedge accounting.

The Group began analysis in 2015 to assess the consequences of IFRS 9's application. In 2016 and 2017 preparatory work for implementation of the new standard continued, identifying the instruments for which the accounting treatment will be changed, as well as the necessary adjustments to the information systems.

Classification and measurement

Available-for-sale financial assets are measured at fair value in the balance sheet, and changes in fair value are recorded in other comprehensive income (OCI); unrealised gains and losses recognised in OCI while the asset is held are transferred to profit and loss upon its derecognition.

Impairment

IFRS 9 introduces an impairment model based on expected credit losses, whereas IAS 39 referred to incurred losses. This new "expected credit loss" (ECL) model could lead to earlier recognition of impairment than under IAS 39. It applies to financial assets carried at amortised cost, debt instruments carried at fair value through other comprehensive income, off-balance sheet commitments and financial guarantees previously governed by IAS 37, and contract assets measured in accordance with IFRS 15.

Across all the financial assets concerned, the analyses conducted lead to an estimated ECL that is not significant at 31 December 2017.

For trade receivables that mainly relate to the Group entities' customer portfolios, the Group will apply IFRS 9's simplified impairment approach, based on indicators such as a provision matrix to calculate expected credit losses on trade receivables. Across all the financial assets concerned, the analyses conducted lead to an estimated ECL that is not significant at 31 December 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

1. General information continued

IFRS 9 Financial Instruments continued

For loans, the Group has chosen an approach based on the probability of default by the counterparty and assessment of changes in the credit risk.

Retrospective application of the new impairment model would lead to recognition of a non-material amount in equity at the transition date (not subsequently transferrable to profit and loss).

Hedge accounting

The new IFRS 9 model aims to simplify hedge accounting, align hedge accounting more closely with risk management activities and allow application of hedge accounting to a broader range of hedging instruments and items qualifying as hedged items. The new standard does not explicitly cover macro-hedging activities, which are the subject of a separate IASB project.

Two approaches are allowed for the first application of IFRS 9: (i) use of IFRS 9's "general hedge accounting model", or (ii) continued use of IAS 39 until the new macro-hedging standard is released by the IASB and adopted by the EU.

The Group intends to apply the new rules introduced by IFRS 9 for hedge accounting from 1st January 2018. Application of this section of the new standard is not expected to have any significant impacts on the consolidated financial statements at the transition date. Implementation of these provisions is currently ongoing in the Group.

IFRS 16 – Leases

IFRS 16, "Leases" was adopted by the European Union on 31 October 2017 and will be mandatory for financial years beginning on or after 1st January 2019. The Group has no plans for early application of this standard.

IFRS 16 requires all leases other than short-term leases and leases of low-value assets to be recognised in the lessee's balance sheet in the form of a right-of-use asset, with a corresponding financial liability. Current contracts classified as "operating leases" are reported as off-balance sheet items. The Group's lease contracts essentially concern real estate assets (office and residential properties), industrial installations (land, wind farms) and to a lesser extent vehicles and IT equipment. The amount of the liability included in financial debt is thus noticeably dependent on the assumptions used regarding the discount rate and the duration of commitments, since options for renewal, extension or early termination of contracts must be incorporated into calculation of the liability if it is considered reasonably certain, when the contract is first signed, that they will be exercised.

The Group is currently working to identify the impacts of application of IFRS 16. The choice of appropriate IT systems to enable the Group to implement IFRS 16 is under consideration. As a result of work performed to date, the Group intends to apply the "modified" retrospective method (IFRS 16.C5.b).

Data collection and analysis works are being carried out and the Group is continuing its calculations regarding the impact of the first application of IFRS 16 on the balance sheet.

Standards and amendments published by the IASB but not yet adopted by the European Union

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet adopted by the European Union:

- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- IFRIC 23 Uncertainty over Income Tax Treatments
- IFRS 17 Insurance Contracts
- Amendments to IFRS 2: Classification and Measurement of Share-Based Payment Transactions
- Amendments to IFRS 9 entitled Prepayment Features with Negative Compensation Amendments to IAS 40: Transfers of Investment Property

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

2. Significant accounting policies

Standards and amendments published by the IASB but not yet adopted by the European Union continued

- Amendments to IAS 28 Investments in Associates” entitled “Long-term Interests in Associates and Joint Ventures

The Group has not yet analysed in detail the impact of the above standards but do not expect adoption of these standards to have a significant impact on the financial statements.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company made up to 31 December each year.

The financial statements of the subsidiaries are prepared for the same reporting year as the parent company and using consistent accounting policies as the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, are eliminated on consolidation. The carrying value of subsidiaries includes the equity investments and long-term loans to subsidiaries.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interest's share of changes in equity since the date of the combination. Those interests of non-controlling shareholders that are present ownership interests entitling their holders to a proportionate share of net assets upon liquidation may initially be measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement at acquisition is made on an acquisition-by-acquisition basis. Other non-controlling interests are initially measured at fair value. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amount of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

When the Group ceases to control a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including an apportionment of goodwill), less liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities are disposed of.

Parent company financial statements

The Company Balance Sheet, Company Statement of Changes in Equity and related notes are presented in the Annual Report on pages 97 to 109 under FRS 101. No income statement is presented for EDF Energy Holdings Limited in accordance with the exemptions allowed by the Companies Act 2006.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

2. Significant accounting policies continued

Going concern

The Group manages its capital through focusing on its net debt which comprises borrowings (note 27) including finance lease obligations and accrued interest, cash and cash equivalents and derivative liabilities relating to debt instruments. Given that the Group is a wholly-owned subsidiary, any changes in capital structure are often achieved via additional borrowings from its ultimate parent company or other companies within the EDF S.A. group, although the Group has facilities available for third party bond issues.

After making enquiries and reviewing cash flow forecasts and available facilities (note 41) for at least the next 12 months, the Directors have formed a judgement, at the time of approving the consolidated financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. This judgement has been formed taking into account the principal risks and uncertainties that the Group faces and which have been outlined in more detail in the Strategic Report. For this reason the Directors continue to adopt the going concern basis in preparing the consolidated financial statements.

Business combinations

Acquisitions of subsidiaries and businesses, other than those occurring under common control, are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Goodwill arising on acquisition is recognised as an asset and is measured as the excess of the consideration transferred over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the income statement. As part of the acquisition accounting exercise, contracts are identified which represent an asset to the Group (i.e. contract is in the money on acquisition date) or a liability to the group (i.e. contract is out of the money at acquisition date). A contract asset or liability is calculated as the fair value of the contract on the acquisition date and these are credited/charged to the income statement as the contract matures. Contract assets are recognised within intangible assets on the balance sheet and liabilities are included within provisions.

Goodwill

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units or to a group of cash generating units, and these are tested for impairment annually or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit, or group of units, is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment loss is recognised immediately in the income statement and is not reversed in a subsequent period.

Contingent consideration

The Group has contingent consideration being the Contingent Value Rights notes ("CVR") which were issued to Barclays Bank plc who in turn issued Nuclear Power Notes to subscribing shareholders of EDF Energy Nuclear Generation Group Ltd. The resultant liability is measured at fair value, with any resulting gain or loss recognised against the goodwill which arose on the Nuclear Generation acquisition. The contingent consideration is valued based on the market price of the outstanding notes and will mature in 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

2. Significant accounting policies continued

Investments in associates

An associate is an entity over which the Group is in a position to exercise significant influence, but not control or jointly control, through participation in the financial and operating policy decisions of the investee. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Investments in associates are carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate less any impairment in the value of individual investments. Losses of the associates in excess of the Group's interest in those associates are not recognised, only to the extent that the Group has not incurred legal or constructive obligations, or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable net assets of the associate at the date of acquisition is recognised as goodwill. Any deficiency of the cost of acquisition below the Group's share of the fair value of the net identifiable assets of the associate at the date of acquisition (i.e. discount on acquisition) is credited in the income statement in the period of acquisition.

Where a Group company transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate. Losses may provide evidence of an impairment of the asset transferred in which case appropriate provision is made for impairment.

Interest in joint operations

The Group's interests in its joint operations are accounted for by recognising a proportionate share of the joint operation's assets, liabilities, income and expenses with similar items in the consolidated financial statements on a line-by-line basis.

Where the Group transacts with its jointly-controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the joint operation.

Foreign currency translation

The functional and presentational currency of the Group is pounds sterling. Transactions in foreign currency are initially recorded in the functional currency at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts to mitigate the risks. (See below for details of the Group's accounting policies in respect of such derivative financial instruments).

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue includes amounts receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and other sales-related taxes.

Energy Supply: Revenue is recognised on the basis of electricity and gas supplied during the year and is attributable to the supply of electricity and gas and meter reading and related services. This includes an estimate of the sales value of units and therms supplied to customers between the date of the last meter reading and the year end, and the invoice value of other goods sold and services provided. Any unbilled revenue is included in trade receivables, net of provision, to the extent that it is considered recoverable, based on historical data.

Interest income: Interest income is recognised as the interest accrues (using the effective interest method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

2. Significant accounting policies continued

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. Borrowing costs incurred relating to the construction or purchase of fixed assets are capitalised as below. Depreciation is calculated on a straight-line basis, less any residual value, over the estimated useful life of the asset and charged to income as follows:

Non-nuclear generation assets	–	Up to 40 years
AGR power stations	–	5 to 14 years
PWR power station	–	26 years
Overhaul of generation assets	–	4 years
Freehold land	–	Not depreciated
Other buildings		
-freehold	–	Up to 40 years
-leasehold	–	Lower of lease period or 40 years
Vehicles and mobile plant	–	5 to 10 years
Fixtures and equipment	–	3 to 8 years
Other plant and equipment	–	18 months to 5 years

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

Assets in the course of construction are carried at cost, less any recognised impairment loss. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

Expenditure on major inspection and overhauls of production plant is capitalised, within other plant and equipment, when it meets the asset recognition criteria and is depreciated over the period until the next outage. For AGR power stations, this depreciation period is two to three years, for the PWR power station it is 18 months.

Intangible assets

Brand

The brand is considered to have an indefinite useful economic life on the basis that the brand has no foreseeable limit to the life of the asset. As the brand is deemed as having an indefinite useful economic life, it is not amortised. It is tested annually for impairment (or more frequently as required) with an impairment recognised in the income statement in the year it arises.

IT software

IT software is initially recognised at cost and is amortised on a straight-line basis over a useful economic life of 3-8 years.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss, if any. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of the fair value less costs to sell and the value in use. In assessing value in use, the estimated future cash flows are discounted to their present value 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

2. Significant accounting policies continued

Impairment of tangible and intangible assets excluding goodwill continued

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in income statement.

Non-current assets and disposal groups classified as held for sale

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. The Group must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Inventories

Inventories are valued at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition. The cost of raw materials, consumables and goods for resale is calculated using the weighted average cost basis. Work-in-progress and finished goods are valued using the cost of direct materials and labour plus attributable overheads based on a normal level of activity. Net realisable value represents the estimated selling price less any further costs expected to be incurred in completion and disposal.

Provisions are made for obsolete, slow-moving or defective items where appropriate.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets until such time that the assets are substantially ready for their intended use. Qualifying assets are assets which take a substantial period of time to get ready for their intended use or sale.

In instances where the Group borrows funds specifically for the purpose of obtaining a qualifying asset, the borrowing costs incurred are the borrowing costs that are capitalised. In instances where the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, a capitalisation rate is applied based on the weighted average cost of general borrowings during the period.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

Fuel costs – nuclear front-end

Advanced Gas-cooled Reactors (“AGR”)

Front-end fuel costs consist of the costs of procurement of uranium, conversion and enrichment services and fuel element fabrication. Fabrication costs comprise fixed and variable elements. All costs are capitalised into inventory and charged to the consolidated income statement in proportion to the amount of fuel burnt.

Pressurised Water Reactor (“PWR”)

All front-end fuel costs are variable and are capitalised into inventory and subsequently charged to the consolidated income statement in proportion to the amount of fuel burnt.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

2. Significant accounting policies continued

Fuel costs – nuclear back end

AGR

Spent fuel extracted from the reactors is sent for reprocessing and/or long-term storage and eventual disposal of resulting waste products. Back-end fuel costs comprise:

- (a) a cost per tonne of uranium payable on loading of fuel into any one of the AGR reactors; and
- (b) a rebate/surcharge against the cost mentioned in (a) above that is dependent on the out-turn market electricity price in the year and the amount of electricity generated from AGR stations in the year.

The loading related cost and the rebate/surcharge is capitalised into inventory and charged to the consolidated income statement in proportion to the amount of fuel burnt.

PWR

Back-end fuel costs are based on wet storage in station ponds followed by dry storage and subsequent direct disposal of fuel. Back-end fuel costs comprise a cost per tonne of uranium, payable on loading of fuel to the PWR reactor. Back-end fuel costs are capitalised into inventory on loading and charged to the consolidated income statement in proportion to the amount of fuel burnt.

Unburnt fuel at shutdown

Due to the nature of the nuclear fuel process there will be some unburnt fuel in the reactors at station closure. The costs of this unburnt fuel (final core) are fully provided at the balance sheet date. The provision is based on a projected value per tonne of fuel remaining at closure, discounted back to the balance sheet date and recorded as a long-term liability using a pre-tax discount rate. The unwinding of the discount each year is charged to finance costs in the income statement. Any adjustment to the provision is recorded through property, plant and equipment and depreciated over the remaining station life.

Nuclear Liabilities Fund ("NLF") funding arrangements

Under the arrangements in place with the Secretary of State at the Restructuring Effective Date ("RED"), the NLF will fund, subject to certain exceptions, the Group's qualifying uncontracted nuclear liabilities and qualifying decommissioning costs. To the extent there is any surplus remaining in the NLF after all obligations have been discharged, this amount will be paid to the Secretary of State. The Group is responsible for funding certain excluded or disqualified liabilities and will, in certain circumstances, be required to compensate or indemnify the NLF and the Secretary of State in relation to such liabilities.

The Group makes fixed decommissioning obligations payable to the NLF which have been recorded as a liability on the consolidated balance sheet at their discounted value and disclosed as the NLF liability. The NLF liability is reduced as payments are made to the NLF. Each year the financing charges in the consolidated income statement include the unwinding of the discount of NLF liabilities required to discharge one year's discount from the liability.

PWR fuel loaded after RED will increase the qualifying nuclear liability recognised for back end PWR fuel costs and will increase the NLF receivable by a corresponding amount. The difference between the payment of £150,000 (indexed to RPI) per tonne made to the NLF on the loading of PWR fuel and the increase in the liability recognised upon loading of this fuel is recognised in back end fuel costs as the loaded tonnes are burned in the PWR reactor.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

2. Significant accounting policies continued

NLF and nuclear liabilities receivables

The Government indemnity is provided to indemnify any future shortfall on NLF funding of qualifying uncontracted nuclear liabilities (including PWR back end fuel services) and qualifying nuclear decommissioning costs.

In principle, the recognised NLF receivable represents the aggregate value of the Nuclear Liabilities Fund and the Government indemnity such that the receivable equals the present value of the associated qualifying nuclear liabilities. The nature of the process, whereby the Company claims back from the NLF for qualifying liabilities, can cause small timing differences between the receivable and the nuclear liabilities at the balance sheet date.

The Government indemnity is also provided to cover services for spent AGR fuel loaded pre RED. The nuclear liabilities receivable is recognised in respect of the indemnity such that the receivable equals the present value of the associated qualifying nuclear liabilities.

The NLF receivable and the nuclear liabilities receivable are stated in the balance sheet at current price levels, discounted to take account of the timing of payments. Each period the financing charges in the income statement include the revalorisation of these receivables required to match the revalorisation of the nuclear liabilities.

Nuclear liabilities

Nuclear liabilities represent provision for the Group's liabilities in respect of the costs of waste management of spent fuel and nuclear decommissioning. The provisions represent the Directors' best estimates of the costs expected to be incurred. They are calculated based on the latest technical evaluation of the processes and methods likely to be used in decommissioning, and reflect current engineering knowledge. The provisions are based on such commercial agreements as are currently in place, and reflect the Directors' understanding of the current Government policy and regulatory framework. Given that Government policy and the regulatory framework on which the Group's assumptions have been based is expected to develop and that the Directors' plans will be influenced by improvements in technology and experience gained from decommissioning activities, liabilities and the resulting provisions are likely to be adjusted.

In recognising the costs of generating electricity, accruals are made in respect of the following:

Back end fuel costs

The treatment of back end fuel costs in the consolidated income statement has been dealt with under the accounting policies for fuel costs above. Back end nuclear liabilities cover reprocessing and storage of spent nuclear fuel and the long-term storage, treatment and eventual disposal of nuclear waste. They are based, as appropriate, on contractual arrangements or the latest technical assessments of the processes and methods likely to be used to deal with these obligations under the current regulatory regime. Where accruals are based on contractual arrangements they are included within creditors. Other accruals are based on long-term cost forecasts which are reviewed regularly and adjusted where necessary, and are included within provisions.

Decommissioning of nuclear power stations

The financial statements include provision for the full cost of decommissioning the Company's nuclear power stations. Provision is made on the basis of the latest technical assessments of the processes and methods likely to be used for decommissioning under the current regulatory regime.

Accruals and provisions for back end fuel costs and decommissioning are stated in the balance sheet at current price levels, discounted at a long-term real rate of interest of 3% per annum to take account of the timing of payments. The financing charges in the income statement include the revaluation of liabilities required to discharge one year's discount from provisions made in prior years and restate these provisions to current price levels.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

2. Significant accounting policies continued

Provisions

Provisions are recognised when the Group 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. If the effect of the time value of money 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.

EU Emissions trading scheme and Renewable Obligations Certificates

Purchased emissions allowances are initially recognised at cost (purchase price) within intangible assets. A liability is recognised when the level of emissions exceeds the level of allowances granted. The liability is measured at the cost of purchased allowances up to the level of purchased allowances held, and then at the market price of allowances ruling at the balance sheet date. Movements are recognised within operating profit. Forward contracts for the purchase or sale of emissions allowances are measured at fair value with gains and losses arising from changes in fair value recognised in the income statement or hedging reserve depending on whether cash flow hedging is applied.

The Group is obliged to sell a specific fraction of electricity sales volume to its customers from renewable sources. This is achieved via generation from renewable sources or through purchase of Renewable Obligation Certificates ("ROCs"). Any purchased certificates are recognised at cost and included within intangible assets.

Any ROCs obtained directly through renewable generation are carried at nil cost but reduce the Group's outstanding obligations to supply certificates. The Group recognises a provision for its obligation to supply certificates, based on the energy it supplies to customers. The intangible assets are surrendered, and the provision is released at the end of the compliance period reflecting the consumption of economic benefit. As a result, no amortisation is recorded during the period.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Rentals payable under operating leases are charged in the income statement on a straight-line basis over the lease term. Assets held under finance leases are initially recognised as assets of the Group at their fair value or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability, with charges being recognised directly in the income statement.

In compliance with interpretation IFRIC 4, the Group identifies agreements which do not have the legal form of a lease but which convey the right to use an asset or group of specific assets to the purchaser. The purchaser in such arrangements benefits from a substantial share of the asset's production, and payment is not dependent on production or market price.

Such arrangements are treated as leases, and analysed with reference to IAS 17 for classification as either operating or finance leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

2. Significant accounting policies continued

Taxation

The income tax expense included in the consolidated income statement consists of current and deferred tax.

Current tax

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted by the balance sheet date. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax

Deferred tax is provided or recognised in full using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax arising from (1) the initial recognition of goodwill, (2) the initial recognition of assets or liabilities in a transaction (other than in a business combination) that affects neither the taxable profit nor the accounting profit, or (3) differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future, is not provided for.

Deferred tax assets are recognised to the extent it is more likely than not that future taxable profits will be available against which the temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply for the period when the asset is realised or the liability is settled based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date.

Current tax and deferred tax for the year

Current tax and deferred tax are recognised in the income statement, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current tax and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Retirement benefit costs

The Group operates three defined benefit pension schemes. The cost of providing benefits is determined using the Projected Unit Credit method with actuarial valuations being carried out at each balance sheet date. Remeasurement comprising actuarial gains and losses and the return on scheme assets (excluding interest) are recognised immediately in the balance sheet with a charge or credit to the statement of comprehensive income in the period in which they occur. Net interest is calculated by applying a discount rate to the net defined benefit liability or asset. Defined benefit costs include current service, past service cost and gains or losses on curtailments and settlements which are included in personnel expenses. It also includes net interest expense which is included in finance costs.

The retirement benefit obligation recognised on the balance sheet represents the deficit or surplus in the Group's defined benefit schemes. Any surplus arising from this calculation is limited to the present value of any economic benefits available in the form of refunds from the scheme or reductions in future contributions to the schemes.

Cash and cash equivalents

Cash and cash equivalents comprises cash at bank and in hand, including short term deposits with a maturity date of three months or less from the date of acquisition and restricted cash. The Group operates a cash concentration arrangement which physically offsets cash balances and overdrafts between subsidiary companies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

2. Significant accounting policies continued

Financial instruments

Financial assets and liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instruments.

Financial assets and liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through the profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through the profit or loss are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial liability or a financial asset and of allocating the interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts), through the expected life of the financial liability or asset or (where appropriate) a shorter period, to the net carrying amount on initial recognition).

Financial assets

Financial assets are classified into the following specified categories: Financial assets at 'fair value through the profit or loss' (FVTPL); 'held to maturity' investments; 'available for sale' ("AFS") financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the workplace.

Financial assets at FVTPL

Financial assets are classified at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL. A financial asset is held for trading if it has been acquired principally for the purpose of selling it in the near term; or if on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit taking; or it is a derivative which is not designated and effective as a hedging instrument.

A financial asset which is not held for trading may be designated as at FVTPL on initial recognition if such a designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or if it forms part of a group of financial assets and/or financial liabilities which is managed on a fair value basis in accordance with the Group's risk management strategy; or it is part of a contract which contains an embedded derivative.

Financial assets at FVTPL are stated at fair value with any gains or losses on remeasurement recognised in the income statement.

Available for sale financial assets

Available for sale financial assets comprise non-consolidated equity investments. On initial recognition, available for sale financial assets are recorded at fair value plus transaction costs attributable to their acquisition. They are subsequently remeasured to fair value at each reporting date through other comprehensive income.

Held to maturity investments

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intention and ability to hold until maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest rate method less any impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

2. Significant accounting policies continued

Financial instruments continued

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Trade receivables are initially measured at original invoice amount and are subsequently measured at fair value. An allowance is recognised in the income statement for irrecoverable amounts when there is evidence that the asset is impaired. The allowance is calculated as the difference between the carrying amount and the expected future cash flows from the asset.

Interest income is recognised by applying the effective interest rate except for short-term receivables when the effect of discounting is immaterial.

Impairment of financial assets

Financial assets other than those at FVTPL are tested for impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the asset, the estimated future cash flows of the asset have been impacted.

De-recognition of financial assets

The Group de-recognises a financial asset when the contractual rights to the cashflows from the asset expire, or when it transfers the financial asset along with substantially all the risks and rewards of ownership to a third party. On de-recognition of a financial asset in its entirety, the difference between the asset's carrying value, the sum of the consideration received and receivable, and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in the income statement.

Financial liabilities and equity

Financial liabilities are classified according to the nature of the contractual obligations, and are based on the definition of liability. An equity instrument is a contract that evidences a residual interest in the assets of the Group.

Financial liabilities are classified as either financial liabilities 'at FVTPL' or other financial liabilities.

Financial liabilities at FVTPL

Financial liabilities are classified at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL. A financial liability is held for trading if it has been incurred principally for the purpose of repurchasing it in the near term; or if on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit taking; or it is a derivative which is not designated and effective as a hedging instrument.

A financial liability which is not held for trading may be designated as at FVTPL on initial recognition if such a designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or if it forms part of a group of financial assets and/or financial liabilities which is managed on a fair value basis in accordance with the Group's risk management strategy; or it is part of a contract which contains an embedded derivative.

Financial assets at FVTPL are stated at fair value with any gains or losses on remeasurement recognised in the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

2. Significant accounting policies continued

Financial instruments continued

Other financial liabilities

Other financial liabilities include borrowings and trade and other payables and are subsequently measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating the interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts), through the expected life of the financial liability or (where appropriate) a shorter period, to the net carrying amount on initial recognition).

Derivative financial instruments

The Group enters into financial instruments to manage its exposure to fluctuations in foreign exchange rates, interest rates and commodity prices (including gas, coal, carbon and electricity), including FX forwards, interest rate swaps and forward sales and purchases of energy or commodities. Further details of derivative financial instruments are disclosed in note 41.

Forward sales and purchases of commodities and energy are considered to fall outside the scope of IAS 39 when the contract concerned is considered to qualify as "own use". This is demonstrated to be the case when the following conditions have been met:

- a physical delivery takes place under all such contracts;
- the volumes purchased or sold under the contracts correspond to the Group's operating requirements; and
- the contracts are not considered as written options as defined by the standard.

Commodity forward contracts not qualifying as 'own use' which also meet the definition of a derivative are within the scope of IAS 39. This includes both financial and non-financial contracts.

Derivatives and other financial instruments are measured at fair value on the contract date and are re-measured to fair value at subsequent reporting dates. Changes in the fair value of derivatives and other financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise. Changes in the fair values of derivative financial instruments that are designated as hedges of future cash flows are recognised directly in equity with any ineffective element being recognised immediately in the income statement, as explained further below.

The use of derivatives and other financial instruments is governed by the Group's policies and approved by appropriate management. The Group does not use derivatives and other financial instruments for speculative purposes.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract, and the host contract is not carried at fair value with changes in fair value recognised in the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

2. Significant accounting policies continued

Hedge accounting

The Group designates certain hedging instruments, which include derivatives and non-derivatives in respect of foreign currency risk, as cash flow hedges.

At inception of the hedge relationship, the entity documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge, and on an on-going basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

The Group classifies hedges in the following categories:

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement and is included within loss/gain on derivative commodity contracts for commodity contracts, and investment revenue or finance costs for financing instruments.

Amounts previously recognised in other comprehensive income and accumulated in equity are recycled in the income statement in the periods when the hedged item is recognised in the income statement, in the same line of the income statement as the recognised hedged item. However when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in the income statement.

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, described in note 2, the Directors of the Group are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Group's accounting policies

The following are the critical judgements, apart from those involving estimations, that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

3. Critical accounting judgements and key sources of estimation uncertainty continued

Critical judgements in applying the Group's accounting policies continued

Revenue recognition

Revenue includes an estimate of the sales value of units supplied to customers between the date of the last meter reading and the year end. This is calculated by reference to data received through the third party settlement systems, as described further below, together with estimates of consumption not yet processed through settlements and selling price estimates. These estimates are sensitive to the assumptions used in determining the portion of sales not billed and based on actual meter readings at the reporting date.

Revenue is valued at average pence per unit, and any unbilled revenue is treated as an unbilled debtor. This figure is adjusted based on a judgement of the likelihood of collecting the outstanding debt based on historical data. Further detail on revenue is disclosed in note 4.

Accounting for the HPC transaction

On 29 September 2016, the HPC project achieved FID. At this point, EDF disposed of a 33.5% interest in the HPC project, as well as a 20% interest in the Sizewell C project. Achieving FID has triggered a number of contracts, transactions and accounting judgements. Judgements include determining whether EDF has retained control of HPC and Sizewell C post transaction, as well as the initial accounting for the non-controlling interest and the allocation of goodwill between HPC and Sizewell C. It was concluded that EDF retained control of HPC and Sizewell C following the disposal of a 33.5% interest in each project. The non-controlling interest has been calculated based on the share of net assets of HPC and Sizewell C respectively at the date of disposal. Further detail on the financial impact of these judgements is disclosed in note 32.

The accounting treatment with regards to the CfD, signed following the achievement of FID, also represents a critical judgment. The assessment of the accounting treatment is that there is no derivative or embedded derivative, or other financial instrument, required to be accounted for prior to the point of generation, and hence no accounting implications for the year ended 31 December 2017. This is on the basis that signing the CfD contract does not in itself create a contractual right for the generator to receive cash from the CfD counterparty.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Industry reconciliation process – fuel and energy purchases

The cost of electricity and gas purchases is reported in line with the latest settlement data provided by the industry system operators, which itself includes an inherent degree of estimation, depending on the maturity of that data. The industry reconciliation process allocates purchase volumes and associated settlement costs between suppliers based on a combination of estimated and metered customer consumption. Over time, as more actual reads become available and replace previous consumption estimates, the allocation of volumes and costs between suppliers is updated through the industry reconciliation process, and becomes continually more accurate as a result. Further detail on fuel and energy purchases is disclosed in note 6.

Provisions for impairment of receivables and inventories

Provisions are made against bad and doubtful debts, unbilled revenue and obsolete inventory. Provision against debtors is estimated based on applying a percentage provision rate to the aged debt book at the end of each period. The provision rates are based on the comparison of historical rates of collection compared to billing data. Any over-statement or under-statement of the provision is essentially a timing difference to the actual write-off level. Provision is made against inventory taking account of the age of the asset, using predefined formulae derived from actual experience. The financial impact of this uncertainty is disclosed in note 24.

Decommissioning and spent nuclear fuel provisions

The consolidated financial statements include provision for the full cost of decommissioning the Group's nuclear power stations. Provision is made on the basis of the latest technical assessments of the processes and methods likely to be used for decommissioning under the current regulatory regime. Expected future costs of decommissioning are monitored to ensure that the provision remains at an adequate level. Further information about decommissioning and spent nuclear fuel provisions can be found in note 30.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

3. Critical accounting judgements and key sources of estimation uncertainty continued

Key sources of estimation uncertainty continued

Decommissioning provisions (non-nuclear stations)

The Group has provided for decommissioning its three non-nuclear power stations and windfarms. These provisions are based on the experience of other companies within the EDF Group, adjusted for specific issues associated with each power station and are discounted to the present value of future payments. Expected future costs of decommissioning are monitored to ensure that the provision remains at an adequate level. Further information about decommissioning provisions can be found in note 29.

Pension surplus/(deficit)

The pension surplus/(deficit) is calculated by independent qualified actuaries, based on actual payroll data and certain actuarial assumptions. These actuarial assumptions are made to model potential future costs and benefits and include: life expectancy, rates of returns on plan assets, inflation, discount rate and expected retirement age. These assumptions are reviewed on an annual basis and may change based on current market data. Further information is available about pensions in note 40.

Goodwill and asset impairment

The Group performs impairment testing of goodwill on an annual basis and on other assets where there is an indication of potential impairment. The impairment review involves a number of assumptions including discount rates, output values, asset lives and forward power prices. The long term nature of the Group's assets and the unique and early stage nature of the Group's Nuclear New Build projects in particular, increases the level of uncertainty involved. Further detail on the assumptions used in the calculation can be found in note 16.

Fair value measurement

Some of the Group's assets and liabilities, principally derivative financial instruments, are measured at fair value for financial reporting purposes. In estimating the fair value of an asset or liability, the Group uses market-observable data to the extent that it is available. Where level 1 inputs are not available, the Group uses valuation techniques to determine fair values which are based on observable market data.

All derivative financial instruments are valued using a discounted cash flow. Future cash flows are estimated based on forward rates (from observable rates at the end of the reporting period) and contract forward rates, discounted at rate that reflects the credit risk of the counterparties. Similar valuation methodologies are used for commodity forward contracts, foreign currency forward contracts, cross currency swaps and interest rate swaps. There are no significant unobservable inputs into the valuation. Further information about fair value measurement and the financial impact of this uncertainty can be found in note 41.

Calculation of capital allowances

Due to the nature of the HPC project, judgement has been applied in analysing which assets qualify for capital allowances and at what rate those allowances are available. Depending on the nature of the expenditure tax relief can be obtained in the year of spend, spread out over a number of years, or not be obtained at all. The methodology used is based on experience of capital allowance claims relating to construction projects for nuclear and non-nuclear power stations; however the HPC project is the first of a kind in the United Kingdom and hence there is no direct comparable against which the capital allowance claims can be benchmarked by EDF Energy or HMRC. As such we do not believe it is practicable to quantify the uncertainty at this point in time.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

4. Revenue

An analysis of the Group's revenue is as follows:

	Year ended 2017 £m	Year ended 2016 £m
Sales of goods and services	7,518	7,583
Other revenue	2	5
	7,520	7,558
Investment revenue (note 9)	18	8
Total revenue	7,538	7,596

5. (Loss) /profit for the year

	2017 £m	2016 £m
(Loss)/profit for the year has been arrived at after (crediting)/charging the following gains and losses:		
Research and development costs	32	34
Personnel expenses (note 8)	826	764
Auditor's remuneration for audit services (see below)	2	2
Net foreign exchange (gains)/losses (note 9,10)	1	(10)
Impairment of property, plant and equipment (note 16,18)	167	6
Impairment of intangible assets (note 16,17)	40	60
Amortisation of intangible assets (note 17)	89	85
Depreciation of property, plant and equipment (note 18)	831	792
Cost of inventories recognised as expense	508	367
Losses on derivative commodity contracts	17	53
(Gains) on derivative foreign exchange contracts (note 9)	(4)	-
Operating lease rentals	20	24
Movement in bad debt provision (note 24)	(2)	(27)
Impairment losses recognised on trade receivables	66	89
Reversal of impairment losses recognised on trade receivables	(5)	(1)

The analysis of Auditor's remuneration is as follows:

	2017 £m	2016 £m
Fees payable to the Company's auditor for the audit of the Company's and the Group's accounts	0.4	0.4
For the audit of the Company's subsidiaries pursuant to legislation	1.2	1.1
Total audit fees	1.6	1.5
Other assurance services	0.1	0.1
Tax advisory	-	0.2
Other services	-	-
Advisory services regarding NNB	-	0.1
Total non-audit fees	0.1	0.4
Total fees	1.7	1.9

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

6. Fuel, energy and related purchases

	2017 £m	2016 £m
Purchase of energy	2,448	2,148
Distribution and transmission	1,479	1,514
Carbon certificates	32	21
Renewable obligation certificates	727	629
Unwinding of nuclear fuel asset	12	26
Other energy related purchases	17	10
Total fuel, energy and related purchases	4,715	4,348

7. Directors' remuneration

In 2017, three Directors and one non-executive director received remuneration for services to the Group and their remuneration is disclosed below. The remaining Directors are remunerated by the parent company and do not receive any emoluments for services to the Group.

	2017 £m	2016 £m
Aggregate remuneration	1.6	1.2
Amounts receivable under long-term incentive schemes	0.5	0.2
Total remuneration excluding expatriate related benefits	2.1	1.4
Expatriate related benefits	0.3	0.3
Total remuneration	2.4	1.7

	2017 Number	2016 Number
Members of defined benefit pension scheme	2	1

	2017 £m	2016 £m
Remuneration payable to the highest paid Director was as follows:		
Aggregate remuneration	1.0	0.7
Amounts receivable under long-term incentive schemes	0.4	0.2
Total remuneration excluding expatriate related benefits	1.4	0.9
Expatriate related benefits	0.3	0.3
Total remuneration	1.7	1.2

The aggregate remuneration includes basic salary and amounts receivable under annual incentive schemes.

The remuneration of all Directors disclosed above, with the exception of the non-executive director, will also be included in the financial statements of EDF Energy plc for the year ended 31 December 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

8. Personnel expenses

Staff costs arising in the year, including Directors' emoluments were as follows:

	2017 £m	2016 £m
Wages and salaries	662	630
Social security costs	75	72
Pension costs (note 40)	232	183
Severance	(10)	3
Less capitalised cost	(133)	(124)
	826	764

The monthly average number of employees during the year was as follows:

	2017 Number	2016 Number
Generation business unit	6,370	6,473
Customers business unit	5,024	5,747
Nuclear New Build business unit	677	520
Corporate and Steering functions	875	857
	12,946	13,597

9. Investment income

	2017 £m	2016 £m
Interest on bank deposits	7	10
Other finance income	6	4
Pension scheme interest	5	-
Provision against other finance income	-	(1)
Movement in provision against loan to third party	-	(5)
	18	8
Total investment revenue	18	8
Foreign exchange gains	-	10
Unwinding of discount on NLF receivable	414	324
Fair value gains on foreign currency derivatives	4	-
	418	334
Total other investment income	418	334
Total investment income	436	342

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

10. Finance costs

	2017 £m	2016 £m
Interest on bank loans and overdrafts	14	14
Interest on bonds	26	25
Finance charges payable under finance leases	14	6
Unwinding of discount on provisions (note 29)	408	316
Unwinding of discount on NLF payable	74	75
Pension scheme interest	-	6
Foreign exchange losses	1	-
Total finance cost	537	442
Less: amounts included in the cost of qualifying assets	(16)	(5)
Total borrowing costs	521	437

Finance costs included in the cost of qualifying assets are calculated with reference to the €800m Eurobond, see note 27.

11. Restructuring costs

	2017 £m	2016 £m
Customers business unit	-	8
Corporate and Steering functions	4	2
Total restructuring costs	4	10

During 2016, the Company provided for a further £10m as a result of identifying additional headcount expected to be impacted during 2017 and 2018.

During 2017, the Company provided for a further £4m as a result of identifying additional headcount expected to be impacted in 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

12. Tax on (loss)/profit on continuing ordinary activities

(a) Analysis of tax charge / (credit) in the year

Current tax	2017 £m	2016 £m
UK corporation tax on (loss) / profits made in the year	(6)	103
Adjustments in respect of previous years' reported tax charges	(58)	(21)
Total current tax (credit) / charge for the year	(64)	82
Deferred tax	2017 £m	2016 £m
Current year credit	(44)	(28)
Adjustments in respect of previous years' reported tax charges	31	13
Effect of decreased tax rate on opening liability	(9)	(55)
Total deferred tax credit for the year (note 31)	(22)	(70)
Income tax (credit)/charge reported in consolidated income statement (note 12(b))	(86)	12

The adjustments to previous years' reported current and deferred tax charges relate primarily to the release of provisions for uncertain tax positions which have now been agreed with HMRC and a reduction in provision where there has been a narrowing in the difference in the interpretation between HMRC and the Group in relation to another risk.

As explained in (c), the tax rate at which deferred tax is recognised has reduced from 17.40% to 17.25% due to enacted reductions of the tax rate in future years and this results in the credit of £9m shown above.

(b) The income tax (credit)/charge for the year can be reconciled to the (loss)/profit before tax per the consolidated income statement as follows:

	2017 £m	2016 £m
(Loss) / Profit before tax	(299)	305
Tax at the UK corporation tax rate of 19.25% (2016: 20.00%)	(58)	61
Effect of:		
Non-deductible expenses and non-taxable income	2	10
Current year effect of deferred tax rate change	6	4
Decreased tax rate on opening deferred tax liability	(9)	(55)
Adjustment to prior-year corporation tax	(58)	(21)
Adjustment to prior-year deferred tax	31	13
Income tax (credit) / charge reported in consolidated income statement	(86)	12

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

12. Tax on (loss)/profit on continuing ordinary activities continued

Reconciliation of current UK corporation tax on (loss)/profit made in the year:

	2017 £m	2016 £m
(Loss)/profit before tax	(299)	305
Expected tax at the UK corporation tax rate of 19.25% (2016: 20.00%)	(58)	61
Adjusted for:		
<i>Permanent differences:</i>		
- Non-qualifying depreciation	3	4
- Non-qualifying impairment	1	-
- Other permanent differences	(2)	6
<i>Temporary differences:</i>		
- Qualifying depreciation	174	185
- Qualifying impairment	39	-
- Capital allowances	(192)	(157)
- Movement in provisions	(2)	(1)
- Losses carried forwards	19	3
- Amortisation of fair value adjustments on business acquisitions	2	5
- Movement in pension provisions	9	(4)
- Other temporary differences	1	1
Current UK corporation tax on (loss) / profits made in the year (note 12(a))	(6)	103
Current year effective corporation tax rate	2.0%	33.8%

UK tax law exempts some forms of income from tax and denies relief for some forms of expense. Permanent differences are expenses that are not deductible and income that is not taxable in the calculation of corporation tax in this or any other financial year.

Temporary differences are differences between accounting profit and taxable profit other than permanent differences; for example timing differences. Timing differences are expenditure or income that are recognised in the calculation of corporation tax in one financial year and are recognised in the accounts in a different financial year. The recognition in the accounts may be before or after the financial year in which the expenditure or income is recognised in the calculation of corporation tax.

(c) Other factors affecting the tax charge for the year

The accounting for deferred tax follows the accounting treatment of the underlying item on which deferred tax is being provided and hence is booked within equity if the underlying item is booked within equity.

In the current year a deferred tax charge of £89m (2016: credit of £33m) has been recognised in equity. This consists of a charge of £67m (2016: charge of £58m) in respect of pension movements and a charge of £22m (2016: credit of £91m) which relates to fair value movements arising on derivative instruments.

A current tax credit of £13m (2016: credit of £14m) in respect of pension movements has also been recognised in reserves.

Changes to the main rate of corporation tax were announced in Finance (No. 2) Act 2015. These comprised a reduction in the main rate of corporation tax for the financial year beginning 1 April 2017 from 20% to 19% and a further reduction for the financial year beginning 1 April 2020 from 19% to 18%.

Subsequently, Finance Act 2016 announced a further reduction in the main rate of corporation tax for the financial year beginning 1 April 2020 from 18% to 17%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

12. Tax on (loss)/profit on continuing ordinary activities continued

The closing deferred tax balance at 31 December 2017 has been calculated at 17.25% (31 December 2016: 17.40%). This is the average tax rate at which the reversal of the net deferred tax liability is expected to occur.

The impact of this reduction to 17.25% is that the opening deferred tax liability is reduced by £9m, all of which is recognised as a credit to the consolidated income statement.

(d) The total UK tax contribution in the year is analysed below by type of tax:

	2017 £m	Restated 2016 £m
Taxes collected on behalf of the Government:		
VAT collected on sales (output VAT)	831	810
VAT paid on taxable purchases (input VAT)	(1,207)	(1,069)
PAYE & employees' NIC	193	191
Climate change levy (CCL)	114	104
Taxes not borne by the Group	(69)	36
Taxes borne by the Group:	2017 £m	2016 £m
Corporation tax payments made in respect of the year	-	34
Corporation tax payments made in respect of prior years	16	40
Corporation tax (refunds) received in respect of prior years	(73)	(11)
Employers' NIC	75	73
Business rates	117	98
Carbon price support	69	88
Other	7	-
Total taxes borne by the Group	211	322

For VAT reporting purposes EDF Energy are required to self-account for output VAT on wholesale energy purchases and the purchase of some goods and services from outside the UK; an equal amount of input VAT is recoverable, giving a net VAT position of nil. This charge has been excluded from the output VAT and input VAT shown above.

Neither VAT nor CCL currently have a significant impact on the Group's operating profit. The Group recovers the majority of VAT paid on its taxable purchases and collects VAT on behalf of the Government from its residential customers at the prescribed rate of 5% and from its business customers at up to 20%, depending on usage and entitlement to reliefs of a business. The difference in recovery and collection rates resulted in a net VAT repayment due back to the Group from HMRC, as a refund of taxes already paid by the Group on purchases, as reflected in the table above.

An indication of the net VAT paid to the UK exchequer as a result of EDF Energy's economic activity is the input VAT that business customers cannot fully reclaim and the VAT paid on the bills of residential customers, as a residential customer cannot reclaim this VAT from the UK exchequer. In 2017, the VAT paid on the bills of residential customers was £158m (2016 restated: £158m) and is included within VAT collected on sales above. In summary, the net VAT income to the UK exchequer from EDF Energy's economic activity was at least £158m.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

12. Tax on (loss)/profit on continuing ordinary activities continued

CCL is a levy collected by the Group, on behalf of the Government, and is chargeable on the VAT inclusive supply of gas and electricity to business customers. This value has increased due to the annual rate rise.

The Carbon Price Support is a tax on fossil fuels used to generate electricity, which came into effect on 1 April 2013. This has decreased compared to the prior year for a number of reasons, including a reduced operation of the Group's coal-fired power stations.

The current year corporation tax credit (note 12(a)) and the total cash corporation tax paid (above) in each financial year are different, principally because the cash paid in respect of the UK corporation tax charge for a financial year is in quarterly instalments which straddle two consecutive financial years. For example, the cash paid in 2017 in respect of corporation tax would comprise the final two quarterly instalments in respect of financial year ended 31 December 2016 and the first two quarterly instalments in respect of financial year ended 31 December 2017, if such payments needed to be made. No payments were made to HMRC in respect of financial year ended 31 December 2017 as the Group made a corporation tax loss; this was predominantly due to the Group making a loss before tax and increased capital allowances generated by the expenditure on Hinkley Point C.

Where differences of view arise with HMRC with regard to the interpretation and application of tax law, the Group may prudently cover these risks via cash payments to HMRC. Where resolution of these differences in a subsequent period gives rise to repayments of the corporation tax paid, these amounts are included above, within 'Corporation tax (refunds) received in respect of prior years'.

A refund from HMRC of £73m was received in the year. As noted above, the Group may prudently cover risks with regard to the interpretation and application of tax law. During 2017, a risk was resolved with HMRC and a refund was received in respect of the overpaid tax. There was also a reduction in provision where there has been a narrowing in the difference in the interpretation between HMRC and the Group in relation to another risk and so a refund of cash was deemed appropriate in respect of the part of the risk where the opinions have narrowed.

An analysis of how the UK corporation tax on losses made in the year (note 12(a)) will be settled is shown below:

Breakdown of current year corporation tax payable

	2017 £m	2016 £m
UK corporation tax on profits made in year (note 12 (a))	(6)	103
UK corporation tax relief on costs charged to reserves (note 12(c))	(13)	(14)
Net current year corporation tax (receivable) / payable	(19)	89
Corporation tax payments made in respect of the year	-	34
Corporation tax payments to be made in the following year	-	14
(Receipts to be received) / Payments to be made for current year losses surrendered (to) / from associated EDF companies not included within these financial statements	(19)	41
Net current year corporation tax (receivable) / payable	(19)	89

UK tax laws allow the transfer of current year corporation tax losses between companies within a group, to relieve profits arising within the current year in the same tax group, via group relief. Payments for group relief are typically made at the statutory tax rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

13. Dividends

	2017 £m	2016 £m
Amounts recognised as distributions to equity holders in the period:		
Interim dividends paid to parent company (note 37)	146	242
Interim dividends paid by subsidiary to non-controlling interests (note 32)	57	110
	203	352

The interim dividends to the parent company represents 1.7p per Ordinary share (2016: 2.9p).

14. Disposals

Disposal of investments

On 31 October 2017, the Group disposed of 80% of its investments in Fenland Windfarms Limited and Bicker Fen Windfarm Limited as a single transaction, which resulted in these entities becoming associates rather than joint operations.

The assets and liabilities sold as part of the sale of these windfarms are shown below:

	Windfarms £m
Property, plant and equipment	29
Trade and other receivables	8
Total assets	37
Other liabilities	(1)
Deferred tax provisions	(5)
Corporation tax liabilities	(1)
Provisions	(1)
Intra-group loans	(6)
Total liabilities	(14)
Net assets sold	23
Cash proceeds:	
Consideration for equity shares	45
Repayment of shareholder loans	4
Transaction costs	(1)
Net cash proceeds	48
Profit on disposal:	
Consideration for equity shares	45
Net assets disposed	(23)
Recognition of associate at fair value	11
Profit on disposal of investments	33

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

15. Goodwill

	£m
Carrying amount	
At 31 December 2015	6,711
Change in value of CVR instrument	(36)
At 31 December 2016	6,675
Change in value of CVR instrument	-
At 31 December 2017	6,675

16. Impairment of non-current assets

Breakdown of impairments recognised

	2017 £m	2016 £m
Coal - Cottam	77	-
- West Burton	54	-
Gas Storage - Hill Top	34	30
- Hole House	-	5
Renewables	2	1
Brand	40	30
	207	66

In 2016, the impairment of property, plant and equipment relates to the gas storage facilities at Hill Top and Hole House. There were further impairments of £1m recorded in respect of Renewables development expenditure capitalised as work in progress, and an impairment of £30m recorded in respect of the brand, following the external valuation undertaken in 2015.

In 2017, continuing low dark spreads and low capacity market prices were considered to be an impairment trigger for the coal plants. For Cottam, a recoverable amount of £16m was calculated based on the fair value less cost to sell, against a carrying value of £93m which results in an impairment of £77m. For West Burton, a recoverable amount of zero was calculated based on the value in use, against a carrying value of £54m which results in an impairment of £54m. The main assumptions used for the value in use calculation were the budgeted projections of spreads, output, costs and capital expenditure. The fair value less cost to sell for Cottam was based on an external valuation. The discount rate was derived from an after-tax rate of 6.3% (2016: 6.4%).

In 2017, difficult market conditions remain for the gas storage facilities at Hill Top Farm and Hole House and were considered to be an impairment trigger. For Hole House, a recoverable amount of zero was calculated based on the value in use, against a carrying value of zero. For Hill Top Farm, a recoverable amount of zero was calculated based on the value in use, against a carrying value of £34m which results in an impairment of £34m. The main assumptions used for the calculation were the discount rate and forward power and gas prices and volatility of forward gas prices. The discount rate was derived from an after-tax rate of 6.0% (2016: 6.2%).

In 2017, impairment of £2m was recorded in respect of Renewables development expenditure capitalised as work in progress. Impairments of 50-75% of the development expenditure are immediately recognised to reflect the uncertainty of the project pipeline.

In 2017, impairment of £40m (2016: £30m) was recorded in respect of the brand based on the external valuation undertaken in 2015 and the Directors' best estimate of current market value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

16. Impairment of non-current assets continued

Impairment testing of goodwill

Goodwill is tested for impairment based on a single group of cash generating units comprising substantially all of the Group's business. This is in line with the integrated generator/supplier model used by the Group.

During the year, impairment testing has been carried out on the goodwill balance with the recoverable amount based on the value in use. The value in use of the cash generating unit has been calculated using a discounted cash flow method based on the assumptions in the Group's four-year medium-term plans, then its long term plans. This fair value calculation is considered as a Level 3 calculation because it includes internal cash flow projections which are not either directly or indirectly observable.

The principal assumptions used for the discounted cash flow are the discount rate, the growth rate, forward power prices, generation output as well as assumptions around the construction of a twin EPR at Hinkley Point C.

An estimated growth rate of 1.7%-3.0% (2016: 1.7%-3.1%) is used, other than for finite life generation assets, which is based on current information and industry norms and is the rate used in the Group's four-year medium-term plans and long-term plans. The estimated value in use is based on post-tax discounted cash flows, using a discount rate derived from an after-tax rate of 6.3% for goodwill (2016: 6.4%). This discount rate is a weighted average cost of capital based EDF S.A.'s cost of capital for UK activities.

The assumptions regarding long term electricity prices in the United Kingdom take account of the need to develop new generation facilities to meet demand from 2020, especially due to the retirement of the coal-fired power stations, and an expected recovery in nuclear power by that time. The greenhouse gas emission quota prices used for the impairment tests reflect the impact of the energy market reforms such as the carbon price support.

The generation output included in the discounted cash flow assumes the extension of useful economic lives of existing nuclear reactors and the commissioning of a twin EPR at Hinkley Point C. The discounted cash flows associated with the new EPR is based on the contract for difference ("CfD") between the Group and the British government. The CfD sets stable predictable prices for the Group: if market prices fall below the CfD exercise price, EDF Energy will receive an additional payment and if market prices are above the CfD price, then EDF Energy would refund the difference. The expected contribution of the twin EPR has a significant impact on the recoverable amount of the goodwill because it is expected to generate cash flows over a sixty year period from commissioning.

The Group has conducted sensitivity analysis on the impairment test of goodwill based on its assessment of reasonably possible changes in the principal assumptions, pursuant to which the most significant other assumptions were identified to be the discount rate, nuclear output and the delivery of HPC. An increase in the discount rate to 6.8% across all cash flows included in the impairment test would still result in a recoverable amount in excess of the carrying value for goodwill. Likewise if the output assumption from the existing nuclear fleet is reduced from the long term plan assumptions, of 63 TWh in 2017-18, increasing to c. 65 TWh in 2019, to 60 TWh it would still result in a recoverable amount in excess of the carrying value for goodwill. Delaying the HPC commercial operation date by 15 months and overrunning construction cost by £0.7bn (c. 4%) would also still result in a recoverable amount in excess of the carrying value for goodwill.

The recoverability of goodwill at 31 December 2017 is dependent upon the Group's recoverable amount, estimated by discounting future cash flows. The value in use is in turn dependent upon (i) forecast profitability of the nuclear generation which incorporates the extension of useful lives of existing nuclear reactors and customer supply businesses, as well as (ii) the forecast profitability of HPC. The value in use incorporates the assumption that two new EPRs with a 60-year useful life will be commissioned at HPC. Projections for the plan to build two EPRs at the Hinkley Point site incorporate electricity sale prices based on the Contract for Difference (CfD) between the Group and the UK government. The CfD sets stable, predictable prices for EDF Energy for a period of 35 years from the date the two EPRs are first commissioned: if market prices fall below the CfD exercise price, EDF Energy will receive an additional payment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

17. Intangible assets

	EU Emissions trading certificates £m	Renewable obligations certificates £m	IT software £m	Licence £m	Brand £m	Total £m
Cost						
At 31 December 2015	78	205	809	38	200	1,330
Additions	20	501	76	-	-	597
Disposals	(78)	(563)	(36)	-	-	(677)
At 31 December 2016	20	143	849	38	200	1,250
Additions	34	557	75	-	-	666
Disposals	(20)	(574)	-	-	-	(594)
At 31 December 2017	34	126	924	38	200	1,322
Amortisation						
At 31 December 2015	-	-	(332)	(7)	(100)	(439)
Charge for year	-	-	(85)	-	-	(85)
Impairment (note 16)	-	-	-	(30)	(30)	(60)
Disposals	-	-	37	-	-	37
At 31 December 2016	-	-	(380)	(37)	(130)	(547)
Charge for year	-	-	(89)	-	-	(89)
Impairment	-	-	-	-	(40)	(40)
At 31 December 2017	-	-	(469)	(37)	(170)	(676)
Carrying amount						
At 31 December 2017	34	126	455	1	30	646
At 31 December 2016	20	143	469	1	70	703

The disposal of the EU Emissions trading certificates and the renewable obligations certificates relates to the surrender of the certificates on the settlement date for the compliance period. The licence is a licence to develop and operate a gas storage facility.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

18. Property, plant and equipment

	Land and buildings	Network assets	Generation assets	Nuclear power stations	Other plant and equipment	Equipment and fittings	Assets in the course of construction	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Cost								
At 31 December 2015	516	27	3,146	8,818	1,132	180	2,524	16,343
Additions	125	-	-	-	1	-	1,457	1,583
Transfers	1	4	104	211	212	30	(562)	-
Decommissioning	-	-	-	-	-	-	(6)	(6)
Revaluation of final core provision	-	-	-	154	-	-	-	154
Disposals	-	(9)	(5)	(30)	(171)	(22)	-	(237)
At 31 December 2016	642	22	3,245	9,153	1,174	188	3,413	17,837
Additions	-	-	2	-	-	-	2,054	2,056
Transfers	16	15	116	197	195	7	(546)	-
Revaluation of final core provision	-	-	-	100	-	-	-	100
Revaluation of decommissioning provision	-	-	37	-	-	-	-	37
Disposals	(3)	(17)	(331)	(25)	(155)	(6)	(4)	(541)
At 31 December 2017	655	20	3,069	9,425	1,214	189	4,917	19,489
Accumulated depreciation								
At 31 December 2015	(27)	(10)	(2,609)	(3,454)	(465)	(130)	-	(6,695)
Charge for year	(6)	(3)	(81)	(429)	(248)	(25)	-	(792)
Impairment	-	-	(5)	-	-	-	(1)	(6)
Disposals	-	5	3	30	170	20	-	228
At 31 December 2016	(33)	(8)	(2,692)	(3,853)	(543)	(135)	(1)	(7,265)
Charge for year	(6)	(6)	(91)	(460)	(243)	(25)	-	(831)
Impairment (note 16)	-	-	(165)	-	-	-	(2)	(167)
Disposals	1	1	303	25	155	6	-	491
At 31 December 2017	(38)	(13)	(2,645)	(4,288)	(631)	(154)	(3)	(7,772)
Carrying amount								
At 31 December 2017	617	7	424	5,137	583	35	4,914	11,717
At 31 December 2016	609	14	553	5,300	631	53	3,412	10,572

The carrying amount of the Group's land and buildings and generation assets include amounts in respect of assets held under finance leases of £136m (2016: £125m) and £nil (2016: £11m), respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

18. Property, plant and equipment continued

During 2017, the Group carried out an impairment review of its Gas Storage facilities at Hill Top Farm and Hole House in light of falls in weekday-weekend spreads, and on its coal station as a result of low dark spreads and low capacity market prices. This led to an impairment of £167m being recognised in 2017 to bring the carrying value in line with the recoverable amount. See note 16 for further details.

Assets in the course of construction mainly relate to nuclear new build activities, of which the amount capitalised in relation to Hinkley Point C is £4,490m at 31 December 2017 (2016: £3,059m). The recoverability of the balance of assets in the course of construction relating to HPC at 31 December 2017 is dependent both upon the forecast profitability of HPC, as disclosed in note 16.

19. Financial assets

	Non-Current	Current	Non-Current	Current
	2017	2017	2016	2016
	£m	£m	£m	£m
Available-for-sale investments				
Interest in insurance fund	12	-	10	-
Loans receivable at amortised cost				
Loan to associates	22	-	6	-
Loan to parent company	320	-	240	-
Loan to third party	1	-	8	-
Provision against loan to third party	(1)	-	(8)	-
Deferred consideration	106	-	104	-
Total financial assets	460	-	360	-

In 2017, an additional £80m loan was granted to EDF S.A. at 1 year LIBOR less 0.05 bps in relation to the BEGG pension deficit.

Deferred consideration arose on the disposal of 33.5% of EDF Energy Holdings Limited's investment in NNB Holding Company (HPC) Limited to Sagittarius International Limited in September 2016. The deferred consideration of £109m, is expected to be received in 2019 and therefore has been discounted to its present value of £106m. A risk free discount rate of 2% has been applied as risk has already been taken into consideration when assessing the value of the HPC project.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

20. Interest in associates

Summarised financial information in respect of each of the Group's material associates is set out below. The summarised financial information below represents amounts in associates' financial statements prepared in accordance with IFRS.

	Energy Services Limited		Bradwell Power Holding Company Limited		Fallago Rig Windfarm Limited	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Non-current assets	128	3	117	-	122	132
Current assets	125	6	35	22	26	25
Non-current liabilities	(97)	-	-	-	(13)	(13)
Current liabilities	(60)	(2)	(12)	-	(5)	(7)
Net assets	96	7	140	22	130	137
Equity attributable to owners of the company	48	7	93	15	117	123
Non-controlling interest – Group share of equity	48	3	47	7	13	14
Sales	1	-	-	-	48	35
Profit for the year	(6)	(1)	(3)	-	29	9
Group's share of profit for the year	(3)	(1)	(1)	-	3	1
Dividend received from associate during the year	-	-	-	-	4	4

Reconciliation of the above summarised financial information to the carrying amount of the interest in associates recognised in the consolidated financial statements:

	Energy Services Limited		Bradwell Power Holding Company Limited		Fallago Rig Windfarm Limited	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Net assets of associate	96	7	140	22	130	137
Group's ownership interest	48	3	47	7	13	14
Goodwill	-	-	-	-	17	17
Carrying amount of the Group's interest	48	3	47	7	30	31

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

20. Interest in associates continued

Aggregate information of associates that are not individually material:

	2017 £m	2016 £m
The Group's share of profit / (loss) from operations	-	6
Aggregate carrying amount of the Group's interest in associates	27	24

Total of all associate balances:

	2017 £m	2016 £m
The Group's share of (loss) / profit from operations	-	7
Aggregate carrying amount of the Group's interest in associates	152	55

Details of the Group's associates at 31 December 2017 are as follows:

Name of associate	Place of incorporation and operation	Proportion of ownership of ordinary shares %	Proportion of voting power held %
Navitus Bay Development Limited ⁽¹⁾	United Kingdom	25.0%	25.0%
Lewis Wind Power Holdings Limited ⁽²⁾	United Kingdom	25.0%	25.0%
Stornoway Wind Farm Limited ⁽²⁾	United Kingdom	25.0%	25.0%
Uisenis Power Limited ⁽²⁾	United Kingdom	25.0%	25.0%
Fallago Rig Windfarm Limited ⁽⁶⁾	United Kingdom	10.0%	10.0%
Green Rigg Windfarm Limited ⁽³⁾	United Kingdom	10.0%	10.0%
Rusholme Windfarm Limited ⁽³⁾	United Kingdom	10.0%	10.0%
Glass Moor II Windfarm Limited ⁽³⁾	United Kingdom	10.0%	10.0%
Fenland Windfarms Limited ⁽⁴⁾	United Kingdom	10.0%	10.0%
Bicker Fen Windfarm Limited ⁽⁴⁾	United Kingdom	10.0%	10.0%
EDF Energy Services Limited	United Kingdom	50.0%	49.0%
The Barkantine Heat and Power Company Limited	United Kingdom	50.0%	49.0%
ESSCI Limited ⁽⁷⁾	United Kingdom	50.0%	49.0%
ESSCI Engineering Services Limited ⁽⁷⁾	United Kingdom	50.0%	49.0%
Imtech Engineering Services North Ltd ⁽⁹⁾	United Kingdom	50.0%	49.0%
Imtech Engineering Services Central Ltd ⁽⁸⁾	United Kingdom	50.0%	49.0%
Imtech Engineering Services London and South Ltd ⁽⁷⁾	United Kingdom	50.0%	49.0%
Imtech Aqua Ltd ⁽¹⁰⁾	United Kingdom	50.0%	49.0%
Imtech Aqua Building Services Ltd ⁽¹⁰⁾	United Kingdom	50.0%	49.0%
Imtech Aqua Controls Ltd ⁽¹⁰⁾	United Kingdom	50.0%	49.0%
Imtech Low Carbon Solutions Ltd ⁽⁸⁾	United Kingdom	50.0%	49.0%
ESSCI Technical Facilities Management Limited ⁽⁷⁾	United Kingdom	50.0%	49.0%
Inviron Holdings Limited ⁽¹¹⁾	United Kingdom	50.0%	49.0%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

20. Interest in associates continued

Imtech Inviron Limited ⁽¹¹⁾	United Kingdom	50.0%	49.0%
Inviron Property Limited ⁽⁷⁾	United Kingdom	50.0%	49.0%
Imtech Aqua Maintenance Ltd ⁽¹¹⁾	United Kingdom	50.0%	49.0%
ESSCI Technical Services Limited ⁽⁷⁾	United Kingdom	50.0%	49.0%
Capula Group Limited ⁽¹²⁾	United Kingdom	50.0%	49.0%
Capula Limited ⁽¹²⁾	United Kingdom	50.0%	49.0%
ESSCI Ireland Limited ⁽⁷⁾	United Kingdom	50.0%	49.0%
Suir Engineering Limited (Ireland) ⁽¹³⁾	United Kingdom	50.0%	49.0%
Bradwell Power Holding Company Limited ⁽⁵⁾	United Kingdom	33.5%	33.5%
Bradwell Power Generation Company Limited ⁽⁵⁾	United Kingdom	33.5%	33.5%
General Nuclear System Limited ⁽⁵⁾	United Kingdom	33.5%	33.5%

(1) Registered Address: The Exchange, 5 Bank Street, Bury, Lancashire, England, BL9 0DN

(2) Registered Address: EDF Energy, Gso Business Park, East Kilbride, Scotland, G74 5PG

(3) Registered Address: Squire Patton Boggs (UK) Llp (Ref:Csu) Rutland House, 148 Edmund Street, Birmingham, West Midlands, B3 2JR

(4) Registered Address: 27-28 Eastcastle Street, London, England, W1W 8DH

(5) Registered Address: 5th Floor Rex House, 4-12 Lower Regent Street, London, United Kingdom, SW1Y 4PE

(6) Registered Address: Atria One, Level 7 144 Morrison Street, Edinburgh, Scotland, EH3 8EX

(7) Registered Address: Imtech House, Woodthorpe Road, Ashford, Middlesex, England, TW15 2RP

(8) Registered Address: G&H House, Hooton Street, Carlton Road, Nottingham, NG3 5GL

(9) Registered Address: Calder House, St Georges Park Kirkham, Preston, Lancashire, PR4 2DZ

(10) Registered Address: Aqua House, Rose & Crown Road, Swavesey, Cambridge, CB24 4RB

(11) Registered Address: 3100 Park Square, Solihull Parkway Birmingham, Business Park Birmingham, B37 7YN

(12) Registered Address: Orion House, Unit 10 Walton Industrial Estate, Stone, Staffordshire, ST15 0LT

(13) Registered Address: Hipley House, Woking, Hipley Street, GU22 9LQ

Unless stated otherwise, the registered address of the subsidiary undertakings listed above is 90 Whitfield Street, London, W1T 4EZ.

The associates are all held indirectly and included within these consolidated accounts.

Fallago Rig Windfarm Limited has a reporting date of 30 June. The financial information presented in these financial statements are aligned with the Group's financial year.

On 31 October 2017, the Group announced the completion of the reduction in ownership from 50% to 10% in Bicker Fen Windfarm Limited and Fenland Windfarms Limited to EDF Énergies Nouvelles as a single transaction. This sale has led to a change in the level of control exerted by the Group over the entities, which has resulted in them ceasing to be considered as a joint operation, and instead the companies have been accounted for as an associate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

21. Interests in joint operations

The share of the assets, liabilities, revenue and expenses of the joint operations which are included in the consolidated financial statements are as follows:

	2017 £m	2016 £m
Non-current assets	405	385
Current assets	65	49
Total assets	470	434
Non-current liabilities	(238)	(245)
Current liabilities	(21)	(41)
Net assets	211	148
Revenue	107	55
Cost of sales	(15)	-
Administrative expenses	(34)	(46)
Finance (costs)/income	(9)	8
Profit before income tax	49	17
Income tax (charge)/credit	(2)	(1)
Net profit	47	16

The Group has the following interests in joint operations at 31 December 2017:

Name of joint operation	Place of incorporation and operation	Proportion of ownership of ordinary shares %	Proportion of voting power held %
EDF Energy Renewables Limited (*)	United Kingdom	50.0%	50.0%
Fallago Rig II Windfarm Limited(*)	United Kingdom	50.0%	50.0%
Braemore Wood Windfarm Limited (*)	United Kingdom	50.0%	50.0%
Royal Oak Windfarm Limited (*)	United Kingdom	50.0%	50.0%
Burnfoot Windfarm Limited (*)	United Kingdom	50.0%	50.0%
Fairfield Windfarm Limited (*)	United Kingdom	50.0%	50.0%
Boundary Lane Windfarm Limited (*)	United Kingdom	50.0%	50.0%
Walkway Windfarm Limited (*)	United Kingdom	50.0%	50.0%
Teesside Windfarm Limited (*)	United Kingdom	50.0%	50.0%
Longpark Windfarm Limited (*)	United Kingdom	50.0%	50.0%
Roade Windfarm Limited (*)	United Kingdom	50.0%	50.0%
Burnhead Moss Wind Farm Limited (*)	United Kingdom	50.0%	50.0%
EDF Energy Renewables Holdings Limited (*)	United Kingdom	50.0%	50.0%
Barmoor Wind Power Limited (*)	United Kingdom	50.0%	50.0%
Park Spring Wind Farm Limited (*)	United Kingdom	50.0%	50.0%
Corriemoillie Windfarm Limited (*)	United Kingdom	50.0%	50.0%
Dorenell Windfarm Limited (*)	United Kingdom	50.0%	50.0%
Beck Burn Windfarm Limited (*)	United Kingdom	50.0%	50.0%
Pearie Law Windfarm Limited (*)	United Kingdom	50.0%	50.0%
EDF EN Services UK Limited (*)	United Kingdom	50.0%	50.0%
Cemmaes Windfarm Limited (*)	United Kingdom	50.0%	50.0%
Llangwryfon Windfarm Limited (*)	United Kingdom	50.0%	50.0%
Great Orton Windfarm II Limited (*)	United Kingdom	50.0%	50.0%
Cold Northcott Windfarm Limited (*)	United Kingdom	50.0%	50.0%
First Windfarm Holdings Limited (*)	United Kingdom	50.0%	50.0%
High Hedley Hope Wind Limited (*)	United Kingdom	50.0%	50.0%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

21. Interests in joint operations continued

Stranoch Windfarm Limited (formerly Cumbria Wind Farms Limited) (*)	United Kingdom	50.0%	50.0%
Red Tile Wind Limited (*)	United Kingdom	50.0%	50.0%
Round 3 Isle of Wight Limited (*)	United Kingdom	51.0%	51.0%
Kirkheaton Wind Limited (*)	United Kingdom	37.5%	37.5%
EDF ER Development Limited (*)	United Kingdom	50.0%	50.0%
South Clare Windfarm Limited (*)	United Kingdom	50.0%	50.0%
Mosscastle Windfarm Limited (*)	United Kingdom	50.0%	50.0%
EDF ER Nominee Limited (*)	United Kingdom	50.0%	50.0%
Camilty Windfarm Limited (*)	United Kingdom	50.0%	50.0%
Cloich Windfarm Limited (*)	United Kingdom	50.0%	50.0%
Heathland Windfarm Limited (*)	United Kingdom	50.0%	50.0%
Newcastleton Windfarm Limited (*)	United Kingdom	50.0%	50.0%
The Mosses Windfarm Limited (*)	United Kingdom	50.0%	50.0%
Tinnisburn Windfarm Limited (*)	United Kingdom	50.0%	50.0%
Wauchope Windfarm Limited (*)	United Kingdom	50.0%	50.0%
West Benhar Windfarm Limited (*)	United Kingdom	50.0%	50.0%
Camilty Windfarm Partnership LLP (*)	United Kingdom	50.0%	50.0%
Cloich Windfarm Partnership LLP (*)	United Kingdom	50.0%	50.0%
Heathland Windfarm Partnership LLP (*)	United Kingdom	50.0%	50.0%
Newcastleton Windfarm Partnership LLP (*)	United Kingdom	50.0%	50.0%
The Mosses Windfarm Partnership LLP (*)	United Kingdom	50.0%	50.0%
Tinnisburn Windfarm Partnership LLP (*)	United Kingdom	50.0%	50.0%
Wauchope Windfarm Partnership LLP (*)	United Kingdom	50.0%	50.0%
West Benhar Windfarm Partnership LLP (*)	United Kingdom	50.0%	50.0%

(*) Joint operation with EDF Énergies Nouvelles, another subsidiary of EDF S.A.

All joint operations listed above are registered at Alexander House 1 Mandarin Road, Rainton Bridge Business Park, Houghton Le Spring, Sunderland, England DH4 5RA.

The joint operations are all included within these consolidated accounts on a proportional consolidation basis.

In July 2017, EDF Energy Renewables Holdings Limited ("EDF ERH") acquired a 100% interest in Partnerships for Renewables Construction Holdco 2 Limited, now known as EDF ER Development Limited, and its subsidiaries. EDF ERH acquired this at a cost of £4m, of which 50% is recognised by the Group. EDF ER Development Limited and its subsidiaries are accounted for the same way as the existing Renewables joint operations.

22. NLF and nuclear liabilities receivable

	2017 £m	2016 £m
Non-current assets		
Nuclear liabilities receivable	769	887
NLF receivable	6,670	6,337
Total non-current NLF and nuclear liabilities receivables	7,439	7,224
Current assets		
Nuclear liabilities receivable	174	187
NLF receivable	62	75
Total current NLF and nuclear liabilities receivables	236	262
Total NLF and nuclear liabilities receivables	7,675	7,486

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

22. NLF and nuclear liabilities receivable continued

The NLF receivable asset represents amounts that will be reimbursed by the NLF in respect of the qualifying nuclear liabilities recognised at the balance sheet date.

The nuclear liabilities receivable asset represents amounts due under the historical British Nuclear Fuels Limited contracts which will be reimbursed by the Government.

23. Inventories

	2017 £m	Restated 2016 £m
Raw materials and consumables	261	391
Unburnt nuclear fuel	1,396	1,387
Other nuclear fuel and uranium	612	593
Work in progress	7	9
	2,276	2,380

The cost of inventories recognised as an expense during the year in respect of continuing operations was £508m (2016: £367m). The cost of inventories recognised as an expense includes £11m (2016: £12m) in respect of write-downs of inventory to net realisable value, and has been reduced by £nil m (2016: £nil m) in respect of the reversal of such write-downs.

Inventories of £1,580m (2016: £1,588m) are expected to be recovered after more than twelve months.

24. Trade and other receivables

	2017 £m	2016 £m
Trade receivables (i)	978	917
Allowance for doubtful debts (ii)	(107)	(109)
Unbilled revenue	457	436
Other debtors	292	59
Advance payments	90	83
	1,710	1,386

i. The majority of trade receivables are non-interest bearing and are generally on 14-day terms for residential customers. Interest is applied to major accounts when the accounts become overdue. For further information relating to related party receivables, refer to note 42. The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

ii. Movement in the allowance for doubtful debts:

	2017 £m	2016 £m
At 1 January	109	136
Amounts recovered during the year	(4)	(1)
Decrease in allowance recognised in the income statement	2	(26)
At 31 December	107	109

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

24. Trade and other receivables continued

The ageing of overdue debt is as follow:

2017

Ageing	Gross trade receivables overdue £m	Allowance for doubtful debts £m	Net trade receivables overdue £m	Weighted average days
< 30 days	100	-	100	2
31-60 days	49	-	49	1
61-90 days	36	-	36	-
> 90 days	531	(107)	424	571
Total	716	(107)	609	574

2016

Ageing	Gross trade receivables overdue £m	Allowance for doubtful debts £m	Net trade receivables overdue £m	Weighted average days
< 30 days	84	-	84	1
31-60 days	43	-	43	-
61-91 days	33	-	33	0
> 90 days	502	(109)	393	510
Total	662	(109)	553	511

Provisions have been established against these balances to the extent that they are not considered recoverable, and in accordance with the Group's policy on bad debt provisioning. See note 1 for further details on bad debt provisions and credit risks.

25. Cash and cash equivalents

	2017 £m	2016 £m
Cash at bank and in hand	109	161
Short-term deposits	12	11
Short-term deposit with intermediate parent company	4	300
Cash pooling with intermediate parent company	940	1,257
	1,065	1,729

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods up to 12 months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. The fair value of cash and cash equivalents is £1,065m (2016: £1,729m). EDF Energy plc, a subsidiary of the Group operates a cash concentration arrangement which physically offsets cash balances and overdrafts between subsidiary companies.

The Group cash balance includes £18m (2016: £10m) of cash which must be maintained as a minimum cash balance in some entities, in accordance with contractual obligations with financial institutions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

26. Other liabilities

	2017 £m	2016 £m
Trade creditors	1,096	942
Other payables	219	202
Accruals	716	590
NLF liabilities	11	11
Nuclear liabilities (note 30)	174	187
Total other liabilities due within one year	2,216	1,932
Contingent consideration	3	3
Nuclear liabilities (note 30)	769	887
NLF liabilities	97	102
Unfunded pension scheme	14	14
Total other liabilities due after more than one year	883	1,006
Total other liabilities	3,099	2,938

Trade creditors are non-interest bearing and are normally settled on 30 to 60-day terms, with the exception of energy purchases which are usually settled on market terms within 14 days. Other payables are non-interest bearing. The Directors consider that the carrying amount of other liabilities approximates to their fair value.

The contingent consideration relates to the CVRs which were issued to Barclays Bank plc, who in turn issued Nuclear Power Notes to subscribing ex-shareholders of EDF Energy Nuclear Generation Group Ltd. They are measured at fair value, with any resulting gain or loss recognised against the goodwill associated with the acquisition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

27. Borrowings

	2017 £m	2016 £m
EDF Energy Renewables (i)	6	11
Total borrowings due within one year	6	11
€800m Eurobond due June 2023 (ii)	710	685
EDF Energy Renewables (i)	96	114
EDF Energy NB (iii)	1	-
EDF Energy UK (iv)	492	-
Northern Power (v)	22	-
Total borrowings due within more than one year	1,321	799
Total borrowings	1,327	810

All borrowings are denominated in sterling and valued at amortised cost unless otherwise stated. With the exception of the EDF Energy Renewables borrowings, the borrowings are unsecured, see below.

- (i) The renewable joint operation companies use loans in order to finance their investment in new windfarms. These loans have maturity dates between 2021 and 2031 and are a mix of both floating and fixed rate instruments. The interest payable on these loans is based on LIBOR 6 months plus margins between 2.2% and 2.7% for the floating rate instruments and 6.7% for the fixed rate loans.
- (ii) On 27 June 2013 a ten year Eurobond was entered into for €800m with fixed interest rate of 2.8% which was subsequently swapped into a sterling bond of £684m with fixed interest payable at 3.6%. The bond is carried at the sterling equivalent of €800m at the balance sheet date.
- (iii) In December 2017, a loan of £1m from EDF Nouveaux Business ('EDF NB') was lent to Hoppy Limited. This loan has annual interest at 6.275% and matures on 1 January 2023.
- (iv) Throughout 2017, a total of £492m was borrowed from EDF Energy (UK) Limited in order to finance the NNB cash calls. The loan is interest free and is repayable on demand.
- (v) On 1 March 2017, Bradwell Power Generation Company Limited paid a deposit of £22m to Northern Power Limited for the lease of land at EDF Energy Development Company Limited. This deposit incurs a charge of 3.75% fixed rate with quarterly interest and it is treated as an external balance. This deposit matures on 1 March 2047.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

28. Derivative financial instruments

	2017 £m	2016 £m
Current		
Derivatives that are designated as hedging instruments in a cash flow hedge:		
Commodity purchase contracts	(175)	(238)
Interest rate swap contracts	(2)	(4)
Foreign currency forward contracts	1	6
Derivatives at fair value through profit and loss (FVTPL):		
Commodity purchase contracts	1	17
Foreign currency forward contracts	13	6
Total current derivative financial instruments	(162)	(213)
Split by:		
Current assets	91	125
Current liabilities	(252)	(338)
Non-current		
Derivatives that are designated as hedging instruments in a cash flow hedge:		
Commodity purchase contracts	(74)	(159)
Interest rate swap contracts	-	-
Cross-currency interest rate swaps	39	20
Foreign currency forward contracts	-	3
Derivatives at fair value through profit and loss (FVTPL):		
Commodity purchase contracts	(34)	(54)
Foreign currency forward contracts	3	2
Total non-current derivative financial instruments	(66)	(188)
Split by:		
Non-current assets	51	58
Non-current liabilities	(118)	(246)
Total derivative financial instruments	(228)	(401)

Further details of derivative financial instruments are provided in note 41. The change in fair value of derivatives related to commodity purchases classified at fair value through the income statement is separately disclosed on the face of the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

29. Provisions for liabilities

The movements in provisions during the current year are as follows:

	At 31 December 2016	Utilised in the year	Released in the year	Arising during the year	Unwinding of discount	At 31 December 2017
	£m	£m	£m	£m	£m	£m
Obligations under EU emissions	21	(21)	-	32	-	32
Renewable obligation certificates	472	(665)	(3)	731	-	535
Decommissioning on non-nuclear assets	76	-	-	39	-	115
Restructuring costs	37	(26)	(1)	5	-	15
Nuclear (note 30)	6,391	(32)	-	13	349	6,721
Provision for unburnt fuel at station closure	1,175	-	-	100	59	1,334
Other costs	10	(3)	(2)	16	-	21
	8,182	(747)	(6)	936	408	8,773

The provisions have been split as follows:

	At 31 December 2017			At 31 December 2016		
	Current	Non-current	Total	Current	Non-current	Total
	£m	£m	£m	£m	£m	£m
Obligations under EU emissions	32	-	32	21	-	21
Renewable obligation certificates	535	-	535	472	-	472
Decommissioning on non-nuclear assets	-	115	115	-	76	76
Restructuring	15	-	15	15	22	37
Nuclear	-	6,721	6,721	-	6,391	6,391
Provision for unburnt fuel at station closure	-	1,334	1,334	-	1,175	1,175
Other provisions	21	-	21	10	-	10
	603	8,170	8,773	518	7,664	8,182

The provisions for obligations under EU emissions represent the additional certificates required to cover the Group's carbon emissions. It is expected that this provision will be utilised in 2018 because the Group is required to provide carbon certificates on an annual basis.

The provision for renewable obligations certificates represents the additional certificates required to cover the Group's obligations to supply its customers with certain amounts of electricity which have been generated from renewable energy sources. This provision will be utilised in 2018.

The decommissioning provision is to provide for the future costs of decommissioning the non-nuclear generation assets including Cottam and West Burton power stations, and the wind farm assets. This provision has been calculated on a discounted basis with the discount unwound over the current remaining period to decommissioning, between 2019 and 2035.

The restructuring provision covers the costs of severance related to restructuring which has been announced to impacted employees. It is expected to be utilised in 2018. See note 11 for further information.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

29. Provisions for liabilities continued

Due to the nature of the nuclear fuel process there will be some unburnt fuel in the reactors at station closure. The costs of this unburnt fuel (final core) are fully provided for at the balance sheet date. The provision is based on a projected value per tonne of fuel remaining at closure, discounted back to the balance sheet date and recorded as a long term provision. Any adjustment to the provision is recorded through property, plant and equipment and depreciated over remaining station life.

For details on the nuclear liabilities, see note 30.

30. Nuclear liabilities

Restructuring Agreements were originally entered into on 14 January 2005 as part of the restructuring of the former British Energy Group of companies (hereafter referred to as "the EDF Energy Nuclear Generation Group") carried out from 2002 under the authority of the UK Government in order to stabilise the financial situation of the EDF Energy Nuclear Generation Group.

By virtue of these restructuring agreements:

- the Nuclear Liabilities Fund ("NLF"), an independent trust set up by the UK Government as part of the restructuring, agreed (at the direction of the Secretary of State) to fund, to the extent of its assets: (i) qualifying uncontracted nuclear liabilities (including liabilities in connection with the management of spent fuel at the Sizewell B power station); and (ii) qualifying costs of decommissioning in relation to the existing nuclear power stations owned and operated by EDF Energy Nuclear Generation Limited;
- the Secretary of State agreed to fund: (i) qualifying uncontracted nuclear liabilities (including liabilities in connection with the management of spent fuel at the Sizewell B power station) and qualifying costs of decommissioning, in each case in relation to the existing nuclear power stations owned and operated by EDF Energy Nuclear Generation Limited, to the extent that they exceed the assets of NLF; and (ii) subject to a cap of £2,185 million (in December 2002 monetary values, adjusted accordingly), qualifying contracted liabilities for the EDF Energy Nuclear Generation Group's spent fuel (including in particular liabilities for management of AGR waste from spent fuel loaded prior to 15 January 2005);
- EDF Energy is responsible for funding certain excluded or disqualified liabilities (e.g. those defined as EDF Energy liabilities), and additional liabilities which could be created as a result of failure by EDF Energy to meet minimum performance standards under applicable law. The obligations of EDF Energy to the NLF and the Secretary of State are guaranteed by the assets of the principal members of EDF.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

30. Nuclear liabilities continued

	Spent fuel £m	Radioactive waste – Transport & Disposal £m	Radioactive waste – Retrieval & Processing £m	Decommissioning £m	Total £m
At 31 December 2015	1,452	946	-	4,207	6,605
Charged to profit and loss account:					
- Unwinding of the discount	83	35	-	206	324
- Updated cash flows	195	(363)	-	467	299
- Discount rate update	37	139	-	308	484
- Operating costs	7	3	-	-	10
Payments in the period	(257)	-	-	-	(257)
At 31 December 2016	1,517	760	-	5,188	7,465
Charged to profit and loss account:					
- Recategorisation	-	(218)	264	(46)	-
- Unwinding of the discount	89	30	14	282	415
- Updated cash flows	1	(1)	-	-	-
- Discount rate update	-	-	-	-	-
- Operating costs	9	1	2	-	12
Payments in the period	(226)	-	-	(2)	(228)
At 31 December 2017	1,390	572	280	5,422	7,664

Nuclear liabilities are included in the balance sheet as follows:

	2017 £m	2016 £m
Other liabilities:		
- amounts due within one year (note 26)	174	187
- amounts due after more than one year (note 26)	769	887
Provision for liabilities (see note 29)	6,721	6,391
	7,664	7,465

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

30. Nuclear liabilities continued

Spent fuel

Spent fuel represents all costs associated with the ongoing storage and treatment of spent fuel and the products of reprocessing. Cash flows for AGR spent fuel services relating to fuel loaded into reactors up to RED are based on the terms of the Historic Liability Funding Agreement (HLFA) with BNFL. The pattern of payments within the HLFA is fixed (subject to indexation by RPI) at RED and will be funded by the Government under the Government indemnity.

Other cash flows in respect of spent fuel services relating to storage of AGR and PWR fuel are based on cost estimates derived from the latest technical assessments and are funded by the NLF.

Radioactive waste (Transport and Disposal)

Radioactive waste (Transport and Disposal) comprises the provision of services relating to the transport and disposal of waste arising from the decommissioning of PWR and AGR stations, and the transport and disposal of spent fuel and associated wastes. These liabilities are derived from the latest technical estimates and are funded by the NLF.

Radioactive waste (Retrieval and Processing)

Radioactive waste (Retrieval and Processing) comprises the provision of services relating to the management and processing of high- and intermediate-level radioactive waste products, including the costs of construction and operation of a radioactive waste packaging plant. These liabilities are derived from the latest technical estimates and are funded by the NLF.

Decommissioning

The costs of decommissioning the power stations have been estimated on the basis of ongoing technical assessments of the processes and methods likely to be used for decommissioning under the current regulatory regime. The estimates are designed to reflect the costs of making the sites of the power stations available for alternative use in accordance with the Group's decommissioning strategy. These liabilities are also funded by the NLF.

Updated cost estimates

During 2017, there was no significant change to the cost estimates underpinning the nuclear liabilities.

Updated discount rate applicable to nuclear liabilities

During 2017, an assessment of long-term bond yields and inflationary assumptions did not result in a change to the discount rate used in the present value calculation of the liabilities. The discount rate as at December 2017, this was unchanged from 2016.

Projected payment details

Based on current estimates of station lives and lifetime output projections, the following table shows, in current prices, the likely undiscounted payments, the equivalent sums discounted to reflect the time value of money and the amounts accrued to date.

	Spent fuel £m	Radioactive waste – Transport & Disposal £m	Radioactive waste – Retrieval & Processing £m	Decomm- issioning £m	2017 Total £m	2016 Total £m
Undiscounted	2,510	3,184	1,621	13,769	21,084	20,745
Discounted	1,517	592	303	5,422	7,834	7,637
Accrued to date	1,390	572	280	5,422	7,664	7,465

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

30. Nuclear liabilities continued

The difference between the undiscounted and discounted amounts reflect the fact that the costs concerned will not fall due for payment for a number of years. The differences between the discounted amounts and those accrued to date will be charged to the profit and loss account over the remaining station lives since they relate to future use of fuel. A discount rate of 2.7% pre-tax real rate was applied during 2017, and a pre-tax real rate of 2.7% was applied during 2016.

Under the terms of the historical contracts with BNFL referred to above and in accordance with the projected pattern of payments for decommissioning and other liabilities, taking account of the decommissioning fund arrangements described in note 2, the undiscounted payments in current prices are expected to become payable as follows:

	Spent fuel £m	Radioactive waste – Transport & Disposal £m	Radioactive waste – Retrieval & Processing £m	Decomm- issioning £m	2017 Total £m	2016 Total £m
Within five years	728	1	--	195	924	951
6 – 10 years	489	16	7	1,738	2,250	1,922
11 – 25 years	437	238	66	4,316	5,057	5,178
26 – 50 years	124	262	82	1,261	1,729	1,820
51 years and over	732	2,667	1,466	6,259	11,124	10,874
	2,510	3,184	1,621	13,769	21,084	20,745

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

31. Deferred tax

As disclosed in 12 b), the accounting loss is adjusted for permanent differences and temporary differences in order to calculate the corporation tax charge disclosed in the accounts. Temporary differences arise due to a difference in the carrying amount that an asset or liability is recognised at under accounting standards compared to the carrying amount for tax purposes. Deferred tax is recognised on the difference. The difference for each asset or liability varies over time and at some point in the future there will be no difference. The increase/reduction in the difference between the end of this financial year and the previous financial year is taken to the income statement or equity as a deferred tax charge/credit. Due to accounting standards, deferred tax has to be recognised on items that are disclosed in the accounts but that do not impact the Group's cash tax paid to HMRC, such as fair value adjustments booked on the acquisition of businesses

The following are the major deferred tax (liabilities) and assets recognised by the Group and movements thereon during the current and prior reporting period:

	Accelerated tax depreciation £m	Retirement benefit obligations £m	Fair value of derivative instruments £m	Losses £m	Other £m	Total £m
At 31 December 2015	(1,092)	7	(36)	-	7	(1,114)
Credit/(charge) to income:						
o current year	24	(2)	1	3	2	28
o adjustments in respect of previous years' reported tax charges	(11)		-		(2)	(13)
o effect of decreased tax rate on opening liability	54	-	1		-	55
(Charge) to equity						
o current year		(58)	90			32
o adjustments in respect of previous years' reported tax charges						
o effect of decreased tax rate on opening liability						
At 31 December 2016	(1,025)	(53)	56	3	7	(1,012)
Credit/(charge) to income:						
o current year	19	8	(1)	17	1	44
o adjustments in respect of previous years' reported tax charges	(32)				1	(31)
o effect of decreased tax rate on opening liability	9					9
Credit / (charge) to equity						
o current year		(67)	(22)			(89)
Business disposals	5					5
At 31 December 2017	(1,024)	(112)	33	20	9	(1,074)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

31. Deferred tax continued

The Group has unrecognised tax losses of £8m (2016: £8m). The losses give rise to a deferred tax asset of £1m (2016: £1m) which has not been recognised as it is uncertain whether future taxable profits will be available against which these losses can be utilised. These losses can however be carried forward indefinitely for offset against future profits, should they arise.

All deferred tax assets and liabilities have been offset since there is considered to be a legally enforceable right to do so. The following is the analysis of the deferred tax balances (before offset) for financial reporting purposes:

	2017 £m	2016 £m
Deferred tax assets	63	69
Deferred tax liabilities	(1,137)	(1,081)
At 31 December	(1,074)	(1,012)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

32. Non-controlling interest

Following the disposal of non-controlling interests in NNB Holding Company (HPC) Limited and NNB Holdings Company (SZC) Limited to CGN in September 2016 there are three material non-controlling interest in the Group. Lake Acquisitions Limited and NNB Holding Company (SZC) Limited are 80% owned by the Group. NNB Holding Company (HPC) Limited is 66.5% owned by the Group. Ownership percentages also reflect the voting rights. The principal activities of the aforementioned companies take place in the United Kingdom.

Summarised consolidated financial information in respect of Lake Acquisitions Limited, NNB Holding Company (HPC) Limited, NNB Holding Company (SZC) Limited and their subsidiaries is set out below. The summarised financial information below represents amounts before intra-group eliminations with the rest of the Group.

	Lake Acquisitions Limited		NNB Holding Company (HPC) Limited		NNB Holding Company (SZC) Limited	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Non-current assets	18,764	18,731	4,707	3,226	103	93
Current assets	2,864	2,847	209	341	9	22
Total assets	21,628	21,578	4,916	3,567	112	115
Current liabilities	613	235	236	217	2	5
Non-current liabilities	9,125	9,468	222	199	-	-
Equity attributable to owners of the company	11,890	11,875	4,458	3,151	110	110
Total equity and liabilities	21,628	21,578	4,916	3,567	112	115
Sales	2,690	3,116	1	2	-	-
Profit/(loss) for the year	107	535	(5)	(9)	-	-
Profit/(loss) attributable to owners of the company	86	428	(4)	(9)	-	-
Profit/(loss) attributable to the non-controlling interests	21	107	(1)	-	-	-
Profit for the year	107	535	(5)	(9)	-	-
Total other comprehensive income attributable to owners of the company	168	220	-	-	-	-
Total other comprehensive income attributable to the non-controlling interests	42	55	-	-	-	-
Total other comprehensive income for the year	210	275	-	-	-	-
Dividends paid to non-controlling interest	(57)	(110)	-	-	-	-
Net cash inflow/(outflow) from operating activities	760	1,061	9	(2)	9	(1)
Net cash inflow/(outflow) from investing activities	(451)	(423)	1,449	(958)	(22)	52
Net cash inflow/(outflow) from financing activities	(287)	(550)	(1,472)	578	-	-
Net cash inflow/(outflow)	22	88	(14)	(382)	(13)	51

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

32. Non-controlling interest continued

The cumulative non-controlling interest position for the Group is shown below:

	Lake Acquisitions Limited		NNB Holding Company (HPC) Limited		NNB Holding Company (SZC) Limited		Total	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Balance at beginning of year	2,377	2,325	1,465	-	256	-	4,098	2,325
Profit/(loss) arising during the year	21	107	(1)	-	-	-	20	107
Other comprehensive income: actuarial gains on pension scheme, net of tax	42	55	-	-	-	-	42	55
Total comprehensive income	63	162	(1)	-	-	-	62	162
Acquisition of non-controlling interest	-	-	-	1,063	-	237	-	1,300
Capital injection	-	-	440	402	-	19	440	421
Dividends paid	(57)	(110)	-	-	-	-	(57)	(110)
Balance at end of year	2,383	2,377	1,904	1,465	256	256	4,543	4,098

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

33. Commitments

Capital and other commitments

At 31 December 2017, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £9,019m (2016: £5,998m).

At 31 December 2017, the Group had entered into operating purchase commitments amounting to £653m (2016: £563m).

At 31 December 2017, the Group had contracted to purchase power, gas and other fuel to the value of £3,755m (2016: £3,110m).

Operating lease commitments given

Future minimum rentals payable under non-cancellable operating leases relating to land and buildings as at 31 December are as follows:

	2017 £m	2016 £m
Within one year	16	18
After one year but not more than five years	58	65
More than five years	147	95
Future lease charges	221	178

Finance lease commitments

The Group has finance leases for various items of property, plant and machinery. Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2017 £m	2016 £m	2017 £m	2016 £m
Within one year	12	46	2	33
After one year but not more than five years	46	156	8	108
More than five years	220	231	114	118
	278	433	124	259
Less: future finance charges	(154)	(174)		
Present value of minimum lease payments	124	259		

The Group's finance lease commitments relate to the land at the HPC Development Site.

The land at the HPC Development Site is accounted for as a finance lease with another company within the EDF S.A. group. The term ends in 2041 and had an effective interest rate of 8.8% per annum at inception. Repayments under the lease are re-calculated annually and no arrangements have been entered into for contingent rental payments. The lease is denominated in sterling, and there are no restrictions attached to this lease arrangement.

On 31 December 2017, the Group terminated the finance lease for Cottam Power Station. This lease was held with another company within the EDF S.A. group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

33. Commitments continued

Contingent liabilities

The Group has given letters of credit and guarantees to the value of £590m (2016: £509m) in relation to HMRC obligations, BEGG pension guarantees, performance of contractual obligations and credit support for energy trading and use of distribution systems. Various companies within the Group have given guarantees and an indemnity to the Secretary of State for Business, Innovation and Skills, and the Nuclear Liabilities Fund in respect of their compliance with, among other agreements, the Nuclear Liabilities Funding Agreement. They have also provided a debenture comprising fixed and floating charges in respect of any decommissioning default payment.

34. Share capital

Authorised, issued, called up and fully paid	2017	2016	2017	2016
	Number	Number	£m	£m
Ordinary shares of £1.00 each	8,381,442,467	8,381,442,467	8,382	8,382

35. Capital reserves

	Share premium £m	Capital reserve £m	Total £m
At 31 December 2016	-	9	9
At 31 December 2017	-	9	9

The capital reserve relates to share schemes which gave eligible employees the rights to purchase shares in EDF S.A., the ultimate parent company, on preferential terms. There have been no new schemes launched since 2008.

36. Merger reserve

	2017 £m	2016 £m
At 31 December	(2)	(2)

The merger reserve arose during 2014 when the Group carried out restructures to bring UK renewable assets under EDF Energy Renewables and all gas storage assets under the same entity. This resulted in the recognition of a merger reserve as all entities were under common control.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

37. Retained earnings

	2017 £m	2016 £m
Balance at start of year	5,868	229
Profit/(loss) for the year attributable to the equity holders of the parent	(233)	186
Dividends paid to parent company	(146)	(242)
Capital reduction	-	6,000
Disposal of non-controlling interest	-	(472)
Actuarial gains, net of tax	220	166
Gains on available-for-sale investments	2	1
Balance at end of year	5,711	5,868

38. Hedging reserve

	2017 £m	2016 £m
Balance at start of year	(284)	139
<i>Net gains/(losses) arising on changes in fair value of instruments in a cash flow hedge:</i>		
Commodity purchase contracts	(124)	210
Cross currency interest rate swaps	(5)	-
Foreign currency forward contracts	(10)	14
Interest rate swap contracts	2	3
<i>Net gains/(losses) arising on changes in fair value of hedging instruments transferred to profit or loss:</i>		
Commodity purchase contracts	260	(734)
Foreign currency forward contracts	5	(7)
Deferred tax on net losses in cash flow hedge	(22)	91
Total movement in year	(106)	(423)
Balance at end of year	(178)	(284)

The hedging reserve represents the cumulative effective portion of gains or losses arising on changes in the fair value of hedging instruments designated as cash flow hedges. The cumulative gain or loss arising on changes in fair value of the hedging instruments that are recognised and accumulated under the heading of cash flow hedging reserve will be re-classified to profit or loss account only when the hedged transaction affects the profit or loss, or included as a basis adjustment to the non-financial hedged item in accordance with the Group's accounting policy.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

38. Hedging reserve continued

The maturity analysis of the amounts included within the hedging reserve is as follows:

	31 December 2017 £m	31 December 2016 £m
Less than one year	(165)	(231)
Between one to five years	(63)	(130)
More than five years	12	17
Total fair value losses on derivatives designated as effective cash flow hedges	(216)	(344)
Deferred taxation	38	60
Total	(178)	(284)

During the year a loss of £265m (2016: £741m) was recycled from the hedging reserve and included within fuel, energy and related purchases, in relation to contracts which had matured.

39. Notes to the cash flow statement

	2017 £m	2016 £m
Profit before taxation	(299)	305
<i>Adjustments for:</i>		
(Gain)/loss on derivatives (note 5)	(17)	53
Share of loss of associates	-	(7)
Depreciation (note 18)	831	792
Amortisation (note 17)	89	85
Impairment of non-current assets (note 16)	207	66
Utilisation of carbon and renewable obligations certificates	594	641
Finance costs	85	95
(Gain) on disposal of subsidiary	(33)	-
Increase/(decrease) in provisions	63	-
Increase/(decrease) in post-employment benefits provision	51	(19)
Release of fair value adjustments on inventory	12	26
Operating cash flows before movements in working capital	1,583	2,037
Decrease/(increase) in inventories	91	(70)
(Increase)/decrease in receivables	(332)	31
Increase/(decrease) in payables	180	(368)
Cash generated by operations	1,522	1,630
Pension deficit payment	(26)	(72)
Income taxes (paid) / received	(29)	(115)
Net cash from operating activities	1,467	1,443

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

39. Notes to the cash flow statement continued

A reconciliation of the "income taxes" paid is shown below:

	2017 £m	2016 £m
Corporation tax payments made in respect of the year	-	(34)
Corporation tax payments made in respect of the previous year	(16)	(40)
Corporation tax refunds received in respect of prior years	73	11
Net payments to associated EDF companies for use of tax losses	(28)	(52)
Total corporation tax (received) / paid by the Group	29	(115)

A reconciliation of the net payments to associated EDF companies for use of tax losses is shown below:

	2017 £m	2016 £m
In respect of the year ended 2010 – EDF Energy (UK) Ltd	-	(6)
In respect of the year ended 2013 – EDF Energy Renewables	-	(6)
In respect of the year ended 2014 – EDF Energy (UK) Ltd	(4)	(4)
In respect of the year ended 2015 – EDF Energy (UK) Ltd	(20)	(16)
In respect of the year ended 2016 – EDF Energy (UK) Ltd	(16)	(20)
In respect of the year ended 2017 – EDF Trading Ltd	12	-
Total net payments to associated EDF companies for use of tax losses	(28)	(52)

EDF Energy (UK) Limited is the UK registered financing vehicle for the EDF Energy UK group. EDF Energy Renewables is a collection of UK registered joint operations with EDF EN UK Limited, also a subsidiary of EDF EN S.A. EDF Trading Limited is a subsidiary of EDF S.A.

40. Retirement benefit schemes

The Group sponsors three funded defined benefit pension schemes for qualifying UK employees - the EDF Energy Pension Scheme (EEPS), the EDF Energy Generation & Supply Group of the Electricity Supply Pension Scheme (EEGSG) and the British Energy Generation Group of the Electricity Supply Pension Scheme (BEGG). The schemes are administered by separate boards of Trustees which are legally separate from the Group. The trustees are required by law to act in the interest of all relevant beneficiaries and are responsible for the investment policy with regard to the assets plus the day-to-day administration of the benefits.

During 2015, the Group announced a reform of pension benefits, and, following a period of consultation, decided to introduce the changes with effect from 1 January 2016. A cap on pensionable salary for employees above a certain salary threshold across all three schemes was introduced as part of the reform. In the EEPS scheme, members who were below the salary cap at 1st April 2016 automatically transferred out of the defined benefit section of EEPS and into a career average revalued earnings ("CARE") scheme though they could voluntarily opt back into the EEPS final salary if they wished. The introduction of CARE was subject to the approval of the trustees which occurred on 4 January 2016, and this led to an amendment gain of £33m being recognised in 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

40. Retirement benefit schemes continued

Under the BEGG scheme, employees are entitled to annual pensions on retirement at ages 60, 63 or 65 (depending on the date of joining the scheme), of 1/60th of pensionable salary for each year of service. Under the EEGSG scheme, employees are entitled to annual pensions on retirement at age 60 or 63 (again, depending on the date of joining the scheme), of 1/80th of final pensionable salary for each year of service plus a lump sum of 3/80th's of final pensionable salary for each year of service. Under the EEPS scheme, employees are entitled to an annual pension at age 65 of between 1/50th and 1/80th (depending on their level of contribution) of final pensionable salary for each year of service. All schemes also pay benefits on death or other events such as withdrawing from active service. All benefits are ultimately paid in accordance with the scheme rules. The new CARE section of the EEPS scheme means that employees will accrue benefits based on their average salary during their period of employment within EDF Energy, rather than based on their final salary at the end of their employment. This reduction in the level of benefits to be accrued is mitigated by the fact that they will be accruing at a rate of 1/60th of their average salary based on a 5% contribution rate, rather than the 1/80th of final salary based on a 5% contribution rate under the current EEPS final salary arrangements.

During 2017, a Pension Covenant Alignment Exercise (PCAE) took place where EDF Energy and the relevant trustees reached an agreement on bulk transfers. These transfers aligned the employers participating in the various schemes with the agreed financial support for these schemes. Following the PCAE there is now a CARE section within the BEGG scheme which is open to new entrants. The conditions and benefits related to this section are the same as the EEPS CARE scheme. The final salary section of the BEGG scheme is still closed to new entrants.

The latest full actuarial valuations of the EEGSG, EEPS and BEGG were carried out by qualified actuaries at 31 March 2016. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method. In addition to the three funded pension schemes there is also an unfunded pension scheme which is included in Other Liabilities (see note 26).

Funding requirements

UK legislation requires that pension schemes are funded prudently.

The last funding valuations of BEGG, EEGSG and EEPS were carried out by qualified actuaries as at 31 March 2016 and showed deficits of £334m, £113m, and £81m respectively. The valuations as at 31 March 2016 were completed by the end of June 2017. The Group pays contributions to repair this deficit and contributions in respect of ongoing benefit accrual. The estimated contributions expected to be paid by the Group to the pension schemes during 2018 amount to approximately £247m.

a) Risks associated with the pension schemes

The defined benefit pension schemes typically expose the Group to actuarial risks as detailed below:

Risk of asset volatility

The pension scheme liabilities are calculated using a discount rate based on corporate bond yields. If return on assets underperforms corporate bonds, then this will lead to an increased deficit. All schemes hold a significant proportion of growth assets which would expect to outperform corporate bond yields.

Risk of changes in bond yields

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

Inflation risk

The majority of the scheme's defined benefit obligations are linked to inflation and hence an increase in inflation rates will lead to an increase in liabilities. The majority of assets are unaffected or only loosely correlated with inflation and therefore an increase in inflation will increase the deficit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

40. Retirement benefit schemes continued

Life expectancy

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

b) Assumptions used in the valuation of the pension surplus

The principal financial assumptions used to calculate the pension liabilities under IAS 19 were:

	31 December 2017 % p.a	31 December 2016 % p.a
Discount rate		
- EEGSG – for service costs	2.55	2.75
– for defined benefit obligation	2.60	2.75
- EEPS	2.65	2.85
- BEGG – for service costs	2.65	2.85
– for defined benefit obligation	2.55	2.75
RPI inflation assumption and rate of increase in salaries		
- EEGSG	3.00	3.05
- EEPS	3.00	3.05
- BEGG	3.00	3.05
Rate of increase of pensions in deferment		
- EEGSG	3.00	3.05
- EEPS	1.90	1.95
- BEGG	3.00	3.05

The table below shows details of assumptions around mortality rates used to calculate the IAS 19 liabilities.

EEGSG	2017	2016
Life expectancy for current male pensioner aged 60	27	28
Life expectancy for current female pensioner aged 60	29	30
Life expectancy for future male pensioner currently aged 40 from age 60	29	29
Life expectancy for future female pensioner currently aged 40 from age 60	31	32
EEPS	2017	2016
Life expectancy for current male pensioner aged 65	23	23
Life expectancy for current female pensioner aged 65	25	25
Life expectancy for future male pensioner currently aged 45 from age 65	24	25
Life expectancy for future female pensioner currently aged 45 from age 65	26	27
BEGG	2017	2016
Life expectancy for current male pensioner aged 60	27	27
Life expectancy for current female pensioner aged 60	29	29
Life expectancy for future male pensioner currently aged 40 from age 60	28	29
Life expectancy for future female pensioner currently aged 40 from age 60	30	31

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

40. Retirement benefit schemes continued

Mortality assumptions have been determined based on standard mortality tables, specifically the SAPS S2 standard tables (2016: SAPS S2 tables) with scaling factors to reflect the experience analysis carried out as part of the 31 March 2016 triennial valuations. Future improvements in mortality rates are assumed to be in line with the CMI 2016 Core Projections subject to a 1.25% long-term rate of improvement. These assumptions are governed by IAS 19 and do not reflect the assumptions used by the independent actuary in the triennial valuation as at 31 March 2016, which determined the Group's contributions for future years.

c) Financial impact of defined benefit pension schemes

The amount recognised in the consolidated balance sheet in respect of the Group's funded defined benefit retirement benefit plans is as follows:

	BEGG 2017 £m	EEGSG 2017 £m	EEPS 2017 £m	Total 2017 £m	Total 2016 £m
Present value of defined benefit obligations ("DBO")	(6,014)	(1,056)	(862)	(7,932)	(7,599)
Fair value of scheme assets	6,729	1,153	710	8,592	7,918
Surplus/(deficit) in scheme	715	97	(152)	660	319

In addition to the pension provision recognised, there is an additional amount of £15m (2016: £14m) included within other liabilities which relates to unapproved pension scheme amounts.

The costs associated with these defined benefit schemes are as follows:

	BEGG 2017 £m	EEGSG 2017 £m	EEPS 2017 £m	Total 2017 £m	Total 2016 £m
Current service cost	149	20	63	232	183
Interest cost on DBO	164	24	25	213	247
Interest income on scheme assets	(174)	(25)	(19)	(218)	(241)
Past service costs - amendments	-	-	-	-	(33)
Total pension costs	139	19	69	227	156

Movements in the present value of defined benefit obligations in the current year were as follows:

	BEGG 2017 £m	EEGSG 2017 £m	EEPS 2017 £m	Total 2017 £m	Total 2016 £m
At 1 January	5,931	873	795	7,599	6,310
Current service cost	149	20	63	232	183
Past service cost- amendments	-	-	-	-	(33)
Interest cost on DBO	164	24	25	213	247
Actuarial gains from change in demographic assumptions	(99)	(14)	(22)	(135)	(76)
Actuarial losses from change in financial assumptions	188	24	50	262	1,356
Actuarial gains from experience	40	3	2	45	(177)
Net benefits paid	(256)	(30)	(10)	(296)	(221)
Contributions by employees	2	-	10	12	10
PCAE bulk transfers	(105)	156	(51)	-	-
At 31 December	6,014	1,056	862	7,932	7,599

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

40. Retirement benefit schemes continued

Movements in the fair value of scheme assets in the current year were as follows:

	BEGG 2017 £m	EEGSG 2017 £m	EEPS 2017 £m	Total 2017 £m	Total 2016 £m
At 1 January	6,382	906	630	7,918	6,278
Interest income on scheme assets	174	25	19	218	241
Actuarial (losses)/gains	393	61	37	491	1,370
Contributions by employer	159	32	58	249	241
Net benefits paid	(256)	(30)	(10)	(296)	(221)
Contributions by employees	2	-	10	12	9
PCAE bulk transfers	(125)	159	(34)	-	-
At 31 December	6,729	1,153	710	8,592	7,918

d) Breakdown of scheme assets:

	BEGG 2017 £m	EEGSG 2017 £m	EEPS 2017 £m	Total 2017 £m	Total 2016 £m
Equities:					
Region: UK	608	90	78	776	614
Europe	264	45	40	349	284
North America	476	115	63	654	698
Asia Pacific	28	38	29	95	140
Japan	198	38	19	255	202
Emerging Markets	114	57	41	212	233
Total Equities:	1,688	383	270	2,341	2,171
Bonds:					
Rating: AAA	2,297	39	-	2,336	2,474
AA	27	267	141	435	303
A	78	45	4	127	131
BBB	181	73	6	260	247
Non-investment grade	489	101	44	634	536
Other	417	29	32	478	384
Total Bonds:	3,489	554	227	4,270	4,075
Property	456	-	108	564	456
Cash and derivatives	(4)	55	21	72	241
Other	1,111	146	88	1,345	975
	6,740	1,138	714	8,592	7,918

Equity and bond classifications above represent those investments where the underlying exposure is exclusively within those asset classes. Investments in diversified funds and private equity and debt funds are included within the "other" category above. The assets of the pension scheme do not include any financial instruments which have been issued by the Company nor any property or other assets which are in use by the Company in either the current or prior year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

40. Retirement benefit schemes continued

The investment strategy is determined by the scheme trustees on a scheme by scheme basis.

BEGG and EEGSG

A review of the investment strategy was conducted as part of the 2013 valuation and adjusted following the 2016 valuation. The assets of the scheme are now allocated in two separate portfolios referred to as the matching portfolio and the growth portfolio. Within tolerances, the matching portfolio is now supported by 35% of scheme assets while 65% of the assets are deployed in the growth portfolio. The matching portfolio will deliver interest rate and inflation hedging of 93% - 97% on the technical provisions basis. Taken together the overall portfolio is designed today to prudently deliver a Gilts plus 2.5% p.a. return over the long term though the Trustees are investigating options to target a lower level of return given the recent strong asset performance. The Trustees continue to actively manage the growth portfolio to target this objective while maintaining diversification.

EEPS

A review of the investment strategy was conducted and agreed in early 2015 and revisited in 2017. The assets of the scheme are now allocated in two separate portfolios referred to as the matching portfolio and the growth portfolio. Within tolerances, the matching portfolio is now supported by 20% of scheme assets while 80% of the assets are deployed in the growth portfolio. The matching portfolio now delivers interest rate and inflation hedging of 30% (moving to 40%) on the technical provisions basis. The Company and Trustees continue to discuss an increase in these hedging levels. Taken together the overall portfolio is designed to prudently deliver a Gilts plus 2.5% p.a. return over the long term without increasing risk from prior levels. The Trustees actively manage the growth portfolio to target this objective while maintaining diversification.

e) Profile of the pension scheme

BEGG

Circa 50% of the BEGG liabilities are attributable to current employees, 5% to former employees and 45% to current pensioners. The weighted average time until benefits payments are made is 19 years which reflects the approximate split of the defined benefit obligation between current employees, deferred members and current pensioners.

EEGSG

Circa 60% of the EEGSG liabilities are attributable to current employees, 5% to former employees and 35% to current pensioners. For EEGS as a whole, the duration is approximately 19 years.

EEPS

Circa 71% of the EEPS liabilities are attributable to current employees, 24% to former employees and 5% to current pensioners. For EEPS as a whole, the duration is approximately 34 years.

f) Sensitivity of pension defined benefit obligations to changes in assumptions:

The significant actuarial assumptions for the determination of the defined benefit obligations are discount rate, salary increase and inflation rate. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, holding all other assumptions constant.

At 31 December 2017

Impact of a 25bp increase/decrease in discount rate	-4.8% to +5.3%
Impact of a 25bp increase/decrease in salary increase assumption	+0.5% to -0.5%
Impact of a 25bp increase/decrease in inflation rate	+3.6% to -3.7%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

40. Retirement benefit schemes continued

In calculating the sensitivities, the present value of the obligation has been calculated using the projected unit credit method at the end of the reporting period which is consistent with how the defined benefit obligation has been calculated and recognised on the balance sheet.

There have been no changes in the methodology for the calculation of the sensitivities since the prior year.

41. Financial instruments

The table below shows the carrying value of Group financial instruments by category:

	2017 £m	2016 £m
Financial assets		
Deferred consideration (note 19)	106	104
Cash and cash equivalents (note 25)	1,065	1,729
Derivative instruments held at fair value through P&L (note 28)	27	64
Derivative instruments in designated hedging relationships (note 28)	115	119
Loans and receivables	1,973	1,683
NLF and Nuclear liabilities receivable (note 22)	7,675	7,486
Available for sale financial assets (note 19)	12	10
Financial liabilities		
Derivative instruments held at fair value through P&L (note 28)	(53)	(99)
Derivative instruments in designated hedging relationships (note 28)	(317)	(485)
Borrowings and other liabilities at amortised cost ⁽¹⁾	(4,426)	(3,748)
Finance lease liabilities (note 33)	(124)	(259)
Contingent consideration for a business combination	(3)	(3)

⁽¹⁾ The prior year amortised cost has been restated for the removal of amounts relating to obligations under finance leases, as this is presented separately. This presentational change has no effect on net assets or the profit for the year.

Loans and receivables include trade and other receivables as well as long-term receivables and exclude other debtors and the provision for doubtful debts.

Borrowings and other liabilities include borrowings, other liabilities excluding deferred income, and obligations under finance leases.

a) Financial risk management objectives

The Group is exposed to a variety of financial risks including commodity price risk, interest rate risk, credit risk, foreign currency risk and liquidity risk. The Group seeks to minimise the effect of these risks using financial instruments to hedge risk exposures. The use of derivative financial instruments is governed by the Group's approved policies and in line with the Group's risk mandate. The Group does not enter into or trade financial instruments, including derivatives, for speculative purposes.

The accounting treatment for financial instruments entered into as a result of these policies is detailed in note 2.

b) Capital risk management

The Group manages its capital through focusing on its net debt which comprises borrowings including finance lease obligations and accrued interest, less cash and cash equivalents (note 25) plus derivative liabilities. Given that the Group is a 100% owned subsidiary, any changes in capital structure are generally achieved via additional borrowings from other companies within the EDF S.A. group or from capital injection from its immediate parent company. The Group is not subject to any externally imposed capital requirements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

41. Financial instruments continued

c) Commodity price risk management

Commodity price risk arises from the necessity to forecast customer demand for gas and electricity effectively and to procure the various commodities at a price competitive enough to allow a favourable tariff proposition for our customers. Due to the vertically-integrated nature of the Group, the electricity procured from the generation business provides a natural hedge for the electricity demand from the retail business.

The residual exposure to movements in the price of electricity, gas, coal and carbon is partially mitigated by entering into contracts on the forward markets, and the exposure to fluctuations in the price of uranium is mitigated by entering into fixed price contracts.

Risk management is monitored for the whole of EDF Energy, through sensitivity analysis; both per commodity and across commodities, in line with the Group's risks mandate. At a Group level, commodity price risk exposure is measured looking at sensitivity analysis.

If the purchase price of power had been 10% higher, and all the other variables remained constant, then the Group's loss before taxation would have been £2m lower (2016: profit before tax £4m lower) and hedging reserves would have been £203m lower (2016: £230m lower).

If the purchase price of gas had been 10% higher, and all the other variables remained constant, then the Group's loss before taxation would have been £6m lower (2016: profit before tax £11m higher) and hedging reserves would have been £51m higher (2016: £57m higher).

If the purchase price of coal had been 10% higher, and all the other variables remained constant, then the Group's loss before taxation would have been £2m higher (2016: profit before tax £6m lower) and hedging reserves would have no change (2016: £nil).

If the purchase price of carbon had been 10% higher, and all the other variables remained constant, then the Group's loss before taxation would have been £1m higher (2016: £nil) and hedging reserves would have been £3m higher (2016: £3m higher).

There have been no changes in the method of preparing the sensitivity analysis.

d) Interest rate risk management

The Group is exposed to interest rate risk because the Group borrows funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate instruments and through the use of swap agreements. The Group's policy is to use derivatives to reduce exposure to short-term interest rate fluctuations and not for speculative purposes. Interest rate swaps are designated as a cash flow hedge.

Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to interest rates at the reporting date, assuming that the rate change took effect at the start of the reporting period and remained in place for the full period, and assuming the closing borrowing and cash position was in place throughout the year. There has been no change in the method of preparing the sensitivity analysis during the year.

If the interest rates had been 100 basis points higher at the reporting date, and on the basis of the assumptions outlined above, then the Group's loss for the year would have been £10m lower (2016: £11m higher profit) as a result of changes in financial instrument valuations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

41. Financial instruments continued

Interest rate profile

The interest rate profile of interest-bearing loans and borrowings, subsequent to the effect of interest rate swaps, was as follows:

	2017 £m	2016 £m
Floating rate borrowings	41	60
Fixed rate borrowings	1,286	750
Total borrowings (note 27)	1,327	810
Floating rate finance lease obligations (note 33)	124	259

Payments under the floating rate finance lease obligations are based on overnight LIBOR +200bps.

The weighted average interest rates for all borrowings and finance lease obligations, after interest rate swaps, were as follows:

	2017	2016
Weighted average fixed interest rate %	3.9%	4.0%
Weighted average floating interest rate %	1.7%	1.5%

At 31 December 2017, the Group had three interest rate swaps (2016: seven) and one cross currency interest rate swaps (2016: one). The fair value of the interest rate swaps outstanding at 31 December 2017 was a liability £2m (2016: £3m). The fair value of the cross-currency interest rate swaps outstanding at 31 December 2017 was an asset of £39m (2016: £23m asset). If interest rates moved by 100bps the change in value of the derivative asset and the hedging reserve would be £0.3m (2016: £0.3m). If interest rates moved by 100bps, the loss before tax would be £9.4m higher (2016: £11.2 lower profit).

e) Foreign currency risk management

The Group is exposed to exchange rate fluctuations as a result of US dollar and Euro denominated debt and US dollar and Euro denominated commodity contracts. The Group's policy is to enter into cross currency interest rate swaps to convert all foreign currency denominated debt into GBP.

Foreign currency exposures arising from US dollar and Euro denominated commodity contracts are managed using foreign currency forward contracts. The Group's policy is to enter into foreign currency forward contracts to convert foreign currency obligations into GBP.

At the balance sheet date, the following foreign currency derivatives were outstanding:

At 31 December 2017	Notional amount to be received				Notional amount to be given				Fair value
£m	<1yr	2-5yrs	>5yrs	Total	<1yr	2-5yrs	>5yrs	Total	
Foreign currency forwards	214	613	-	827	385	262	-	647	14
Cross currency swaps	22	112	811	945	25	99	695	819	(78)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

41. Financial instruments continued

At 31 December 2016	Notional amount to be received				Notional amount to be given				Fair value
	<1yr	2-5yrs	>5yrs	Total	<1yr	2-5yrs	>5yrs	Total	
£m									
Foreign currency forwards	247	696	-	943	523	853	-	1,376	19
Cross currency swaps	22	112	811	945	25	124	695	844	(78)

At the balance sheet date, the carrying value of the Group's foreign currency denominated monetary assets and monetary liabilities are as follows:

£m	<u>Liabilities</u>		<u>Assets</u>	
	2017	2016	2017	2016
EUR	(431)	(175)	148	325
USD	(10)	(12)	-	4

The cross currency swaps are designated as a cash flow hedge of the exposure on the bonds.

Sensitivity analysis

If the exchange rate had been 10% lower at the reporting date, there would have been an impact of £1.6m (2016: £22.1m) on the Group loss for the year (2016: profit). Pre-tax, the hedging reserve impact would have been £6.7m (2016: £0.9m). This excludes the exchange rate sensitivity on cross currency interest rate swaps.

f) Credit risk management

Counterparty and credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The Group has no significant concentration of external credit risk, with exposure spread over a large number of external counterparties and customers. Due to the nature of the Group's trading with other EDF S.A. group companies in Europe, there are large trading balances with other Group companies, however these are not considered to be a risk.

The Group's counterparty credit risk is measured, monitored, managed and reported in accordance with the Group's credit risk policy. The policy sets out the framework that dictates the maximum credit exposure that the Group can incur to each of its counterparties based on their public credit rating (or where counterparty is not publicly rated, a rating calculated using an in-house scoring model). The Group uses a variety of tools to mitigate its credit exposure, for example, requesting parent company guarantees, letters of credit or cash collateral, agreeing suitable payment terms and netting provisions. The majority of energy trading exposure is held against investment grade counterparties. For commercial customers with poor credit ratings, the Group on occasion will receive security deposits which can be used in the event of default by the customer.

The Group also faces counterparty risk through the ability of key suppliers to deliver to contract. Such suppliers are subject to credit risk reviews and continual monitoring.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

41. Financial instruments continued

Balances are written off when recoverability is assessed as being remote. The assessment considers the age of debt balances and takes account of the credit worthiness of some customers and considers whether they remain ongoing customers. Amounts overdue but not written off are fully or partially provided for in accordance with the Group's positioning policies. Money recovered relating to balances previously provided against or written off is credited to the income statement on receipt.

The maximum credit risk exposure is derived from the carrying value of financial assets in the financial statements, in addition to the credit risk arising from the provision of support and guarantees as detailed in the table below.

	2017 £m	2016 £m
Guarantee provided by subsidiary relating to performance of contractual obligations	90	81
Guarantee relating to pension obligations	320	240
Guarantee relating to tax obligations	1	1

g) Liquidity risk management

Liquidity risk is the risk that the Group is unable to meet its obligations as they fall due because it has inadequate funding or is unable to liquidate its assets. The Group manages liquidity risk by preparing cash flow forecasts and by ensuring it has sufficient funding to meet its forecast cash demands.

At 31 December 2017, the Group had available £358m (2016: £338m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

The tables below detail the contracted maturity for all financial liabilities, based on contractual cash flows.

At 31 December 2017

	0-30 days	30-90 days	3-6 months	6-12 months	1-2yrs	2-5yrs	>5yrs	Total
Obligations under finance lease	0	0	0	12	12	34	220	278
Borrowings	0	0	0	6	0	32	1,289	1,327
Other liabilities	886	1,067	41	23	12	31	1,081	3,141
Derivative and other financial instruments	(94)	(17)	(281)	(135)	290	513	(719)	443

At 31 December 2016

	0-30 days	30-90 days	3-6 months	6-12 months	1-2yrs	2-5yrs	>5yrs	Total
Obligations under finance lease (Restated)	-	8	8	29	47	110	231	432
Borrowings	-	-	7	9	44	24	764	848
Other liabilities	781	874	48	85	53	120	744	2,705
Derivative and other financial instruments	236	108	3	(73)	(404)	(25)	744	589

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

41. Financial instruments continued

h) Fair values of assets and liabilities

The fair values of financial assets and liabilities are determined as follows:

- The fair value of financial assets and liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices.
- The fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes of similar instruments.
- The fair value of derivative instruments is calculated using quoted prices.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2017 £m	2016 £m
Level 2		
Derivative financial instruments		
Hedging instruments in a cash flow hedge (note 28)	211	371
Instruments designated at FVTPL (note 28)	17	30
Contingent consideration (note 19)	(3)	(3)
Level 3		
Available for sale assets (note 19)	(12)	(10)
Total	213	388

There have been no transfers between levels during the period.

All derivative financial instruments are valued using a discounted cash flow. Future cash flows are estimated based on forward rates (from observable rates at the end of the reporting period) and contract forward rates, discounted at rate that reflects the credit risk of the counterparties. Similar valuation methodologies are used for commodity forward contracts, foreign currency forward contracts, cross currency swaps and interest rate swaps. There are no significant unobservable inputs into the valuation.

The contingent consideration is valued by referencing the price of a similar instrument with identical terms which is quoted on an active market. There are no significant unobservable inputs into the valuation.

The available for sale assets are valued at the fair value of net assets. Changes in the unobservable inputs would not have a significant impact on the fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

41. Financial instruments continued

Except as detailed in the table below, the Directors consider that the carrying amount of the financial assets and financial liabilities recorded in the financial statements approximates fair value.

	Carrying amount 2017 £m	2016 £m	Fair value 2017 £m	2016 £m
Financial liabilities				
Borrowings and other liabilities	4,550	3,879	3,958	3,825

Financial liabilities measured at fair value are level 2 instruments and are valued using a discounted cash flow. Future cash flows are estimated based on forward rates (from observable rates at the end of the reporting period) and contract forward rates, discounted at rate that reflects the credit risk of the counterparties.

42. Related parties

During the year, the Group entered into the following transactions with related parties who are not members of the Group:

		Sales to related parties £m	Purchases from related parties £m	Interest paid to related parties £m	Interest received from related parties £m
Joint operations:	2017	-	(108)	-	3
	2016	-	(94)	-	2
Associates:	2017	-	(68)	-	1
	2016	-	(30)	-	-
Transactions with other EDF S.A. group companies	2017	848	(1,005)	(64)	26
	2016	904	(1,057)	(62)	42
Finance lease commitment with EDF S.A. group	2017	-	-	(4)	-
	2016	-	-	(6)	-

At the year end, group companies had the following outstanding balances with related parties who are not members of the Group:

		Amounts owed by related parties £m	Amounts owed to related parties £m
Joint operations:	2017	110	-
	2016	117	-
Associates:	2017	6	-
	2016	6	-
Transactions with other EDF S.A. group companies	2017	1,405	(2,098)
	2016	2,201	(1,312)
Finance lease commitment with EDF S.A. group companies	2017	-	(124)
	2016	-	(259)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

42. Related parties continued

EDF Energy Holdings Limited trades with other group companies which are part of the EDF S.A. group.

Sales and purchases from related parties are made at normal market prices. Outstanding balances at year end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables. The Group has not raised any provision for doubtful debts relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market value in which the related party operates.

The table above includes loans and bonds payable to other EDF subsidiaries of £1,328m (2016: £797m) and loans receivable from EDF S.A. companies of £320m (2016: £540m).

The Group enters into derivative contracts to purchase commodities at normal market prices with another EDF S.A. group company. The total trade value of outstanding contracts in the Group balance sheet was an asset of £1,006m (2016: asset of £718m).

Transactions with key management personnel

	2017 £m	2016 £m
Short-term benefits	5.0	4.7
Post-employment benefits	0.1	0.1
	5.1	4.8

Key management personnel comprise members of the Executive Committee, a total of nine individuals at 31 December 2017 (2016: seven). The Executive Committee is a cross-business unit committee of senior staff who take part in the decision-making for the Group.

43. Events after the balance sheet date

In January 2018, there was a restructure of the EDF Energy Renewables group, consisting of EDF Energy Renewables Holdings Limited and its subsidiaries. The restructure involved EDF Energy Renewables Limited replacing EDF Energy Renewables Holdings Limited as the holding company for the EDF Energy Renewables group. This was achieved through EDF Energy Renewables Holdings Limited transferring its shareholding in EDF Energy Renewables Ltd to EDF Energy (Energy Branch) Limited (50%) and EDF EN UK Limited (50%). EDF Energy (Energy Branch) Limited and EDF EN UK Limited then contributed their 50% shareholdings in EDF Energy Renewables Holdings Limited to EDF Energy Renewables Limited in return for the issue of new ordinary shares. To achieve further simplification, there was a transfer of control from EDF Energy (Energy Branch) Limited to EDF EN UK Limited, via the sale of 1% of the shares in the EDF Energy Renewable group from EDF Energy (Energy Branch) Limited to EDF EN UK Limited. Previously the EDF Energy Renewables group was jointly held, and proportionately consolidated, by the two shareholders. This transfer of control has resulted in the deconsolidation of the EDF Energy Renewables group in the EDF Energy Holdings Limited consolidation. The impact of this restructure as at 1 January 2018 is a reduction in net assets of £11m.

At 31 December 2017, NNB Finance Company (HPC) held guarantee agreements with the Infrastructure and Projects Authority (IPA). Under these agreements, a first tranche of up to £2 billion of guarantee is available subject to fulfilment of conditions precedent. On 5 February 2018, the guarantee agreements were cancelled.

Additionally, in respect of the HPC project there have been a further 6 contracts entered into since balance sheet date with respective values of €106m and £65m.

On 27 February 2018, Hoppy Limited changed from having 100% shares held by EDF Energy Customers Limited to 51% shares held by EDF Energy Customers Limited and 49% shares held by EDF Nouveaux Business Holding SAS. There is no material impact to the accounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

44. Parent undertaking and controlling party

EDF Energy (UK) Limited holds a 100% interest in EDF Energy Holdings Limited and is considered to be the immediate parent company. Électricité de France SA is the smallest group for which consolidated financial statements are prepared, copies of which may be obtained from Électricité de France SA, 22-30 Avenue de Wagram, 75382, Paris, Cedex 08, France.

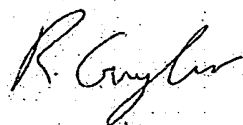
At 31 December 2017, Électricité de France SA, a company incorporated in France, is regarded by the Directors as the Company's ultimate parent company and controlling party. This is the largest group for which consolidated financial statements are prepared. Copies of that company's consolidated financial statements may be obtained from Électricité de France SA, 22-30 Avenue de Wagram, 75382, Paris, Cedex 08, France.

**COMPANY BALANCE SHEET
AT 31 DECEMBER 2017**

	<i>Note</i>	2017 £m	2016 £m
Non-current assets			
Investments in subsidiary undertakings	10	12,381	11,470
Deferred consideration	11	106	104
		12,487	11,574
Current assets			
Trade and other receivables	12	93	210
Cash and cash equivalents		158	639
		251	849
Total assets		12,738	12,423
Current liabilities			
Other liabilities	13	(137)	(164)
Borrowings	14	(492)	-
Total liabilities		(629)	(164)
Net assets		12,109	12,259
Equity			
Share capital	15	8,382	8,382
Share premium		-	-
Retained earnings		3,727	3,877
Total equity		12,109	12,259

The Company reported a loss for the financial year ended 31 December 2017 of £4m (2016: loss of £2,756m).

The company financial statements of EDF Energy Holdings Limited, registered number 06930266, on pages 97 to 109 were approved by the Board of Directors on 18 April 2018 and were signed on its behalf by:



Robert Guyler
Director

**COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Share capital £m	Share premium account £m	Profit and loss account £m	Total Shareholders' funds £m
At 31 December 2015	13,914	273	875	15,062
Loss for the year	-	-	(2,756)	(2,756)
Shares issued	195	-	-	195
Capital reduction	(5,727)	(273)	6,000	-
Dividends paid	-	-	(242)	(242)
At 31 December 2016	8,382	-	3,877	12,259
Loss for the year	-	-	(4)	(4)
Shares issued	-	-	-	-
Capital reduction	-	-	-	-
Dividends paid	-	-	(146)	(146)
At 31 December 2017	8,382	-	3,727	12,109

NOTES TO THE COMPANY FINANCIAL STATEMENTS

1. Accounting policies

Basis of preparation

The Company meets the definition of a qualifying entity under Financial Reporting Standard 101 (FRS 101) 'Reduced Disclosure Framework'. These financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework'. In addition to the accounting policies stated in the consolidated accounts above, the accounting policies which follow set out those policies which apply in preparing the Company financial statements for the year ended 31 December 2017.

Summary of disclosure exemptions

The Company has taken advantage of the following disclosure exemptions under FRS101:

- a) The requirements of IFRS 7 Financial Instruments: Disclosures;
- b) the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of paragraph 79(a)(iv) of IAS 1;
- c) the requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1 Presentation of Financial Statements;
- d) the requirements of IAS 7 Statement of Cash Flows;
- e) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- f) the requirements of paragraph 17 of IAS 24 Related Party Disclosures;
- g) the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
- h) the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

Going concern

As set out in the Strategic Report, after making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Income Statement

As permitted by s408 of the Companies Act 2006 the Company has elected not to present its own income statement or statement of comprehensive income for the year. The profit attributable to the Company is disclosed in the footnote to the Company's balance sheet.

The auditor's remuneration for audit and other services is disclosed in note 3 to the parent company financial statements.

Investments

Fixed asset investments are shown at cost less any provision for impairment. Current asset investments are stated at the lower of cost and net realisable value.

Cash and cash equivalents

Cash and cash equivalents comprises cash at bank and in hand, including short term deposits with a maturity date of three months or less from the date of acquisition and restricted cash. A collective net overdraft facility arrangement is operated within the Group which permits the offset of cash balances and overdrafts between its subsidiary companies.

NOTES TO THE COMPANY FINANCIAL STATEMENTS continued

1. Accounting policies continued

Financial instruments

Financial assets and liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instruments. Detailed information regarding the Company's accounting policies for financial instruments can be found in the Group accounting policies note.

Taxation

The income tax expense included in the consolidated income statement consists of current and deferred tax.

Current tax

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted by the balance sheet date. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax

Deferred tax is provided or recognised in full using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax arising from (1) the initial recognition of goodwill, (2) the initial recognition of assets or liabilities in a transaction (other than in a business combination) that affects neither the taxable profit nor the accounting profit, or (3) differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future, is not provided for.

Deferred tax assets are recognised to the extent it is more likely than not that future taxable profits will be available against which the temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply for the period when the asset is realised or the liability is settled based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date.

Current tax and deferred tax for the year

Current tax and deferred tax are recognised in the income statement, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current tax and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

NOTES TO THE COMPANY FINANCIAL STATEMENTS continued

2. Critical accounting judgement and key source of estimation uncertainty

In the application of the Company's accounting policies, described in note 1, the Directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Asset impairment

The Company performs impairment testing on assets where there is an indication of potential impairment. The impairment review involves a number of assumptions including discount rates, output values, asset lives and forward power prices. The long term nature of the Company's assets and the unique and early stage nature of the Company's Nuclear New Build projects in particular, increases the level of uncertainty involved.

Critical judgements in applying accounting policies

There are no critical judgments that the Director's have made in the process of applying the accounting policies of the Company, that are deemed to have a significant effect on the amounts recognised in the financial statements.

3. Operating loss

In 2017, an amount of £6,150 (2016: £6,000) was paid to Deloitte LLP for audit services relating to audit of the individual entity statutory accounts of the Company. This charge was borne by another Group company. In 2017, amounts payable to Deloitte LLP by the Company in respect of non-audit services were £nil (2016: £nil).

The Company had no employees in 2017 (2016: none).

4. Directors' emoluments

None of the Directors received any remuneration for services to the Company during the year (2016: £nil).

5. Investment income

	2017 £m	2016 £m
Income from investment	150	360
Other finance income	2	5
	152	365

NOTES TO THE COMPANY FINANCIAL STATEMENTS continued

6. Finance costs

	2017 £m	2016 £m
Forgiveness of a loan to a subsidiary	155	-
Other finance costs	1	4
	156	4

In 2017, EDF Energy Holdings Limited forgave a loan owed by EDF Energy Group Holdings Limited (formerly EDF Energy Group Holdings Plc).

7. Other gains and losses

	2017 £m	2016 £m
Gain on disposal of investments	-	211
	-	211

8. Dividends

	2017 £m	2016 £m
Interim dividends paid	146	242
	146	242

The interim dividends to the parent company represents 1.7p per Ordinary share (2016: 2.9p).

9. Impairment

	2017 £m	2016 £m
EDF Energy Lake Limited	-	3,328
	-	3,328

In 2016, an impairment test was performed in EDF Energy Nuclear Generation Group Limited for the nuclear generation business due to falling power prices which was considered as an impairment trigger. This has resulted in an impairment of £3,328m in EDF Energy Lake Limited, the intermediate holding company of EDF Energy Nuclear Generation Group Limited, in which EDF Energy Holdings Limited holds a direct investment. The fair value was estimated based on discounted cash flows over its expected useful life. The main assumptions used for the calculation were the discount rate and forward power prices.

NOTES TO THE COMPANY FINANCIAL STATEMENTS continued

10. Investments in subsidiary undertakings

Cost	Shares £m
At 31 December 2016	14,798
Additions during the year	911
Disposals during the year	-
At 31 December 2017	15,709
Impairment	
At 31 December 2016	(3,328)
Impairment (note 9)	-
At 31 December 2017	(3,328)
Carrying Value	
At 31 December 2017	12,381
At 31 December 2016	11,470

The additions during the year related to the subscription of £872m shares in EDF Energy (NNB) Limited and £39m shares in Bradwell Power Holding Company Limited.

The principal subsidiary undertakings at 31 December 2017, which are incorporated in the United Kingdom and are registered and operate in England and Wales, or Scotland (unless otherwise stated), are as follows:

Name of subsidiary	Proportion of ownership interest and voting power held %	Principal activity
British Energy Bond Finance plc ^{*(2)}	80%	Financial activities
British Energy Direct Limited ^{*(1)}	100%	Sale of electricity
British Energy Finance Limited ^{*(2)}	80%	Financial activities
British Energy Generation (UK) Limited ^{*(2)}	80%	Holding company
British Energy Generation Limited*	80%	Dormant company
British Energy Group Limited ^{*(2)}	80%	Dormant company
EDF Energy Nuclear Generation Limited ^{*(1)}	80%	Power generation
EDF Energy Nuclear Generation Group Limited ^{*(2)}	80%	Holding company
British Energy Holdings Limited * (Canada) ⁽⁴⁾	80%	Holding company
British Energy International Holdings Limited ^{*(2)}	80%	Holding company
British Energy Investment Limited ^{*(2)}	80%	Investment company
British Energy Limited ^{*(2)}	80%	Holding company
British Energy Renewables Limited ^{*(2)}	80%	Renewable power generation
British Energy Trading and Sales Limited ^{*(2)}	80%	Sale of electricity
British Energy Trading Services Limited ^{*(2)}	80%	Sale of electricity
British Energy Technical Services Limited ^{*(2)}	80%	Sale of electricity
British Energy Treasury Finance Limited ^{*(2)}	80%	Financial activities
British Energy Trustees Limited ^{*(2)}	80%	Financial activities

NOTES TO THE COMPANY FINANCIAL STATEMENTS continued

10. Investments in subsidiary undertakings continued

Bruce Hydro Inc * (Canada) ⁽⁴⁾	80%	Power generation
Bruce Power Operating Corp * (Canada) ⁽⁴⁾	80%	Power generation
EDF Energy Investments *	100%	Holding company
Cheshire Cavity Storage Group Limited *	100%	Holding company
Cheshire Cavity Storage 1 Limited *	100%	Provision of gas storage facilities
EDF Energy (Dormant Holdings) Limited *	100%	Holding company
EDF Energy plc *	100%	Sale of electricity
EDF Energy (Cottam Power) Limited *	100%	Provision and supply of electricity generation
EDF Energy Customers Limited *	100%	Electricity retailing
EDF Energy (Energy Branch) Limited *	100%	Investment in electricity generation
EDF Energy Fleet Services Limited *	100%	Transport services
EDF Energy Group Holdings Limited	100%	Holding company
EDF Energy Lake Limited	100%	Holding company
EDF Energy ESPS Trustee Limited*	100%	Dormant company
EDF Energy (Thermal Generation) Limited (formerly EDF Energy (West Burton Power) Limited)*	100%	Power generation
EDF Energy (Gas Storage Hole House) Limited*	100%	Provision of gas storage facilities
EDF Energy R&D UK Centre Limited*	100%	Research and development of generation and supply
EDF Energy Pension Scheme Trustee Limited*	100%	Dormant company
Eggborough Power (Holdings) Limited* ⁽²⁾	80%	Holding company
Lake Acquisitions Limited*	80%	Holding company
Lochside Energy Inc * (Canada) ⁽⁴⁾	80%	Financial activities
Lochside Insurance Limited * (Guernsey) ⁽⁵⁾	80%	Insurance company
NNB Holding Company (HPC) Limited *	100%	Holding company
NNB Holding Company (SZC) Limited	100%	Holding company
NNB Top Company HPC (A) Limited *	100%	Holding company
NNB Top Company HPC (B) Limited *	100%	Holding company
NNB Holding Company (BRB) Limited	100%	Holding company
NNB Generation Company (SZC) Limited *	100%	Development of generation and supply
NNB Generation Company (HPC) Limited *	100%	Development of generation and supply
NNB Generation Company (BRB) Limited *	100%	Development of generation and supply
NNB Land Company Limited *	100%	Property company
EDF Energy (NNB) Limited (Hong Kong) ⁽³⁾	100%	Holding company
NNB Finance Company (HPC) Limited *	100%	Financial activities
Northern Power Limited ⁽²⁾	100%	Power generation

NOTES TO THE COMPANY FINANCIAL STATEMENTS continued

10. Investments in subsidiary undertakings continued

*Indirectly held

(1) Registered Address: Barnett Way, Barnwood, Gloucester, GL4 3RS

(2) Registered Address: EDF Energy, Gso Business Park, East Kilbride, Scotland, G74 5PG

(3) Registered Address: Room 1902, 19/F Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong

(4) Registered Address: 100 King Street West, 1600, 1 First Canadian Place, Toronto ON M5X 1G5, Canada

(5) Registered Address: PO Box 34, St Martin's House, Le Bordinge, St Peter Port, Guernsey, Channel Islands, GY1 4AU

Unless stated otherwise, the registered address of the subsidiary undertakings listed above is 90 Whitfield Street, London, W1T 4EZ

During 2017, EDF Energy 1 Limited, Deletapicnic Limited, EDF Energy (London Heat & Power) Limited, EDF Energy (Metro Holdings) Limited, EDF Energy (Northern Offshore Wind) Limited, EDF Energy (Projects) Limited, SEEBOARD Energy Limited, SEEBOARD Energy Gas Limited, 51 Limited, Associated Electricity Supplies Limited and EDF Energy (South East Generation) Limited were placed in voluntary liquidation and subsequently dissolved.

Following year end, EDF Energy Investments and EDF Energy (Dormant Holdings) Limited were placed in voluntary liquidation and subsequently dissolved. NNB Generation Company (BRB) Limited has been listed for voluntary strike-off.

The associates and joint operations at 31 December 2017, which are registered and operate in England and Wales, are as follows:

Name of subsidiary	Percentage of ordinary shares held	Principal activity
Fallago Rig Windfarm Limited ^{*(2)}	10.0%	Renewable energy generation
Fallago Rig II Wind Farm Limited ^{*(5)}	50.0%	Renewable energy generation
EDF Energy Renewables Limited ^{*(5)}	50.0%	Renewable energy generation
Boundary Lane Windfarm Limited ^{*(5)}	50.0%	Renewable energy generation
Braemore Wood Windfarm Limited ^{*(5)}	50.0%	Renewable energy generation
Glass Moor II Windfarm Limited ^{*(3)}	10.0%	Renewable energy generation
Green Rigg Windfarm Limited ^{*(3)}	10.0%	Renewable energy generation
Navitus Bay Development Limited ^{*(1)}	25.5%	Renewable energy generation
Royal Oak Windfarm Limited ^{*(5)}	50.0%	Renewable energy generation
Bicker Fen Windfarm Limited ^{*(6)}	10.0%	Renewable energy generation
Fenland Windfarms Limited ^{*(6)}	10.0%	Renewable energy generation
Burnfoot Windfarm Limited ^{*(5)}	50.0%	Renewable energy generation
Fairfield Windfarm Limited ^{*(5)}	50.0%	Renewable energy generation
Rusholme Windfarm Limited ^{*(3)}	10.0%	Renewable energy generation
Walkway Windfarm Limited ^{*(5)}	50.0%	Renewable energy generation
Round 3 Isle of Wight Limited ^{*(5)}	51.0%	Renewable energy generation
Teesside Windfarm Limited ^{*(5)}	50.0%	Renewable energy generation
High Hedley Hope Wind Limited ^{*(5)}	50.0%	Renewable energy generation
EDF Energy Renewables Holdings Limited ^{*(5)}	50.0%	Holding company
Red Tile Wind Limited ^{*(5)}	50.0%	Renewable energy generation
Kirkheaton Wind Limited ^{*(5)}	37.5%	Renewable energy generation
Longpark Windfarm Limited ^{*(5)}	50.0%	Renewable energy generation
Lewis Wind Power Holdings Limited ^{*(7)}	25.0%	Renewable energy generation
Stornoway Wind Farm Limited ^{*(7)}	25.0%	Renewable energy generation

NOTES TO THE COMPANY FINANCIAL STATEMENTS continued

10. Investments in subsidiary undertakings continued

Uisenis Power Limited ^{*(7)}	25.0%	Renewable energy generation
Roadie Windfarm Limited ^{*(5)}	50.0%	Renewable energy generation
Burnhead Moss Wind Farm Limited ^{*(5)}	50.0%	Renewable energy generation
Barmoor Wind Power Limited ^{*(5)}	50.0%	Renewable energy generation
Cemmaes Windfarm Limited ^{*(5)}	50.0%	Renewable energy generation
Llangwryfon Windfarm Limited ^{*(5)}	50.0%	Renewable energy generation
Great Orton Windfarm II Limited ^{*(5)}	50.0%	Renewable energy generation
Park Spring Wind Farm Limited ^{*(5)}	50.0%	Renewable energy generation
Corriemoillie Windfarm Limited ^{*(5)}	50.0%	Renewable energy generation
EDF EN Services UK Limited ^{*(5)}	50.0%	Renewable energy generation
Dorenell Windfarm Limited ^{*(5)}	50.0%	Renewable energy generation
Beck Burn Windfarm Limited ^{*(5)}	50.0%	Renewable energy generation
Pearie Law Windfarm Limited ^{*(5)}	50.0%	Renewable energy generation
Cold Northcott Windfarm Limited ^{*(5)}	50.0%	Renewable energy generation
First Windfarm Holdings Limited ^{*(5)}	50.0%	Renewable energy generation
Stranoch Windfarm Limited (formerly Cumbria Wind Farms Limited) ^{*(5)}	50.0%	Renewable energy generation
EDF ER Development Limited ^{*(5)}	50.0%	Renewable energy generation
South Clare Windfarm Limited ^{*(5)}	50.0%	Renewable energy generation
Mosscastle Windfarm Limited ^{*(5)}	50.0%	Renewable energy generation
EDF ER Nominee Limited ^{*(5)}	50.0%	Renewable energy generation
Camilty Windfarm Limited ^{*(5)}	50.0%	Renewable energy generation
Cloich Windfarm Limited ^{*(5)}	50.0%	Renewable energy generation
Heathland Windfarm Limited ^{*(5)}	50.0%	Renewable energy generation
Newcastleton Windfarm Limited ^{*(5)}	50.0%	Renewable energy generation
The Mosses Windfarm Limited ^{*(5)}	50.0%	Renewable energy generation
Tinnisburn Windfarm Limited ^{*(5)}	50.0%	Renewable energy generation
Wauchope Windfarm Limited ^{*(5)}	50.0%	Renewable energy generation
West Benhar Windfarm Limited ^{*(5)}	50.0%	Renewable energy generation
Camilty Windfarm Partnership LLP ^{*(5)}	50.0%	Renewable energy generation
Cloich Windfarm Partnership LLP ^{*(5)}	50.0%	Renewable energy generation
Heathland Windfarm Partnership LLP ^{*(5)}	50.0%	Renewable energy generation
Newcastleton Windfarm Partnership LLP ^{*(5)}	50.0%	Renewable energy generation
The Mosses Windfarm Partnership LLP ^{*(5)}	50.0%	Renewable energy generation
Tinnisburn Windfarm Partnership LLP ^{*(5)}	50.0%	Renewable energy generation
Wauchope Windfarm Partnership LLP ^{*(5)}	50.0%	Renewable energy generation
West Benhar Windfarm Partnership LLP ^{*(5)}	50.0%	Renewable energy generation
EDF Energy Services Limited*	50.0%	Development of generation and supply
The Barkantine Heat and Power Company Limited*	50.0%	Generation and supply of heat and electricity

NOTES TO THE COMPANY FINANCIAL STATEMENTS continued

10. Investments in subsidiary undertakings continued

ESSCI Limited ^{*(8)}	50.0%	Development of generation and supply
ESSCI Engineering Services Limited ^{*(8)}	50.0%	Development of generation and supply
Imtech Engineering Services North Ltd ^{*(10)}	50.0%	Development of generation and supply
Imtech Engineering Services Central Ltd ^{*(9)}	50.0%	Development of generation and supply
Imtech Engineering Services London and South Ltd ^{*(8)}	50.0%	Development of generation and supply
Imtech Aqua Ltd ^{*(11)}	50.0%	Development of generation and supply
Imtech Aqua Building Services Ltd ^{*(11)}	50.0%	Development of generation and supply
Imtech Aqua Controls Ltd ^{*(11)}	50.0%	Development of generation and supply
Imtech Low Carbon Solutions Ltd ^{*(9)}	50.0%	Development of generation and supply
ESSCI Technical Facilities Management Limited ^{*(8)}	50.0%	Development of generation and supply
Inviron Holdings Limited ^{*(12)}	50.0%	Development of generation and supply
Imtech Inviron Limited ^{*(12)}	50.0%	Development of generation and supply
Inviron Property Limited ^{*(12)}	50.0%	Development of generation and supply
Imtech Aqua Maintenance Ltd ^{*(12)}	50.0%	Development of generation and supply
ESSCI Technical Services Limited ^{*(8)}	50.0%	Development of generation and supply
Capula Group Limited ^{*(13)}	50.0%	Development of generation and supply
Capula Limited ^{*(13)}	50.0%	Development of generation and supply
ESSCI Ireland Limited ^{*(8)}	50.0%	Development of generation and supply
Suir Engineering Limited (Ireland) ^{*(14)}	50.0%	Development of generation and supply
General Nuclear System Limited ^{*(4)}	33.5%	Development of generation and supply
Bradwell Power Holding Company Limited ^{*(4)}	33.5%	Holding company
Bradwell Power Generation Company Limited ^{*(4)}	33.5%	Development of generation and supply

*Indirectly held

(1) Registered Address: The Exchange, 5 Bank Street, Bury, Lancashire, England, BL9 0DN

(2) Registered Address: Atria One, Level 7, 144 Morrison Street, Edinburgh, Scotland, EH3 8EX

(3) Registered Address: Squire Patton Boggs (UK) LLP (Ref:Csu) Rutland House, 148 Edmund Street, Birmingham, West Midlands, B3 2JR

(4) Registered Address: Fifth Floor Rex House 4-12 Lower Regent Street London SW1Y 4PE

(5) Registered Address: Alexander House 1 Mandarin Road, Rainton Bridge Business Park, Houghton Le Spring, Sunderland, England, DH4 5RA

(6) Registered Address: 27-28 Eastcastle Street, London, England, W1W 8DH

(7) Registered Address: Edf Energy, Gso Business Park, East Kilbride, Scotland, G74 5PG

(8) Registered Address: Imtech House, Woodthorpe Road, Ashford, Middlesex, England, TW15 2RP

(9) Registered Address: G&H House, Hooton Street, Carlton Road, Nottingham, NG3 5GL

(10) Registered Address: Calder House, St Georges Park Kirkham, Preston, Lancashire, PR4 2DZ

(11) Registered Address: Aqua House, Rose & Crown Road, Swavesey, Cambridge, CB24 4RB

(12) Registered Address: 3100 Park Square, Solihull Parkway Birmingham, Business Park Birmingham, B37 7YN

(13) Registered Address: Orion House, Unit 10 Walton Industrial Estate, Stone, Staffordshire, ST15 0LT

(14) Registered Address: Hipleys House, Woking, Hipleys Street, GU22 9LQ

Unless stated otherwise, the registered address of the subsidiary undertakings listed above is 90 Whitfield Street, London W1T 4EZ.

NOTES TO THE COMPANY FINANCIAL STATEMENTS continued

10. Investments in subsidiary undertakings continued

Scintilla Re was dissolved on 20 December 2017.

In July 2017, EDF Energy Renewables Holdings Limited ("EDF ERH") acquired a 100% interest in *Partnerships for Renewables Construction Holdco 2 Limited*, now known as *EDF ER Development Limited*, and its subsidiaries. EDF ERH acquired this at a cost of £4m, of which 50% is recognised by the Group. EDF ER Development Limited and its subsidiaries are accounted for the same way as the existing Renewables joint operations.

On 31 October 2017, the Group announced the completion of the reduction in ownership from 50% to 10% in Fenland Windfarms Limited and Bicker Fen Windfarm Limited as a single transaction, which resulted in these entities becoming associates rather than joint operations.

11. Deferred consideration

	2017	2016
	£m	£m
Deferred consideration	106	104
	106	104

Deferred consideration arose on the disposal of 33.5% of EDF Energy Holdings Limited's investment in NNB Holding Company (HPC) Limited to Sagittarius International Limited in September 2016. The deferred consideration, of £109m, is expected to be received in 2019 and therefore has been discounted to its present value of £106m. A risk free discount rate of 2% has been applied as risk has already been taken into consideration when assessing the value of the HPC project.

12. Trade and other receivables

	2017	2016
	£m	£m
Amounts owed by other Group companies	93	210
	93	210

The amounts owed by other Group companies are non-interest bearing and are repayable on demand. The Directors consider that the carrying amount of other liabilities approximates to their fair value.

13. Other liabilities

	2017	2016
	£m	£m
Amounts owed to other Group companies	137	164
	137	164

The amounts owed to other Group companies are non-interest bearing and are repayable on demand. The Directors consider that the carrying amount of other liabilities approximates to their fair value.

NOTES TO THE COMPANY FINANCIAL STATEMENTS continued

14. Borrowings

	2017 £m	2016 £m
EDF UK loan	492	-
	492	-

Throughout 2017, a total of £492m was borrowed from EDF Energy (UK) Limited in order to finance the NNB cash calls. The loan is interest free and is repayable on demand.

15. Share capital

Allotted, called up and fully paid	2017 Number	2016 Number	2017 £m	2016 £m
Ordinary shares of £1.00 each	8,381,442,467	8,381,442,467	8,382	8,382

16. Related parties

The Company has taken advantage of the exemption in FRS 101 Reduced Disclosure Framework from disclosing transactions with other members of the group, which would otherwise be required for disclosure under IAS 24.

17. Parent undertaking and controlling party

EDF Energy (UK) Limited holds a 100% interest in EDF Energy Holdings Limited and is considered to be the immediate parent company. Électricité de France SA is the smallest group for which consolidated financial statements are prepared, copies of which may be obtained from Électricité de France SA, 22-30 Avenue de Wagram, 75382, Paris, Cedex 08, France.

At 31 December 2017, Électricité de France SA, a company incorporated in France, is regarded by the Directors as the Company's ultimate parent company and controlling party. This is the largest group for which consolidated financial statements are prepared. Copies of that company's consolidated financial statements may be obtained from Électricité de France SA, 22-30 Avenue de Wagram, 75382, Paris, Cedex 08, France.