



**EDF ENERGY HOLDINGS LIMITED**

**Registered Number 06930266**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**31 DECEMBER 2018**



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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 its 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. EDF Energy's strategy is entirely consistent with EDF group's strategy and is underpinned by a focus on maintaining industry leading safety performance and improving cost efficiency across the business.

In its energy supply business, EDF Energy aims to make energy easy for its customers by doing things better, faster and cheaper whilst providing excellent service and convenience. This also involves installing smart meters to our customers' homes and small business premises, as part of the national programme. In response to the temporary price cap introduced by the UK government for residential standard variable tariff customers, EDF Energy is maintaining its efficiency efforts and exploring alternative options to develop the business. It is also developing new services and revenue streams in response to market opportunities in flexibility and the electrification of the economy. Through its energy services joint venture with Dalkia, including the service provider Imtech, and new capabilities such as the flexibility platform Powershift, EDF Energy also aims to help businesses explore and develop solutions that deliver energy, carbon and cost savings.

In the generation business, EDF Energy seeks to create value from both existing and new activities.

EDF Energy aims to secure value from its existing nuclear, coal and gas assets through continued operational excellence and safe, reliable generation of energy. Since 2009, EDF Energy has extended the lifetime of all of its Advanced Gas-Cooled Reactor (AGRs) by an average of 8 years. However, due to large non-replaceable components, there is a technical limit to the AGR lifetimes, and as the stations approach this limit, it will be aiming to optimise the end of life value of the stations. As the fleet of AGRs reach the end of life, 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 optimising the remaining lifetime value of coal generation capacity within the UK capacity market.

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 EPR technology. EPRs – originally known as European Pressurised Water Reactors – are a type of Pressurised Water Reactor (PWR). EDF Energy is also working with CGN to progress a similar 3.2GW EPR project at Sizewell in Suffolk. A further new nuclear power station proposal is being developed at Bradwell in Essex based on CGN's UK HPR1000 Chinese technology.

In partnership with EDF Energy Renewables in the UK (an associate of the Group), EDF Energy is continuing to develop new renewable generation projects. This includes the 448 MW Nearth Na Gaoithe offshore project, located off the coast of East Scotland, acquired in 2018. The new 49MW battery storage project at West Burton B is now operational, providing frequency response services to the National Grid, and further flexibility projects are being explored.

### Key performance indicators

In 2018, we continued to measure progress against our key ambitions. Our key company ambitions and related measures for 2018 were:

## STRATEGIC REPORT continued

### 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 which is based on a set of 10 questions called the "Employee Engagement Index". The employee engagement index relate to topics which addresses the three dimensions of employee engagement, comprise of alignment, loyalty and involvement. The responses against each of the 10 questions are then averaged to produce a total % result.
- **Strong Financial and Ethical Performance** - Measured through (a) Earnings before interest, tax, depreciation and amortisation (b) Operating cash flow.

### 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 Employee Engagement Index 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.
- **Safe, Secure and Responsible New Nuclear Electricity** – 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 2018 and 2017 for the Group wide KPIs presented to the Remuneration Committee were:

Ambition	Measure	2018	2017
Zero Harm	TRIR (per 1,000,000hrs)	1.12	0.59
People to be a Force for Good	Employee Engagement Index (%)	76	75
Strong Financial and Ethical Performance	Earnings before interest, tax, depreciation and amortisation <sup>(1)</sup> (£m)	691	899
	Operating cash flow <sup>(2)</sup> (£m)	340	475

(1) For the purposes of the KPIs, the earnings before interest, tax, depreciation and amortisation for 2017 includes profit on disposal of two windfarms.

(2) Operating cash flow includes Imtech but excludes Nuclear New Build results, and Free Cash flow indicator was used for 2017.

## Results

The loss for the year before taxation amounted to £459m (2017: loss of £299m). The loss for the year after taxation was £382m (2017: loss of £213m). No dividend was paid to the parent company, EDF Energy (UK) Limited during the year (2017: £146m).

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.

## STRATEGIC REPORT continued

### Review of the business

#### Generation

##### *Coal, Gas and Renewable Generation*

In 2018, Cottam and West Burton A coal-fired power plants generated 4.5TWh of electricity. This is 0.3TWh less than last year, and represented a good performance in a year of particularly low dark spreads, in addition to outages at six of the eight coal-fired units. West Burton B CCGT generated 6.8TWh of electricity in 2018, an increase of 0.2TWh from 2017. This represented a good performance considering the market volatilities, plant challenges and three interim outages during the year.

EDF Energy operates also two mid cycle gas storage facilities in Cheshire. Hill Top Farm became commercially operational in mid-January 2015 with three cavities. A fourth cavity became commercially operational in 2018 with the remaining cavity scheduled to come on-line in 2019. During 2018 the decision was made not to return the Hole House Facility to commercial operation for the foreseeable future due to challenging market conditions coupled with imminent requirements for some significant investment to the plant.

Through EDF Energy Renewables (EDF ER), 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. Dorenell (177MW), EDF ER's largest onshore wind farm has started receiving Contract for Difference (CfD) payment for power generated in early 2019.

EDF ER continued to expand its scope of technologies with the commissioning of a 49MW battery storage facility. This facility was 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, an associate of EDF Energy, commenced operations in October 2015, continues to expand and now provides operation and maintenance services for 25 wholly and partly owned wind farms and 2 externally owned wind farms.

In June 2018, EDF Renewables welcomes a new partner in twenty four of its UK wind farms (C.550MW) as the sale of 49% minority stake was agreed. The new partnership with Dalmore Capital Limited and Pensions Infrastructure Platform, with investment from large U.K. local authority pension schemes, will enable EDF Renewables to continue to develop further renewables energy. EDF Energy will continue to purchase all of the electricity and Renewable Obligation Certificates' ("ROC") generated by the windfarms on market standard terms.

##### *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 59.1TWh during 2018, 4.8TWh less than 2017 (63.9TWh). The reduction in output is largely due to the extended outages at Hunterston B for graphite inspections and safety case work, the extended outages at Dungeness B to address the discovery of steam pipework cracking and corrosion on cooling water pipework and two additional statutory outages in 2018.

Planned statutory outages were completed on Hartlepool Reactor 1, Heysham 1 Reactor 2, Heysham 2 Reactor 7, Hinkley Point B Reactor 4 and Torness Reactor 2. A planned statutory outage that was started at Sizewell B in 2017 was extended into 2018 to make repairs to the steam generators and was completed on 31 January 2018.

A statutory outage was started on Dungeness B Reactor 22 in August 2018 with an associated outage on Reactor 21 starting in September for work on common systems. These outages have been extended to address the discovery of steam pipework cracking and corrosion on cooling water pipework. The units are expected to return to service in the second semester of 2019.

## STRATEGIC REPORT continued

Hunterston B Reactor 3 was shut down for a scheduled graphite core inspection in March 2018. Following the discovery of new keyway root cracks in the reactor core at a slightly higher rate than modelled in the current safety case, EDF Energy took the decision to keep the reactor offline for further inspections and safety case work. A graphite core inspection on Hunterston B Reactor 4 planned for 2019 was also brought forward to October 2018. The units are expected to return to service in the second quarter of 2019.

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 each 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) is required.

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 Combined Heat and Power ("CHP") generators. In 2018, EDF Energy acquired approximately 4.5TWh through this channel.

For delivery in 2018, EDF Energy's net position on the wholesale market was a sale of approximately 17.4TWh (including structured trades). In 2018, EDF Energy sold approximately 49.3TWh and bought 32.0TWh.

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. In 2018 29% of EDF Energy's coal deliveries were from domestic suppliers and 71% was from international sources.

### **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 ranges 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 2018, EDF Energy supplied 11.65TWh of electricity and 28.78TWh of gas for the domestic

## STRATEGIC REPORT continued

segment. As of 31 December 2018, EDF Energy had 3.003 million electricity accounts and 1.942 million gas accounts within this segment.

The latest market share data from Cornwall to the end of October 2018 showed that the combined market share of small and medium suppliers is now around 27%, compared to 20.6% at the end of October 2017. There were 62 small and medium suppliers at the end of October (excluding partners with existing licence holder and licence holders).

EDF Energy had 4.945 million product accounts at end of December 2018, a decrease of 0.2m since the beginning of the year. Market share declined slightly over the last 12 months and is currently 9.6% at 31 October 2018. Although EDF Energy's market share based on total accounts declined 0.46%, this compares favourably to an average market share loss of 0.92% for the other large suppliers, with only E.ON experiencing a lower decline (0.3%).

EDF Energy won MoneySavingExpert's collective switch in January 2018, gaining 10,000 customers to a two-year fixed tariff and continued its collective switch and exclusive tariff orientated acquisition strategy.

On the 6th of November 2018 Ofgem published their decision on the Default Tariff Cap with the following key features:

- Introduced on the 1<sup>st</sup> January 2019;
- Will apply to 11 million customers on Default Tariffs in UK;
- Updated every 6 months, to align with the existing pre-payment meter (PPM) Cap;
- Will apply until at least 2020 after which Government may extend for a further 12 months at a time until 2023 at the latest.

The level of the cap for direct debit (DD) Customers is £1,137 and for cash and cheque (CC) customers is £1,221 at typical consumption, this compares to EDF Energy tariffs which currently are £1,136 for DD customers and £1,221 for CC customers as at 1<sup>st</sup> February 2019.

### Non-domestic customers

In 2018, the non-domestic segment supplied a total of 32.3TWh of electricity, 1.9TWh to 203,434 small business customers ("SME") and 30.4TWh to medium and large business customers ("I&C") accounts. The business customer electricity market in the UK is c.184.1TWh in total, making EDF Energy the largest supplier to business customers.

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 2018 round performed well and £/MWh margins increased compared to the start of the year.

Large Business has managed to grow its live on supply volume over 2018 by acquiring and on boarding two strategic prospects, Hanson and Manchester Airport Group. This is reflected in positive financial performance, with gross margin higher in 2018 than 2017. Further key acquisitions contracted in 2018, including another strategic public sector framework (NEPO), as well as a number of key renewals will support Large Businesses' volume position moving into 2019.

### Smart Metering

EDF Energy remains committed to delivering smart meters to all domestic and small business customers who want to benefit from this new technology by 2020. In 2018, EDF Energy has continued to ramp up its field force even further and installed a further 515k smart meters, exceeding its 2018 annual target. By the end of 2018, a circa of 24% of EDF Energy customers in scope for the rollout have installed smart meters. In 2018, following the national IT and communications infrastructure (the DCC) finally becoming available, suppliers were also able to start to install second generation smart meters, with EDF Energy having installed a circa of 36,000 of them. EDF Energy plans to complete the transition to second generation smart meters by quarter one of 2019, in line with the end date set by the Government and continues to have the full support and commitment of the EDF Energy Board to ensure it fully delivers on its regulatory commitments.

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### **Nuclear New Build**

On 29 September 2016 EDF SA and China General Nuclear Power Corporation (CGN) signed final contracts for the construction of two EPR reactors on Hinkley Point site in Somerset ("Hinkley Point C" or "HPC" project). The agreement also included a partnership for the development in the UK of two nuclear power plants at Sizewell in Suffolk ("Sizewell C" project) and Bradwell in Essex ("Bradwell B" project).

The EPR technology is already being deployed at the power stations at Flamanville in France and at Taishan in China. Using the same technology, although adapted for UK regulatory requirements and Hinkley Point C site specifics, will benefit from a series effect on standardisation of design, on construction and on operation.

### ***Hinkley Point C (HPC)***

In 2017, EDF Energy undertook a review of the costs and timeline of HPC project and a summary of the conclusion as follows:

- "J0" milestone, corresponding to completion of pouring of the safety related concrete for the Common Raft (the platform on which the reactor building sits) on Unit 1 and scheduled for mid-2019, is confirmed;
- 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 assumes successful operational action plans, in particular those 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 estimated at approximately 8.5%, compared to about 9% initially;
- Commissioning of unit 1 is scheduled for the end of 2025. 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 are implementing action plans to ensure that the objective set to deliver Unit 1 by the end of 2025 is fulfilled.

The agreements between EDF and CGN include a capped compensation mechanism in case of cost overruns or delays; these agreements are subject to a confidentiality clause.

### ***Progress of the Project***

At the end of 2018, the project confirms being in line with "J0" target and has achieved the four goals set for 2018:

- 1st project goal: Unit 1 pre-stressing gallery construction has been completed; work on Unit 2 is underway;
- 2nd project goal: Unit 1 "deep dig" has been built; it will contain the 54m tall water pumping station;
- 3rd project goal: the design package for Unit 1 Nuclear Island Common Raft has been handed over, which enables this to start work on site;
- 4th project goal: the first concrete for the Unit 1 Nuclear Island Common Raft has been poured. This step required consent from the ONR prior to release, corresponding with lifting of the Nuclear Island Concrete Hold Point (key project milestones). This consent was granted on 8 November 2018, with the help of "RC2" design freeze and readiness of the project organisation towards nuclear safety on site.

At the end of 2018, the total expenditure on the project stood at £6.8 billion (nominal terms), excluding interim interest.

### ***Interactions with Office of Nuclear Regulations (ONR)***

The ONR has granted its consent on 8 November 2018 to lift the Nuclear Island Concrete Hold Point which is the most significant Hold Point on the Project to date, and the last primary Hold Point before the non-active commissioning phase of Unit 1.

The release of this Hold Point enabled the concrete for the Unit 1 Common Raft to start.

Next ONR Hold Point will be the delivery of fuel on site.



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In addition, an agreement from ONR will be needed for the despatch of the first components coming from our supplier (Framatome).

### *Contract for Difference ("CfD")*

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 lifespan of the contract is 35 years; any delay on Unit 2 of more than 8 years after the date of the contractually stipulated date of commercial commissioning may result in a change to the CfD profits. The adjustment is partial if one of the two reactors is commissioned within its specific window;
- The project is protected against certain unfavourable regulatory and legislative changes; provision has also been made to review the costs (up or down depending on the assumptions used) in the fifteenth and twenty fifth years, and to review certain conditions for the costs corresponding to decommissioning and waste management operations (Funding Decommissioning Programme); and
- Should there be savings from the construction of the HPC project, these will be shared with consumers through a lower electricity price.

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.

The overall objective of the FDP is to ensure that operators make 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.

### **Sizewell C**

EDF SA and CGN signed the Sizewell C Project equity documents on 29 September 2016 alongside the HPC contracts, agreeing in principle to develop Sizewell C project in Suffolk, until a final investment decision is made in order to build and operate two EPR reactors (3.2GW), subject to third party funding.

During development phase prior to Final Investment Decision (FID), EDF's share is 80% and CGN 20%. After FID, the project is not aimed to be consolidated nor controlled at EDF level, and further investors and lenders should step in in due course.

Final Investment Decision is expected end of 2021.

Project development is based on a replication strategy from HPC, meaning that Sizewell C will rely on an EPR technology and that all the design and technology will be a strict copy of HPC, except where site specific aspects require amendments to the HPC design. The project would benefit from the learning from

## STRATEGIC REPORT continued

HPC and from a mature UK supply chain. Technology risk should be lowered, and hence the cost of finance would be reduced. Work is currently being performed to confirm feasibility of replication, in particular in terms of engineering and procurement strategy.

On 4th January 2019, Stage 3 consultation will run for a period of 3 months where various meetings and interactions will take place with individuals, local authorities and stakeholders. The main topics that will be discussed include transport, accommodation options and Environmental Impact Assessment.

### ***Bradwell B***

EDF SA and CGN signed an agreement on 29 September 2016 for the joint submission to the British safety authority of a British version of the HPR1000 third-generation Hualong reactor in order to get a design certification (Generic Design Assessment). The HPR1000 would 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 has a stake of 66.5% and EDF of 33.5%.

In November 2018, the project entered a new phase in the approval process for UK HPR1000 nuclear technology design, with the start of the third step (out of four) in the process of Generic Design Assessment.

A deeper analysis of the design technology will be performed, and the project will continue to be open to public comment.

### **Regulatory environment**

#### ***Price Cap***

The Domestic Gas and Electricity (Tariff Cap) Act 2018 came into force on 19 July 2018. The act requires the introduction of a temporary tariff cap for customers on Standard Variable (SVT) and default tariffs (known at the "Default Tairiff Cap"). From March 2018 Ofgem ran a consultation process which culminated in its decision to introduce the cap with effect from 1st January 2019. Ofgem will update the level of the cap two times per year with updates taking effect from April and October. At the time of its introduction, Ofgem expected the cap to provide price protection for around 11 million customers. The cap will remain in place at least until the end of 2020, but could be extended for up to another three years. The default tariff cap sits alongside a temporary cap on prices charged to domestic customers supplied through a pre-payment meter, which was implemented in April 2017 following the conclusion of the Competition and Markets Authority's (CMA's) Energy Market Investigation in 2016.

#### ***Supplier failure***

Eight energy suppliers failed and ceased trading in 2018 prompting Ofgem to initiate a review of entry requirements and consider proposals for additional financial oversight. Supplier failure typically results in other suppliers bearing mutualised policy and other costs. In this regard, Ofgem says that it intend to strengthen its arrangements for dealing with supplier exit, to ensure that the failing supplier bears their share of the costs and minimise the implications for remaining suppliers and consumers.

#### ***Electricity Market Reform (EMR)***

The three most significant elements of EMR are Carbon Price Support (CPS), introduced under the Finance Act 2011 and the Capacity Market (CM) and CfDs, introduced under the Energy Act 2013. The government is currently carrying out a Five Year Review of key aspects of EMR, including the Capacity Market and CfDs, as required by the Energy Act 2013 and is expected to publish findings from the review in summer 2019, possibly as part of a proposed Energy White Paper.

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 CO<sub>2</sub> for the four years from April 2016 to March 2020 and at £18.52/tonne of CO<sub>2</sub> for the two years from 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 legislated for a Carbon Emissions Tax to replace the EU ETS in the event of a "no deal" Brexit and plans to consult on the longer term arrangements to replace the EU ETS.

The CM 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

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from 1 October - 30 September. In November 2018, a judgment by the General Court of the Court of Justice of the EU had the effect of annulling the European Commission's State aid approval for the CM scheme and introducing a standstill period until the scheme can be approved again. In February 2019 the European Commission announced that they will launch an in-depth investigation as required for the scheme to be approved again, and that they will appeal the General Court judgment. During the standstill period, EDF Energy is receiving no capacity payments under its capacity agreements for its nuclear, coal and gas-fired generation but expects to receive deferred capacity payments if the CM is reapproved following the European Commission investigation.

CfDs are expected to support investment in new low carbon generation including the Hinkley Point C nuclear project. The Government held a second CfD auction in 2017 and plans to hold third auction in 2019, which is currently scheduled to open in May, with further auctions expected every two years. The Government is also considering alternative means of supporting further new nuclear investment, including the possible use of a Regulatory Asset Base model to support the development of the Sizewell C nuclear project.

### **Network Charging**

In August 2017 Ofgem launched reviews of all network charging (covering both transmission and distribution) to ensure that these arrangements are fair, create a level playing field and are sufficiently reflective of network costs. In late 2018 Ofgem confirmed their view that benefits that generators sited behind the meter could gain from reducing customers' use of the network should be materially reduced. Ofgem are also proposing to further reduce benefits for distribution connected generators. The reviews are likely to conclude in 2019 with changes to the charging arrangements 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 carbon price floor. In November 2018, a ruling from the European Court of Justice (ECJ) led to the suspension of UK capacity mechanism, this will adversely affect Generation margins. Any requirement to repay funds already received under the scheme will result in a significant one off profit and loss account and cash flow impact.

#### **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

## STRATEGIC REPORT continued

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. In 2018 a higher than expected number of cracked graphite bricks in the reactor cores were observed during planned inspections at Hunterston B and the reactors have remained shut down. We are preparing to submit a safety case to the ONR to bring the reactors back into operation.

### ***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.

### ***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 review 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 Domestic Gas and Electricity (Tariff Cap) Bill was implemented in 2018 and any significant change in the tariff cap could have further impact on 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 Business, Energy & Industrial Strategy ("BEIS") to ensure the full implications of this initiative are understood.

### ***EU Referendum***

The UK Government has announced that the UK will leave the EU on 31 October 2019. EDF Energy has carried out a comprehensive company-wide impact assessment exercise of the potential impacts upon our business and this has led to the development and implementation of a number of mitigations required to address the key risks we have been able to identify, focusing particularly on a "no-deal" scenario. Throughout this exercise, we have engaged extensively with UK government and other key stakeholders to both inform our analysis but also to ensure a coordinated and comprehensive overall approach. The key risks identified are outlined below:

#### **Supply chain risk**

In order to operate and maintain existing generation fleet and to build new generation facilities (including nuclear and renewables), the Group relies on an international supply chain. The Group has carried out a thorough review of its supply chain activity and has engaged with its suppliers to share information and better understand the new challenges the supply chain might face. There could be increased import requirements leading to customs delays at UK ports/airports impacting material and component delivery schedules.

The Euratom Supply Agency recently announced that existing contracts between UK and EU27 entities would remain valid including in a "no-deal" scenario, significantly reducing future nuclear fuel supply risks. In addition, EDF has developed and implemented mitigations to address potential supply risks.

## STRATEGIC REPORT continued

The AGRs operation is mainly supported by UK centred supply chain and therefore the risk is relatively limited.

Sizewell B supply chain has a greater exposure to supply chain risk given the level of support provided by French and USA suppliers. Actions have been taken to mitigate component risks for the spring 2019 outage.

For AGRs, Sizewell B, Coal & CCGT plants, EDF Energy is working to secure delivery of all goods required for 2019 outage season ahead of the Brexit deadline. Also all imported goods that will be required by the fleet in the period between Brexit to 30 June 2019. Some consumables requirements cannot reasonably be mitigated (e.g. CO<sub>2</sub>, Nitrogen) due to storage limitations and EDF Energy has engaged with UK Government to manage the position.

For HPC, actions have already been taken to secure delivery schedules and to deploy mitigating actions where possible.

### Euratom Treaty

The European Atomic Energy Community (Euratom) Treaty enables the movement of nuclear fuel, components, services/people and information between the UK and the EU and certain other countries. The UK Government announced, as a consequence of leaving the EU, the UK would withdraw from the Euratom Treaty. To mitigate the impact of this, following Brexit, key elements of the Euratom Treaty will be replaced by new UK arrangements, for example:

- New bilateral Nuclear Cooperation Agreements (NCAs) have been agreed and ratified between the UK and the key civil nuclear third countries that require them; and
- A new UK Safeguards regime that will replace Euratom Safeguards.

### Carbon Pricing

Carbon pricing makes up a portion of the revenue earned from the Group's existing nuclear fleet. Currently the total carbon price is derived from the EU's Emissions Trading Scheme plus the UK Carbon Price Support tax. The UK Government announced in the October 2018 budget that if the UK leaves the EU in a no-deal scenario, the UK will immediately leave the UK Emissions Trading Scheme and a new carbon tax will be introduced to make up the value of the EU ETS. There remains uncertainty over whether the UK will remain in the EU ETS in the event of a more "orderly" Brexit with a negotiated deal (including after a Transition Period or Article 50 extension) and what would replace it if the UK leaves the scheme.

### People risk

EDF Energy is committed to developing UK skills and we are investing in UK skills and talent. However, the Group recognises the importance of being able to access necessary skills and talent of people from outside of the UK. Industry needs to be able to draw on skills and talent from the EU and beyond and this is especially relevant for highly skilled nuclear and other engineers required to maintain our existing generation fleet and the volume of construction workers required to complete the Hinkley Point C new nuclear power station and other infrastructure projects. The Group has engaged with the UK Government and other organisation such as Confederation of British Industry and Energy UK, making the case that the UK needs to have an immigration system that enables appropriate labour mobility and entry to the UK for such people. UK Government's announcement of the European Temporary Leave for applicants prior to December 2020 to remain in the UK for 3 years in a no-deal situation is positive for all parts of our business and alleviates many concerns about a "cliff-edge". The Group continues to engage with and monitor communications from the UK Government around the post Brexit immigration environment. In addition, the Group is increasing their investment in UK skills development.

### Energy trading across interconnectors

The UK electricity market is part of the EU Single Market and Internal Energy Market (IEM). The UK is connected to Europe and the island of Ireland via a number of interconnectors that allow energy to flow and be traded across borders. The UK Government, Ofgem and National Grid are negotiating a deal to set out a framework for use of the interconnectors post Brexit. The Group continues to monitor the outcome of this.

## STRATEGIC REPORT continued

### Economic impact on the UK

Economists have assessed that a no-deal Brexit could result in lower base interest rates and higher inflation, following an expected weakening of sterling compared to other currencies. Such changes would affect the discount rate assumptions applied to the Group's pension schemes, decommissioning provisions and unburnt fuel provision. Potential changes to forward energy prices in addition to changes to the discount rate assumptions would also affect the Group's asset impairment tests. The sensitivity of the Group's pension schemes and provisions to changes in key assumptions are disclosed in note 40 and note 29 respectively. The sensitivity of a change in forward energy prices and the impact this would have on impairment of the Group's assets is disclosed note 16.

Macroeconomic impacts on existing trade receivable recoverability are expected to be immaterial but could have a greater impact on future trade receivable recoverability.

### *Suspension of UK Capacity Market*

On 15th November 2018, the UK's Capacity Market was suspended for 2018/19 and future years. This followed a judgment by the ECJ that found that the European Commission should have consulted more fully before granting state aid approval in 2014. It was not a challenge to the nature of the capacity market mechanism itself. As a consequence, the UK Government has suspended the operation of the Capacity Market. Capacity providers will not receive capacity payments while the Capacity Market is suspended. It is currently not clear whether capacity market participants will be able to recover the suspended capacity payments if the scheme is approved under state aid rules and the operation of the Capacity Market resumes. Although the payments under the 2018/2019 capacity market scheme have been suspended, the obligation to provide the committed capacity under the 2018/2019 capacity agreements still remains. The Group's is therefore continuing to operate under these capacity agreements.

### ***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 2018, 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. A trust index 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, nuclear plant maintenance and in the construction of HPC. 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.

### ***Climate Risk***

Climate risks are very significant for EDF Energy, both strategically and operationally.

As the UK's largest generator and supplier of electricity, EDF Energy has a responsibility to help the UK to achieve its international carbon emission reduction commitments and to be a champion of low-carbon growth.

To mitigate the strategic and reputational risk of failing to do so, we have developed a Better Energy plan, as part of our sustainable business strategy, seek to extend the life of our existing nuclear power stations and to build new ones, to reduce thermal generation, to increase renewable energy generation, to invest in new low-carbon technologies like battery storage and to help customers use their energy more efficiently.

In order to mitigate supply chain climate risk we are signatories to the United Nations Global Compact and require our suppliers to support a precautionary approach to environmental challenges, to undertake initiatives to promote greater environmental responsibility and to encourage the development and diffusion of environmentally friendly technologies.

### **Our approach to Human Rights**

EDF Energy respects human rights. It is committed to identifying, preventing, and mitigating adverse human rights impacts resulting from or caused by our business activities before or if they occur through human rights due diligence and mitigation processes.

Respect for human rights is fundamental to the sustainability of EDF Energy and the communities in which we operate. In our Group and across our supply chain, we are committed to ensuring that people are treated with dignity and respect and we abide and require our suppliers to comply with the principles of the UN Global Compact. Our commitment to ethical business practice is outlined in our Ethics & Business Conduct Policy. Our commitment to sustainable and responsible business, including steps we plan to take to further address social issues, including modern slavery, are outlined in more detail in "The Better Plan". Controls to mitigate human rights risks are reviewed annually as part of our annual internal control self-assessment process and are reviewed periodically by internal audit.

## STRATEGIC REPORT continued

### Our approach to Anti-fraud and Anti-bribery

EDF Energy has a zero tolerance of fraud and bribery and controls risks relating to bribery and corruption as set out in its Anti-Fraud and Anti-Bribery Framework, Practice and Guidance document. This provides both a high level overview of the approach used by EDF Energy to manage the risks associated with fraud and bribery and detailed guidance for business units and corporate functions regarding the design of their anti-fraud and anti-bribery arrangements. This document sets the minimum standards that business units and corporate functions must achieve.

Internal controls to prevent fraud and bribery are reviewed annually as part of the Group's annual internal control self-assessment process.

### 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, and available standing credit facilities with EDF S.A.

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  
25 April 2019



## DIRECTORS' REPORT

The Directors present their report and financial statements for the year ended 31 December 2018.

### 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  
Colin Matthews  
Christophe Carval  
Dominique Minière  
Xavier Ursat (appointed 26 July 2018)

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

Robert Guyler and Simone Rossi are employed by and have a service contract with EDF Energy Limited. 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 £nil were paid to the parent company during the year (2017: £146m).

### Political contributions

During the year, the Group made no political contributions (2017: £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.

### 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

#### **DIRECTORS' REPORT continued**

- 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 2017 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.

#### **Events since the balance date**

Subsequent events are disclosed in note 43 of the financial statements.

#### **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 2019 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  
25 April 2019



## 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 of EDF Energy Holdings Limited (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2018 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 United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; 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 of the consolidated results and 1 to 17 of the parent company results.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework"

#### 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 Financial Reporting Council's (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 group's or the parent 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<sup>1</sup>, 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **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**

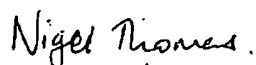
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- 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.

**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.



Nigel Thomas (Senior Statutory Auditor)  
For and on behalf of Deloitte LLP  
Statutory Auditor

London, United Kingdom

25 April 2019

**CONSOLIDATED INCOME STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2018**

	<i>Note</i>	<b>2018 £m</b>	<b>2017 £m</b>
Revenue	4	<b>7,737</b>	7,520
Fuel, energy and related purchases	6	<b>(5,128)</b>	(4,715)
<b>Gross margin</b>		<b>2,609</b>	2,805
Materials and contracting costs		<b>(412)</b>	(391)
Personnel expenses	8	<b>(811)</b>	(826)
Other operating expenses		<b>(718)</b>	(731)
Other operating income		<b>16</b>	10
<b>Operating profit before depreciation and amortisation</b>		<b>684</b>	867
Gain/(loss) on derivative commodity contracts	5	<b>6</b>	17
Depreciation and amortisation	5	<b>(867)</b>	(920)
Impairment of non-current assets	5, 16	<b>(144)</b>	(207)
<b>Operating profit after depreciation and amortisation</b>		<b>(321)</b>	(243)
Profit/(loss) on disposal of investments	14	<b>-</b>	33
Pensions equalisation costs	40	<b>(11)</b>	-
Restructuring costs	11	<b>(24)</b>	(4)
<b>(Loss)/profit before tax and finance costs</b>		<b>(356)</b>	(214)
Investment income	9	<b>436</b>	436
Finance costs	10	<b>(543)</b>	(521)
Share of profit/(loss) of associates	20	<b>4</b>	-
<b>(Loss)/profit on ordinary activities before taxation</b>		<b>(459)</b>	(299)
Taxation on loss/(profit) on ordinary activities	12	<b>77</b>	86
<b>(Loss)/profit for the year</b>		<b>(382)</b>	(213)
(Loss)/profit attributable to:			
Equity holders of the parent	377	<b>(361)</b>	(233)
Non-controlling interest	32	<b>(21)</b>	20
		<b>(382)</b>	(213)

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 2018**

	<i>Note</i>	<b>2018 £m</b>	<b>2017 £m</b>
(Loss)/profit for the year		<b>(382)</b>	(213)
<b>Items that will not be reclassified subsequently to profit or loss:</b>			
Net actuarial gains on defined benefit pensions	40	<b>88</b>	262
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Net gains/(losses) on cash flow hedges	38	<b>(102)</b>	106
Cost of hedging	38	<b>(4)</b>	-
Net gains/(losses) on available for sale assets		<b>(2)</b>	2
<b>Total comprehensive income</b>		<b>(402)</b>	157
Total comprehensive income attributable to:			
Equity holders of the Company		<b>(382)</b>	95
Non-controlling interest	32	<b>(20)</b>	62
		<b>(402)</b>	157



**CONSOLIDATED BALANCE SHEET  
AT 31 DECEMBER 2018**

	<i>Note</i>	<b>2018 £m</b>	<b>2017 £m</b>
<b>Non-current assets</b>			
Goodwill	15	6,722	6,675
Intangible assets	17	574	646
Property, plant and equipment	18	13,277	11,717
Other financial assets	19	500	460
Interest in associates	20	382	152
NLF and Nuclear Liabilities receivable	22	8,019	7,439
Post-employment benefits asset	40	885	812
Derivative financial instruments	28	60	51
		<b>30,419</b>	<b>27,952</b>
<b>Current assets</b>			
Inventories	23	2,392	2,276
Trade and other receivables	24	1,768	1,710
Cash and cash equivalents	25	1,253	1,065
Derivative financial instruments	28	37	91
NLF and Nuclear Liabilities receivable	22	229	236
Current tax asset		25	54
		<b>5,704</b>	<b>5,432</b>
<b>Total assets</b>		<b>36,123</b>	<b>33,384</b>
<b>Current liabilities</b>			
Other liabilities	26	(2,414)	(2,216)
Borrowings	27	-	(6)
Derivative financial instruments	28	(363)	(252)
Short-term provisions	29	(838)	(603)
Obligations under finance lease	33	(16)	(2)
		<b>(3,631)</b>	<b>(3,079)</b>
<b>Non-current liabilities</b>			
Other liabilities	26	(821)	(883)
Borrowings	27	(738)	(1,321)
Derivative financial instruments	28	(78)	(118)
Long-term provisions	29	(8,962)	(8,170)
Deferred tax liability	31	(998)	(1,074)
Obligations under finance lease	33	(122)	(122)
Post-employment benefits provision	40	(107)	(152)
		<b>(11,826)</b>	<b>(11,840)</b>
<b>Total liabilities</b>		<b>(15,457)</b>	<b>(14,919)</b>
<b>Net assets</b>		<b>20,666</b>	<b>18,465</b>

**CONSOLIDATED BALANCE SHEET continued**  
**AT 31 DECEMBER 2018**

	<i>Note</i>	<b>2018 £m</b>	<b>2017 £m</b>
<b>Equity</b>			
Share capital	34	<b>10,174</b>	8,382
Share premium account	35	-	-
Capital reserve	35	<b>9</b>	9
Hedging reserve	38	<b>(284)</b>	(178)
Merger reserve	36	<b>(2)</b>	(2)
Retained earnings	37	<b>5,609</b>	5,711
<b>Equity attributable to equity holders of the Company</b>		<b>15,506</b>	13,922
Non-controlling interest	32	<b>5,160</b>	4,543
<b>Total equity</b>		<b>20,666</b>	18,465

The accounts of EDF Energy Holdings Limited (registered number: 06930266) on pages 22 to 105 were approved by the Board of Directors on 25 April 2019 and were signed on its behalf by:

Robert Guyler  
Director



**CONSOLIDATED CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2018**

	<i>Note</i>	<b>2018 £m</b>	<b>2017 £m</b>
<b>Net cash from operating activities</b>	39	<b>1,560</b>	<b>1,467</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment		(2,742)	(2,033)
Purchase of carbon and renewable obligation certificates		(685)	(591)
Purchase of other intangible assets		(57)	(75)
Disposal of property, plant and equipment		42	-
Proceeds from divestment of subsidiaries and joint arrangements		119	48
Acquisition of investment in joint operations		-	(2)
Acquisition of investment in associates		-	(88)
Loans to parent company		(80)	(80)
Loans to associates		-	(16)
Capital contribution to associates		(20)	-
Interest received		17	19
Dividends received	20	117	4
<b>Net cash used in investing activities</b>		<b>(3,289)</b>	<b>(2,814)</b>
<b>Financing activities</b>			
Dividends paid to parent company	13	-	(146)
Dividends paid to non-controlling interests	13	(20)	(57)
Repayment of obligations under finance leases		(2)	(27)
Interest element of finance lease rental payments		(9)	(14)
Borrowings received		-	515
Repayment of borrowings		-	(23)
Proceeds on share issue to parent undertakings		1,300	-
Capital contribution from non-controlling interest	32	657	440
Interest paid		(16)	(19)
NLF receipts/(payments)		4	12
<b>Net cash generated from/(used in) financing activities</b>		<b>1,914</b>	<b>681</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>185</b>	<b>(666)</b>
Cash and cash equivalents at 1 January		<b>1,065</b>	<b>1,729</b>
Effect of foreign exchange rates		<b>3</b>	<b>2</b>
<b>Cash and cash equivalents at 31 December</b>	25	<b>1,253</b>	<b>1,065</b>

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
<b>At 31 December 2016</b>	<b>8,382</b>	<b>-</b>	<b>9</b>	<b>(284)</b>	<b>(2)</b>	<b>5,868</b>	<b>13,973</b>	<b>4,098</b>	<b>18,071</b>
Profit/(loss) for the year	-	-	-	-	-	(233)	(233)	20	(213)
Other comprehensive income for the year	-	-	-	106	-	222	328	42	370
<b>Total comprehensive (loss)/income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>106</b>	<b>-</b>	<b>(11)</b>	<b>95</b>	<b>62</b>	<b>157</b>
Equity dividends paid	-	-	-	-	-	(146)	(146)	(57)	(203)
Issue of capital	-	-	-	-	-	-	-	440	440
<b>At 31 December 2017</b>	<b>8,382</b>	<b>-</b>	<b>9</b>	<b>(178)</b>	<b>(2)</b>	<b>5,711</b>	<b>13,922</b>	<b>4,543</b>	<b>18,465</b>
Loss for the year	-	-	-	-	-	(361)	(361)	(21)	(382)
Other comprehensive income for the year	-	-	-	(106)	-	85	(21)	1	(20)
<b>Total comprehensive (loss)/income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(106)</b>	<b>-</b>	<b>(276)</b>	<b>(382)</b>	<b>(20)</b>	<b>(402)</b>
Equity dividends paid	-	-	-	-	-	-	-	(20)	(20)
Issue of capital	1,792	-	-	-	-	-	1,792	-	1,792
Capital injection	-	-	-	-	-	45	45	657	702
Disposal of joint operations	-	-	-	-	-	162	162	-	162
Unwind deed of settlement	-	-	-	-	-	(35)	(35)	-	(35)
Pensions transfer	-	-	-	-	-	2	2	-	2
<b>At 31 December 2018</b>	<b>10,174</b>	<b>-</b>	<b>9</b>	<b>(284)</b>	<b>(2)</b>	<b>5,609</b>	<b>15,506</b>	<b>5,160</b>	<b>20,666</b>

## 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 to 17. 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

Transition measures:

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

IFRS 9 "Financial Instruments" became mandatory on 1 January 2018. It introduces new principles for classification and measurement of financial instruments, impairment for credit risk on financial assets, and hedge accounting. In application of the simplified approach allowed by IFRS 9, the comparative figures for the first year of application have not been restated. There have been no changes to the accounting treatment as a result of the adoption of IFRS 9.

IFRS 15 "Revenue from Contracts with Customers" became applicable on 1 January 2018. The Group has applied the full retrospective approach, which has no impact on opening equity. There have been no changes to the accounting treatment as a result of the adoption of IFRS 15.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

### 1. General information continued

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 16 Leases

#### IFRS 16 – Leases

IFRS 16, "Leases" was adopted by the European Union on 31 October 2018 and will be mandatory for financial years beginning on or after 1st January 2019. The Group has not early adopted 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 in note 33.

The Group's lease contracts mainly comprise real estate assets (office and commercial properties), land, vehicles and, to a lesser extent, IT and Other 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 Company intends to apply this standard retrospectively from 1 January 2019 without restating the figures for the comparative periods (modified retrospective approach).

Based on work performed to date, application of IFRS 16 to the Group's financial statements as at 31 December 2018 would increase assets and liabilities by £89m with no effect on net assets.

#### 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:

- IFRS 17 Insurance Contracts

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

### 2. Significant accounting policies

#### 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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

### 2. Significant accounting policies continued

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 93 to 105 under FRS 101. No income statement is presented for EDF Energy Holdings Limited in accordance with the exemptions allowed by the Companies Act 2006.

### 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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

### 2. Significant accounting policies continued

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. Please refer to note 15 and note 26 for further information.

#### 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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

### 2. Significant accounting policies continued

#### 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 depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. Revenue is recognised either when the performance obligation in the contract has been performed or as control of the performance obligation is passed to the customer.

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 for expected credit losses, to the extent that it is considered recoverable.

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.

#### 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 total useful life of the asset and charged to income as follows:

Non-nuclear generation assets	–	Up to 40 years
AGR power stations	–	41 to 47 years
PWR power station	–	40 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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

### 2. Significant accounting policies continued

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. During the year, an impairment has been recognised to reduce the carrying value of the brand to £nil. Refer to note 16 for further information.

#### *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.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

### 2. Significant accounting policies continued

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.

#### 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

### 2. Significant accounting policies continued

#### Unburnt fuel at shutdown

Due to the nature of the nuclear fuel process, costs have been committed in relation to the 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.

#### 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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

### 2. Significant accounting policies continued

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 which takes 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.

#### **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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

### 2. Significant accounting policies continued

#### 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.

#### 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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

### 2. Significant accounting policies continued

date. Re-measurement 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.

### 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

The Group's financial assets are classified as subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss on the basis of both:

- (a) the groups business model for managing of financial assets and
- (b) the contractual cash flow characteristics of financial asset

#### Financial assets measured at amortised cost

Financial assets are classified as measured at amortised cost if both the following conditions are met:

- (a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
- (b) the contractual terms of financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

### 2. Significant accounting policies continued

#### Financial assets measured at fair value through other comprehensive income (FVOCI)

Financial assets are classified as measured at fair value through other comprehensive income if both the following conditions are met:

- (a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets and
- (b) the contractual terms of financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

#### Financial assets measured at fair value through profit or loss (FVTPL)

Financial assets are measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income.

#### Recognition of expected credit losses

The Group recognises a loss allowance for expected credit losses on a financial asset that is measured at amortised cost, measured at fair value through other comprehensive income, a lease receivable, a contract asset or a loan commitment and a financial guarantee contract to which impairment requirements apply.

At each reporting date, the group measures the loss allowance for a financial instrument at an amount equal to lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition. The expected credit losses are assessed considering all reasonable and supportable information, including that which is forward-looking.

If at the reporting date the credit risk on a financial instrument has not increased significantly since initial recognition, and entity shall measure the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses.

The amount of credit losses (or reversal) is recognised in profit or loss, as an impairment gain or loss at the reporting date.

#### De-recognition of financial assets

The Group de-recognises a financial asset when the contractual rights to the cash flows 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 as subsequently measured at amortised cost, except for:

- (a) financial liabilities at fair value through profit or loss – these include derivatives that are liabilities which are subsequently measured at fair value.
- (b) financial liabilities that arise when a transfer of a financial asset does not qualify for de-recognition or when continuing involvement applies.
- (c) financial guarantee contracts to which (a) or (b) does not apply are subsequently measured as the higher of – the amount of loss allowance determined, or, the amount initially recognised less the cumulative amount of income recognised.
- (d) commitments to provide a loan at below market interest rate to which (a) or (b) does not apply are subsequently measured as the higher of – the amount of loss allowance determined, or, the amount initially recognised less the cumulative amount of income recognised.
- (e) contingent consideration recognised as an acquirer in a business combination which is measured at fair value through profit or loss.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

### 2. Significant accounting policies continued

#### *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, cross currency 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 IFRS 9 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 IFRS 9. 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.

#### *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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

### 2. Significant accounting policies continued

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.

#### *Accounting for the HPC transaction*

On 29 September 2017, 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 2018. 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

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

#### *Key sources of estimation uncertainty continue*

##### *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.

##### *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*

Allowances are made against expected credit losses on trade receivables, unbilled revenue. Expected credit losses are 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 and forward looking information. 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 29.

##### *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. As discussed in the Strategic Report, the suspension of the UK Capacity Market is considered an impairment indicator. 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 and sensitivity analysis in the calculation can be found in note 16.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

**Key sources of estimation uncertainty continued**

*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. The tax treatment of the capital expenditure is subject to an ongoing HMRC enquiry, which is looking at the technical issues of the project and the tax relief the capital expenditure qualifies for. As such we do not believe it is practicable to quantify the uncertainty at this point in time.

**4. Revenue**

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

	Year ended 2018 £m	Year ended 2017 £m
Sales of goods and services	7,732	7,518
Other revenue	5	2
	<b>7,737</b>	<b>7,520</b>
Investment revenue (note 9)	31	18
<b>Total revenue</b>	<b>7,768</b>	<b>7,538</b>

The disaggregation of revenue is as follows:

	Year ended 2018 £m	Year ended 2017 £m
Revenue from wholesale market power contracts	1,784	1,659
Revenue from other energy supply contracts and other revenue	5,984	5,879
	<b>7,768</b>	<b>7,538</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

5. (Loss)/profit for the year

	2018 £m	2017 £m
(Loss)/profit for the year has been arrived at after (crediting)/charging the following gains and losses:		
Research and development costs	26	32
Personnel expenses (note 8)	811	826
Auditor's remuneration for audit services (see below)	1	2
Net foreign exchange (gains)/losses (note 9,10)	(6)	1
Impairment of property, plant and equipment (note 16,18)	114	167
Impairment of intangible assets (note 16,17)	30	40
Amortisation of intangible assets (note 17)	93	89
Depreciation of property, plant and equipment (note 18)	774	831
Cost of inventories recognised as expense	539	508
Losses on derivative commodity contracts	6	17
(Gains)/losses on derivative foreign exchange contracts (note 9)	2	(4)
Operating lease rentals	11	20
Movement in bad debt provision (note 24)	4	(2)
Impairment losses recognised on trade receivables	55	66
Reversal of impairment losses recognised on trade receivables	(3)	(5)

The analysis of Auditor's remuneration is as follows:

	2018 £m	2017 £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	1.0	1.2
<b>Total audit fees</b>	<b>1.4</b>	<b>1.6</b>
Other assurance services	0.2	0.1
Tax advisory	-	-
Other services	-	-
Advisory services regarding NNB	-	-
<b>Total non-audit fees</b>	<b>0.2</b>	<b>0.1</b>
<b>Total fees</b>	<b>1.6</b>	<b>1.7</b>

6. Fuel, energy and related purchases

	2018 £m	2017 £m
Purchase of energy	2,611	2,448
Distribution and transmission	1,507	1,479
Carbon certificates	73	32
Renewable obligation certificates	919	727
Unwinding of nuclear fuel asset	4	12
Other energy related purchases	14	17
<b>Total fuel, energy and related purchases</b>	<b>5,128</b>	<b>4,715</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

7. Directors' remuneration

In 2018, two 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.

	2018 £m	2017 £m
Aggregate remuneration	1.4	1.6
Amounts receivable under long-term incentive schemes	0.1	0.5
Total remuneration excluding expatriate related benefits	1.5	2.1
Expatriate related benefits	-	0.3
Total remuneration	1.5	2.4

	2018 Number	2017 Number
Members of defined benefit pension scheme	1	2

	2018 £m	2017 £m
Remuneration payable to the highest paid Director was as follows:		
Aggregate remuneration	0.7	1.0
Amounts receivable under long-term incentive schemes	-	0.4
Total remuneration excluding expatriate related benefits	0.7	1.4
Expatriate related benefits	-	0.3
Total remuneration	0.7	1.7

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 Limited (formerly EDF Energy plc) for the year ended 31 December 2018.

The accrued pensions at the end of 2018 for the highest paid director totalled £9,155.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued**

**8. Personnel expenses**

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

	2018 £m	2017 £m
Wages and salaries	659	662
Social security costs	77	75
Pension costs (note 40)	232	232
Severance	(2)	(10)
Less capitalised cost	(155)	(133)
	<b>811</b>	<b>826</b>

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

	2018 Number	2017 Number
Generation business unit	6,199	6,370
Customers business unit	4,792	5,024
Nuclear New Build business unit	775	677
Corporate and Steering functions	785	875
	<b>12,551</b>	<b>12,946</b>

**9. Investment income**

	2018 £m	2017 £m
Interest on bank deposits	14	7
Other finance income	3	6
Pension scheme interest	14	5
	<b>31</b>	<b>18</b>
Total investment revenue	<b>31</b>	<b>18</b>
Unwinding of discount on NLF receivable	407	414
Fair value gains on foreign currency derivatives	(2)	4
	<b>405</b>	<b>418</b>
Total other investment income	<b>405</b>	<b>418</b>
	<b>436</b>	<b>436</b>
Total investment income	<b>436</b>	<b>436</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

10. Finance costs

	2018 £m	2017 £m
Interest on bank loans and overdrafts	49	14
Interest on bonds	25	26
Finance charges payable under finance leases	9	14
Unwinding of discount on provisions (note 29)	408	408
Unwinding of discount on NLF payable	72	74
Other interest	(1)	-
Foreign exchange losses	(6)	1
Total finance cost	556	537
Less: capitalised interest	(13)	(16)
Total borrowing costs	543	521

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

11. Restructuring costs

	2018 £m	2017 £m
Customers business unit	4	-
Corporate and Steering functions	20	4
Total restructuring costs	24	4

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

During 2018, the Company provided for a further £24m as a result of identifying additional headcount expected to be impacted in 2019 and 2020.

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

(a) Tax (credit)/charge in the consolidated income statement:

Current tax	2018 £m	2017 £m
UK corporation tax	(29)	(6)
Adjustments in respect of previous years' reported tax charges	6	(58)
Total current tax (credit)/charge for the year	(23)	(64)



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued**

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

<b>Deferred tax</b>	<b>2018 £m</b>	<b>2017 £m</b>
Current year credit	(38)	(44)
Adjustments in respect of previous years' reported tax charges	(1)	31
Effect of decreased tax rate on opening liability	(15)	(9)
<b>Total deferred tax credit for the year (note 31)</b>	<b>(54)</b>	<b>(22)</b>
<b>Income tax (credit)/charge reported in consolidated income statement (note 12(b))</b>	<b>(77)</b>	<b>(86)</b>

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

	<b>2018 £m</b>	<b>2017 £m</b>
(Loss)/Profit before tax	(459)	(299)
Tax at the UK corporation tax rate of 19.00% (2017: 19.25%)	(87)	(58)
Effect of:		
Non-deductible expenses and non-taxable income	15	2
Current year effect of deferred tax rate change	5	6
Decreased tax rate on opening deferred tax liability	(15)	(9)
Adjustment to prior-year corporation tax	6	(58)
Adjustment to prior-year deferred tax	(1)	31
<b>Income tax (credit)/charge reported in consolidated income statement</b>	<b>(77)</b>	<b>(86)</b>

**(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 credit of £5m (2017: charge of £89m) has been recognised in equity. This consists of a charge of £27m (2017: charge of £67m) in respect of pension movements and a credit of £22m (2017: charge of £22m) which relates to fair value movements arising on derivative instruments.

A current tax credit of £12m (2017: credit of £13m) 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%.

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%.

The closing deferred tax balance at 31 December 2018 has been calculated at 17.00% (31 December 2017: 17.25%). This is the average tax rate at which the reversal of the net deferred tax liability is expected to occur.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

13. Dividends

	2018 £m	2017 £m
Amounts recognised as distributions to equity holders in the period:		
Interim dividends paid to parent company (note 37)	-	146
Interim dividends paid by subsidiary to non-controlling interests (note 32)	20	57
	<b>20</b>	<b>203</b>

Nil interim dividends paid to the parent company (2017: 1.7p per Ordinary share).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

14. Disposals

Disposal of investments

On 1st January 2018, the EDF Energy Renewables group carried out a restructure and this led to EDF Energy Renewables Limited replacing EDF Energy Renewables Holding Limited as the holding company for the EDF Energy Renewables group. Following this restructure, the Group sold 1% of its shares and transferred its control in the EDF Energy Renewables Limited to EDF EN UK Limited and made the same sale in EDF EN Services UK Limited to EDF EN Services. This resulted in EDF Energy Renewables Limited and EDF EN Services UK Limited becoming associates as opposed to joint operations, refer to note 20.

The assets and liabilities disposed as part of the sale of the 1% shares in EDF Energy Renewables Ltd and EDF EN Services UK Limited are shown below:

	EDF Energy Renewables Ltd and EDF EN Services UK Ltd £m
Intangible assets	1
Property, plant and equipment	6
Investment in associates	1
<b>Total assets</b>	<b>8</b>
<b>Borrowings</b>	<b>(4)</b>
<b>Total liabilities</b>	<b>(4)</b>
<b>Net assets sold</b>	<b>4</b>
<b>Cash proceeds:</b>	
Consideration for equity shares	4
Repayment of shareholder loans	2
<b>Net cash proceeds</b>	<b>6</b>
<b>Profit on disposal:</b>	
Consideration for equity shares	4
Net assets disposed	(4)
<b>Profit on disposal of investments</b>	<b>-</b>

15. Goodwill

	£m
<b>Carrying amount</b>	
At 31 December 2016	6,675
Change in value of CVR instrument	-
<b>At 31 December 2017</b>	<b>6,675</b>
Change in value of CVR instrument	47
<b>At 31 December 2018</b>	<b>6,722</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

16. Impairment of non-current assets

Breakdown of impairments recognised

	2018 £m	2017 £m
Coal - Cottam	4	77
- West Burton	105	54
Gas Storage - Hill Top	5	34
Renewables	-	2
Brand	30	40
	<b>144</b>	<b>207</b>

In 2017, the impairment for Cottam and West Burton were mainly due to continuing low dark spreads and low capacity market prices, whilst impairment on gas storage facilities at Hill Top was driven by difficult market conditions. There were further impairments of £2m recorded in respect of Renewables development expenditure capitalised as work in progress, and an impairment of £40m recorded in respect of the brand, following the external valuation undertaken in 2015.

In 2018, further impairments of £4m were made to bring the carrying value of Cottam land to recoverable value of £16m in line with ongoing intentions to shut the site in 2019. Similarly for West Burton A, an additional £10m impairment was recognised due to expected plan closure of the site in 2021 together with the impact of the suspension of capacity market. The remaining impairment of £95m for West Burton B is predominantly driven by the suspension of capacity market and the longer term view of low spark spreads due to lower power price and higher gas price. The result of the sensitivity analysis carried out on West Burton B demonstrate that an increase in 5% energy gross margin would result in £21m reduction in the impairment charge, whilst a decrease in 5% energy gross margin would result in an additional £21m impairment.

In 2018, challenging market conditions remain for gas storage facilities at Hill Top Farm and this was considered to be an impairment trigger. For Hill Top Farm, a recoverable amount of £10m was calculated based on the value in use, against a carrying value of £15m which results in an impairment of £5m. 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 is derived from an after-tax rate of 5.7% (2017: 6.0%).

In 2018, impairment of £30m (2017: £40m) was recorded in respect of the British Energy brand. The decision for a full write off was made after following the marketing of the brand through the year and an unsuccessful auction process. As a result the recoverable value of the brand is deemed nil. In addition the Group has no intention to use the asset in future and hence would give rise to a nil value in use.

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

### 16. Impairment of non-current assets continued

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. 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 (2017: 6.3%). This discount rate is a weighted average cost of capital based EDF S.A.'s cost of capital for UK activities.

In the Customers business, we have maintained residential market share and business volume in 2018 (the assumed estimated growth rate in 2017 was 1.7%-3.0%), this is in line with the Group's four-year medium-term plans and long-term plans.

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 61 TWh in 2018-19, increasing to c. 64 TWh in 2020, 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.

For HPC, the project review also identified a risk of deferral of the Commercial Operation Date (COD), estimated at 15 months for Unit 1 and 9 months for Unit 2, entailing an additional potential cost of around £0.7 billion (in 2015 sterling) which would lead to an IRR for EDF of around 8.2%. This risk of deferral and the associated additional cost would reduce the margin resulting from the EDF Energy impairment test by approximately 20%.

Further sensitivity analyses were also conducted for information purposes, for example based on a 4-year deferral of commissioning and an associated additional cost of £4 billion over the new benchmark business plan. The results do not call into question the book value of EDF Energy.

Although the Brexit decision has no immediate impact on EDF Energy's impairment tests since most cash flows (receipts, costs, investments) and assets are stated in pounds sterling, it is still difficult at this stage to anticipate the long-term consequences, given the uncertainties over the timing and terms of the UK's departure from the European Union. The Group will monitor movements in the rates of return demanded by investors and changes in fuel prices, CO2 prices and macro-economic data such as GDP growth, which could affect price curves.

The recoverability of goodwill at 31 December 2018 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 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

16. Impairment of non-current assets continued

below the CfD exercise price, EDF Energy will receive an additional payment.

17. Intangible assets

	EU Emissions trading certificates £m	Renewable obligations certificates £m	IT software £m	Licence £m	Brand £m	Total £m
<b>Cost</b>						
At 31 December 2016	20	143	849	38	200	1,250
Additions	34	557	75	-	-	666
Disposals	(20)	(574)	-	-	-	(594)
<b>At 31 December 2017</b>	<b>34</b>	<b>126</b>	<b>924</b>	<b>38</b>	<b>200</b>	<b>1,322</b>
Additions	71	613	57	-	-	741
Divestment	-	-	(40)	-	-	(40)
Disposals	(33)	(617)	-	-	-	(650)
<b>At 31 December 2018</b>	<b>72</b>	<b>122</b>	<b>941</b>	<b>38</b>	<b>200</b>	<b>1,373</b>
<b>Amortisation</b>						
At 31 December 2016	-	-	(380)	(37)	(130)	(547)
Charge for year	-	-	(89)	-	-	(89)
Impairment (note 16)	-	-	-	-	(40)	(40)
<b>At 31 December 2017</b>	<b>-</b>	<b>-</b>	<b>(469)</b>	<b>(37)</b>	<b>(170)</b>	<b>(676)</b>
Charge for year	-	-	(93)	-	-	(93)
Impairment	-	-	-	-	(30)	(30)
<b>At 31 December 2018</b>	<b>-</b>	<b>-</b>	<b>(562)</b>	<b>(37)</b>	<b>(200)</b>	<b>(799)</b>
<b>Carrying amount</b>						
<b>At 31 December 2018</b>	<b>72</b>	<b>122</b>	<b>379</b>	<b>1</b>	<b>-</b>	<b>574</b>
At 31 December 2017	34	126	455	1	30	646

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
<b>Cost</b>								
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)
<b>At 31 December 2017</b>	<b>655</b>	<b>20</b>	<b>3,069</b>	<b>9,425</b>	<b>1,214</b>	<b>189</b>	<b>4,917</b>	<b>19,489</b>
Additions	-	-	-	-	1	5	2,766	2,772
Transfers	(2)	18	15	182	251	19	(483)	-
Divestment	-	-	(346)	-	-	(1)	(50)	(397)
Revaluation of final core provision	-	-	-	16	-	-	-	16
Unwinding of discount	4	-	-	-	-	-	-	4
Revaluation of decommissioning provision	-	-	-	-	-	(2)	-	(2)
Disposals	(6)	(31)	(5)	(16)	(268)	(24)	-	(350)
<b>At 31 December 2018</b>	<b>651</b>	<b>7</b>	<b>2,733</b>	<b>9,607</b>	<b>1,198</b>	<b>186</b>	<b>7,150</b>	<b>21,532</b>
<b>Accumulated depreciation</b>								
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	-	-	(165)	-	-	-	(2)	(167)
Disposals	1	1	303	25	155	6	-	491
<b>At 31 December 2017</b>	<b>(38)</b>	<b>(13)</b>	<b>(2,645)</b>	<b>(4,288)</b>	<b>(631)</b>	<b>(154)</b>	<b>(3)</b>	<b>(7,772)</b>
Charge for year	(6)	(4)	(41)	(480)	(220)	(23)	-	(774)
Reclass	-	-	-	-	-	1	-	1
Impairment (note 16)	-	-	(114)	-	-	-	-	(114)
Divestment	-	1	88	-	-	1	-	90
Disposals	3	10	6	16	255	24	-	314
<b>At 31 December 2018</b>	<b>(41)</b>	<b>(6)</b>	<b>(2,706)</b>	<b>(4,752)</b>	<b>(596)</b>	<b>(151)</b>	<b>(3)</b>	<b>(8,255)</b>
<b>Carrying amount</b>								
At 31 December 2018	610	1	27	4,855	602	35	7,147	13,277
At 31 December 2017	617	7	424	5,137	583	35	4,914	11,717

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

### 18. Property, plant and equipment continued

The carrying amount of the Group's land and buildings and equipment and fittings include amounts in respect of assets held under finance leases of £145m (2017: £136m) and £5m (2017: £nil), respectively.

During 2018, the Group carried out an impairment review of its Gas Storage facilities at Hill Top Farm in light of falls in weekday-weekend spreads, and on its coal station as a result of low dark spreads and the suspension of the UK capacity market during 2018. This led to an impairment of £114m being recognised in 2018 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 £6,732m at 31 December 2018 (2017: £4,490m). The recoverability of the balance of assets in the course of construction relating to HPC at 31 December 2018 is dependent both upon the forecast profitability of HPC, as disclosed in note 16.

### 19. Financial assets

	Non-Current	Current	Non-Current	Current
	2018	2018	2017	2017
	£m	£m	£m	£m
<b>Financial asset measured at fair value through other comprehensive income</b>				
Interest in insurance fund	10	-	12	-
<b>Loans receivable at amortised cost</b>				
Loan to associates	16	-	22	-
Loan to parent company	400	-	320	-
Loan to third party	1	-	1	-
Provision against loan to third party	(1)	-	(1)	-
<b>Deferred consideration</b>	74	-	106	-
<b>Total financial assets</b>	<b>500</b>	<b>-</b>	<b>460</b>	<b>-</b>

In 2018, 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. In May 2018, a Deed of Settlement arrangement was agreed between EDF Energy Holdings Limited and CGN. As a result of this Deed of Settlement, some clauses in the original shareholder agreement signed in September 2016 have been amended and the value of the deferred consideration was reduced to £74m. The change in the value of the deferred consideration has been recorded in reserves as this is deemed to relate directly to the amendment of the original disposal consideration, following the same treatment as the underlying transaction. The full amount of the deferred consideration is expected to be received in 2019 and therefore has been discounted to its present value at a risk free discount rate of 2%. A risk free rate has been applied because 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.

	<b>Energy Services Limited</b>		<b>Bradwell Power Holding Company Limited</b>		<b>EDF Energy Renewables group</b>	
	<b>2018 £m</b>	<b>2017 £m</b>	<b>2018 £m</b>	<b>2017 £m</b>	<b>2018 £m</b>	<b>2017 £m</b>
Non-current assets	<b>130</b>	128	<b>34</b>	117	<b>1,414</b>	243
Current assets	<b>122</b>	125	<b>123</b>	35	<b>246</b>	60
Non-current liabilities	<b>(74)</b>	(97)	-	-	<b>(115)</b>	(59)
Current liabilities	<b>(76)</b>	(60)	<b>(11)</b>	(12)	<b>(617)</b>	(10)
<b>Net assets</b>	<b>102</b>	96	<b>146</b>	140	<b>928</b>	234
Equity attributable to owners of the company	<b>51</b>	48	<b>97</b>	93	<b>473</b>	211
Non-controlling interest – Group share of equity	<b>51</b>	48	<b>49</b>	47	<b>261</b>	23
Non-controlling interest – Other	-	-	-	-	<b>194</b>	-
Sales	<b>395</b>	187	-	-	<b>127</b>	84
Profit/(loss) for the year	-	(6)	-	(3)	<b>18</b>	44
Group's share of profit/(loss) for the year	-	(3)	-	(1)	<b>4</b>	4
Dividend received from associate during the year	-	-	-	-	<b>117</b>	4

In 2017, the Group disclosed Fallago Rig Windfarm Limited as a separate material associate. During 2018, the EDF Energy Renewables group became an associate to EDF Energy Holdings Limited Group. Fallago Rig Windfarm Limited results are included within the EDF Energy Renewables group disclosure in both 2017 and 2018.

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

	<b>Energy Services Limited</b>		<b>Bradwell Power Holding Company Limited</b>		<b>EDF Energy Renewables group</b>	
	<b>2018 £m</b>	<b>2017 £m</b>	<b>2018 £m</b>	<b>2017 £m</b>	<b>2018 £m</b>	<b>2017* £m</b>
Net assets of associate	<b>102</b>	96	<b>146</b>	140	<b>928</b>	234
Group's ownership interest	<b>51</b>	48	<b>49</b>	47	<b>261</b>	23
Goodwill	-	-	-	-	-	29
<b>Carrying amount of the Group's interest</b>	<b>51</b>	48	<b>49</b>	47	<b>261</b>	52

(\*) The Group's ownership interest in EDF Energy Renewables group for 2017 includes £10m of not individually material associates that have been reclassified to material associates in 2018.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued**

**20. Interest in associates continued**

**Aggregate information of associates that are not individually material:**

	2018 £m	2017 £m
The Group's share of profit/(loss) from operations	-	-
Aggregate carrying amount of the Group's interest in associates*	21	5

(\*) £22m of the 2017 aggregate carrying amount of the Group's interest in associates have been reclassified to EDF Energy Renewables group.

In 2017, the results of Green Rigg Windfarm Limited, Rusholme Windfarm Limited, Glass Moor II Windfarm Limited, Bicker Fen Windfarm Limited and Fenland Windfarms Limited were reported in associates that are not individually material. These associates have been reclassified and are disclosed within the EDF Energy Renewables group in both 2017 and 2018 in this account.

**Total of all associate balances:**

	2018 £m	2017 £m
The Group's share of profit/(loss) from operations	4	-
Aggregate carrying amount of the Group's interest in associates	382	152

Details of the Group's associates at 31 December 2018 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 <sup>(1)</sup>	United Kingdom	24.5%	24.5%
Lewis Wind Power Holdings Limited <sup>(2)</sup>	United Kingdom	24.5%	24.5%
Stornoway Wind Farm Limited <sup>(2)</sup>	United Kingdom	24.5%	24.5%
Uisenis Power Limited <sup>(2)</sup>	United Kingdom	24.5%	24.5%
Fallago Rig Windfarm Limited <sup>(6)</sup>	United Kingdom	9.8%	9.8%
Clash Gour Holdings Limited <sup>(6)</sup>	United Kingdom	49.0%	49.0%
Dallas Windfarm Limited <sup>(6)</sup>	United Kingdom	49.0%	49.0%
Altyre II Windfarm Limited <sup>(6)</sup>	United Kingdom	49.0%	49.0%
Dunphail Windfarm Limited <sup>(6)</sup>	United Kingdom	49.0%	49.0%
Dunphail II Windfarm Limited <sup>(6)</sup>	United Kingdom	49.0%	49.0%
Dunphail Windfarm Partnership LLP <sup>(6)</sup>	United Kingdom	49.0%	49.0%
Green Rigg Windfarm Limited <sup>(3)</sup>	United Kingdom	9.8%	9.8%
Rusholme Windfarm Limited <sup>(3)</sup>	United Kingdom	9.8%	9.8%
Glass Moor II Windfarm Limited <sup>(3)</sup>	United Kingdom	9.8%	9.8%
Fenland Windfarms Limited <sup>(4)</sup>	United Kingdom	9.8%	9.8%
Bicker Fen Windfarm Limited <sup>(4)</sup>	United Kingdom	9.8%	9.8%
EDF Energy Renewables Limited <sup>(*)</sup>	United Kingdom	49.0%	49.0%
Fallago Rig II Windfarm Limited <sup>(*)</sup>	United Kingdom	49.0%	49.0%

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued**

**20. Interest in associates continued**

Braemore Wood Windfarm Limited <sup>(*)</sup>	United Kingdom	49.0%	49.0%
Burnfoot East Windfarm Limited <sup>(*)</sup>	United Kingdom	49.0%	49.0%
NNG Windfarm Holdings Limited <sup>(6)</sup>	United Kingdom	49.0%	49.0%
Neart Na Gaoithe Offshore Wind Limited <sup>(6)</sup>	United Kingdom	49.0%	49.0%
Burnfoot Windfarm Limited <sup>(*)</sup>	United Kingdom	24.9%	24.9%
Fairfield Windfarm Limited <sup>(*)</sup>	United Kingdom	24.9%	24.9%
Boundary Lane Windfarm Limited <sup>(*)</sup>	United Kingdom	24.9%	24.9%
Walkway Windfarm Limited <sup>(*)</sup>	United Kingdom	24.9%	24.9%
Teesside Windfarm Limited <sup>(*)</sup>	United Kingdom	24.9%	24.9%
EDF Energy (Northern Offshore Wind) Limited <sup>(*)</sup>	United Kingdom	24.9%	24.9%
Longpark Windfarm Limited <sup>(*)</sup>	United Kingdom	24.9%	24.9%
Roade Windfarm Limited <sup>(*)</sup>	United Kingdom	24.9%	24.9%
Burnhead Moss Wind Farm Limited <sup>(*)</sup>	United Kingdom	24.9%	24.9%
EDF Energy Renewables Holdings Limited <sup>(*)</sup>	United Kingdom	24.9%	24.9%
Barmoor Wind Power Limited <sup>(*)</sup>	United Kingdom	24.9%	24.9%
Park Spring Wind Farm Limited <sup>(*)</sup>	United Kingdom	24.9%	24.9%
Corriemoillie Windfarm Limited <sup>(*)</sup>	United Kingdom	24.9%	24.9%
Dorenell Windfarm Limited <sup>(*)</sup>	United Kingdom	24.9%	24.9%
Beck Burn Windfarm Limited <sup>(*)</sup>	United Kingdom	24.9%	24.9%
Pearie Law Windfarm Limited <sup>(*)</sup>	United Kingdom	24.9%	24.9%
EDF EN Services UK Limited <sup>(*)</sup>	United Kingdom	49.0%	49.0%
Cemmaes Windfarm Limited <sup>(*)</sup>	United Kingdom	24.9%	24.9%
Llangwryfon Windfarm Limited <sup>(*)</sup>	United Kingdom	24.9%	24.9%
Great Orton Windfarm II Limited <sup>(*)</sup>	United Kingdom	24.9%	24.9%
High Hedley Hope Wind Limited <sup>(*)</sup>	United Kingdom	24.9%	24.9%
First Windfarm Holdings Limited <sup>(*)</sup>	United Kingdom	49.0%	49.0%
Stranoch Windfarm Limited <sup>(*)</sup>	United Kingdom	49.0%	49.0%
Red Tile Wind Limited <sup>(*)</sup>	United Kingdom	49.0%	49.0%
Round 3 Isle of Wight Limited <sup>(*)</sup>	United Kingdom	24.9%	24.9%
Kirkheaton Wind Limited <sup>(*)</sup>	United Kingdom	24.9%	24.9%
EDF ER Development Limited <sup>(*)</sup>	United Kingdom	49.0%	49.0%
South Clare Windfarm Limited <sup>(*)</sup>	United Kingdom	49.0%	49.0%
Mosscastle Windfarm Limited <sup>(*)</sup>	United Kingdom	49.0%	49.0%
EDF ER Nominee Limited <sup>(*)</sup>	United Kingdom	49.0%	49.0%
Camilty Windfarm Limited <sup>(*)</sup>	United Kingdom	49.0%	49.0%
Cloich Windfarm Limited <sup>(*)</sup>	United Kingdom	49.0%	49.0%
Heathland Windfarm Limited <sup>(*)</sup>	United Kingdom	49.0%	49.0%
Newcastleton Windfarm Limited <sup>(*)</sup>	United Kingdom	49.0%	49.0%
The Mosses Windfarm Limited <sup>(*)</sup>	United Kingdom	49.0%	49.0%

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued**

**20. Interest in associates continued**

Tinnisburn Windfarm Limited <sup>(*)</sup>	United Kingdom	49.0%	49.0%
Wauchope Windfarm Limited <sup>(*)</sup>	United Kingdom	49.0%	49.0%
West Benhar Windfarm Limited <sup>(*)</sup>	United Kingdom	49.0%	49.0%
Camilty Windfarm Partnership LLP <sup>(*)</sup>	United Kingdom	49.0%	49.0%
Cloich Windfarm Partnership LLP <sup>(*)</sup>	United Kingdom	49.0%	49.0%
Heathland Windfarm Partnership LLP <sup>(*)</sup>	United Kingdom	49.0%	49.0%
Newcastleton Windfarm Partnership LLP <sup>(*)</sup>	United Kingdom	49.0%	49.0%
The Mosses Windfarm Partnership LLP <sup>(*)</sup>	United Kingdom	49.0%	49.0%
Tinnisburn Windfarm Partnership LLP <sup>(*)</sup>	United Kingdom	49.0%	49.0%
Wauchope Windfarm Partnership LLP <sup>(*)</sup>	United Kingdom	49.0%	49.0%
West Benhar Windfarm Partnership LLP <sup>(*)</sup>	United Kingdom	49.0%	49.0%
EDF Energy Services Limited	United Kingdom	50.0%	49.0%
The Barkantine Heat and Power Company Limited <sup>(7)</sup>	United Kingdom	50.0%	49.0%
ESSCI Limited <sup>(7)</sup>	United Kingdom	50.0%	49.0%
ESSCI Engineering Services Limited <sup>(7)</sup>	United Kingdom	50.0%	49.0%
Imtech Engineering Services North Ltd <sup>(9)</sup>	United Kingdom	50.0%	49.0%
Imtech Engineering Services Central Ltd <sup>(8)</sup>	United Kingdom	50.0%	49.0%
Imtech Engineering Services London and South Ltd <sup>(7)</sup>	United Kingdom	50.0%	49.0%
Imtech Aqua Ltd <sup>(10)</sup>	United Kingdom	50.0%	49.0%
Imtech Aqua Building Services Ltd <sup>(10)</sup>	United Kingdom	50.0%	49.0%
Imtech Aqua Controls Ltd <sup>(10)</sup>	United Kingdom	50.0%	49.0%
Imtech Low Carbon Solutions Ltd <sup>(8)</sup>	United Kingdom	50.0%	49.0%
ESSCI Technical Facilities Management Limited <sup>(7)</sup>	United Kingdom	50.0%	49.0%
Inviron Holdings Limited <sup>(11)</sup>	United Kingdom	50.0%	49.0%
Imtech Inviron Limited <sup>(11)</sup>	United Kingdom	50.0%	49.0%
Inviron Property Limited <sup>(11)</sup>	United Kingdom	50.0%	49.0%
Imtech Aqua Maintenance Ltd <sup>(11)</sup>	United Kingdom	50.0%	49.0%
ESSCI Technical Services Limited <sup>(7)</sup>	United Kingdom	50.0%	49.0%
Capula Group Limited <sup>(12)</sup>	United Kingdom	50.0%	49.0%
Capula Limited <sup>(12)</sup>	United Kingdom	50.0%	49.0%
ESSCI Ireland Limited <sup>(7)</sup>	United Kingdom	50.0%	49.0%
Suir Engineering Limited (Ireland) <sup>(13)</sup>	United Kingdom	50.0%	49.0%
Suir Engineering Sweden AB (Sweden) <sup>(13)</sup>	United Kingdom	50.0%	49.0%
Imtech Suir Qatar LLC (Qatar) <sup>(13)</sup>	United Kingdom	50.0%	49.0%
Bradwell Power Holding Company Limited <sup>(5)</sup>	United Kingdom	33.5%	33.5%
Bradwell Power Generation Company Limited <sup>(5)</sup>	United Kingdom	33.5%	33.5%
General Nuclear System Limited <sup>(5)</sup>	United Kingdom	33.5%	33.5%

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

### 20. Interest in associates continued

- (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: Twenty, Kingston Road, Staines-Upon-Thames, England, TW18 4LG
  - (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
  - (\*) Registered Address: Alexander House 1 Mandarin Road, Rainton Bridge Business Park, Houghton Le Spring, Sunderland, England DH4 5RA.
- 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.

On 1<sup>st</sup> January 2018, the Group made two separate sale of 1% shares together with the transfer of control in EDF Energy Renewables Limited to EDF Énergies Nouvelles UK Limited, and in EDF EN Services UK Limited to EDF EN Services. Subsequent to the sale, both EDF Energy Renewables Limited and EDF EN Services UK Limited ceased as joint operations and became associates of the Group. The results of these changes are included in the Group's interest in EDF Energy Renewables group.

In addition, on 29 June 2018 the EDF Energy Renewables Limited sold 49% of minority stake in twenty four of its UK wind farms to Dalmore Capital Limited and Pensions Infrastructure Platform. The sale effectively reduced the Group's share in EDF Energy Renewables Holdings Limited (an indirect associate) to 24.99%. The sale of UK wind farms generated a gain of £140m for the Group and the sale of this investment is considered as a transaction between shareholders with no change of control. As a result, the gain on sale has been recognised in equity with a corresponding increase in the value of the Group's investment in associates. From the proceeds of the sale the Group received a dividend of £117m and the remaining was used to repay an accelerated shareholder loan of £111m.

### 21. Interests in joint operations

In January 2018, upon the completion of the restructure of the EDF Energy Renewables group, EDF Energy Renewables Holdings Limited ("EDF ERH") ceased to be the holding company for the Renewables group and was replaced by EDF Energy Renewables Limited.

In continuing with the simplification of ownership structure, EDF Energy sold 1% of its shares and transferred control of EDF Energy Renewables Limited to EDF EN UK Limited and made the same sale in EDF EN Services UK Limited to EDF EN Services. This led to EDF Energy Renewables group becoming associates as opposed to joint operations, refer to the note above. This also meant that the Group has nil joint operations at year end of 2018 (2017: joint operations net assets of £211m and net profit of £47m).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

**22. NLF and nuclear liabilities receivable**

	2018 £m	2017 £m
<b>Non-current assets</b>		
Nuclear liabilities receivable	665	769
NLF receivable	7,354	6,670
Total non-current NLF and nuclear liabilities receivables	8,019	7,439
<b>Current assets</b>		
Nuclear liabilities receivable	163	174
NLF receivable	66	62
Total current NLF and nuclear liabilities receivables	229	236
Total NLF and nuclear liabilities receivables	8,248	7,675

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**

	2018 £m	2017 £m
Raw materials and consumables	249	261
Unburnt nuclear fuel	1,459	1,396
Other nuclear fuel and uranium	677	612
Work in progress	7	7
	2,392	2,276

The cost of inventories recognised as an expense during the year in respect of continuing operations was £539m (2017: £508m). The cost of inventories recognised as an expense includes £12m (2017: £11m) in respect of write-downs of inventory to net realisable value, and has been reduced by £nil m (2017: £nil m) in respect of the reversal of such write-downs.

Inventories of £1,665m (2017: £1,580m) are expected to be recovered after more than twelve months.

**24. Trade and other receivables**

	2018 £m	2017 £m
Trade receivables (i)	1,059	978
Expected credit loss (ii)	(111)	(107)
Unbilled revenue	573	457
Other debtors	165	292
Advance payments	82	90
	1,768	1,710

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

### 24. Trade and other receivables continued

- 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.

Trade receivables do not contain a financing component and are stated at their nominal value. At each reporting period an assessment is made to determine whether there has been a significant increase in the credit risk of the Trade receivables.

- ii. Movement in the expected credit loss:

	2018 £m	2017 £m
At 1 January	107	109
Amounts recovered during the year	(3)	(4)
Decrease in allowance recognised in the income statement	7	2
At 31 December	111	107

The maximum contractual period of credit exposure is less than 12 months. The loss allowance is measured at an amount equal to 12-months of expected credit losses.

The expected credit losses are measured using:

- an unbiased probability-weighted amount based on a range of possible outcomes,
- the time value of money, and
- reasonable and supportable information about past events, current conditions, and forecasts of future economic conditions.

The ageing of overdue debt is as follow:

#### 2018

Ageing	Gross trade receivables overdue £m	Expected credit loss £m	Net trade receivables overdue £m	Weighted average days
< 30 days	105	-	105	2
31-60 days	52	-	52	2
61-90 days	38	-	38	1
> 90 days	520	(111)	409	831
<b>Total</b>	<b>715</b>	<b>(111)</b>	<b>604</b>	<b>836</b>

#### 2017

Ageing	Gross trade receivables overdue £m	Expected credit loss £m	Net trade receivables overdue £m	Weighted average days
< 30 days	100	-	100	2
31-60 days	49	-	49	1
61-91 days	36	-	36	-
> 90 days	531	(107)	424	571
<b>Total</b>	<b>716</b>	<b>(107)</b>	<b>609</b>	<b>574</b>

Expected credit losses have been established against these balances to the extent that they are not considered recoverable, and in accordance with the Group's policy on measurement of loss allowances. See note 2 for further details on measurement of loss allowances and credit risks.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

25. Cash and cash equivalents

	2018 £m	2017 £m
Cash at bank and in hand	(341)	109
Short-term deposits	413	12
Short-term deposit with intermediate parent company	6	4
Cash pooling with intermediate parent company	1,175	940
	<b>1,253</b>	<b>1,065</b>

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 £1,252m (2017: £1,065m). EDF Energy Limited, 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 £22m (2017: £18m) of cash which must be maintained as a minimum cash balance in some entities, in accordance with contractual obligations with financial institutions.

26. Other liabilities

	2018 £m	2017 £m
Trade creditors	1,434	1,096
Other payables	220	219
Accruals	586	716
NLF liabilities	11	11
Nuclear liabilities (note 30)	163	174
<b>Total other liabilities due within one year</b>	<b>2,414</b>	<b>2,216</b>
Contingent consideration	50	3
Nuclear liabilities (note 30)	665	769
NLF liabilities	93	97
Unfunded pension scheme	13	14
<b>Total other liabilities due after more than one year</b>	<b>821</b>	<b>883</b>
<b>Total other liabilities</b>	<b>3,235</b>	<b>3,099</b>

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**

	2018 £m	2017 £m
EDF Energy Renewables (i)	-	6
Total borrowings due within one year	-	6
€800m Eurobond due June 2023 (ii)	<b>715</b>	710
EDF Energy Renewables (i)	-	96
EDF Energy NB (iii)	<b>1</b>	1
EDF Energy UK (iv)	-	492
Northern Power (v)	<b>22</b>	22
Total borrowings due within more than one year	<b>738</b>	1,321
<b>Total borrowings</b>	<b>738</b>	1,327

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 EDF Energy Renewable companies became associates of the Group as of 1 January 2018 and loans held by these companies are no longer consolidated in this accounts.
- (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 £682m 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) In 2017, a total of £492m was borrowed from EDF Energy (UK) Limited in order to finance the NNB cash calls. This loan was interest free and repayable on demand. During 2018 a further £424m was borrowed from EDF Energy (UK) Limited and the balance of £916m was settled via a share issue.
- (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

	2018 £m	2017 £m
<b>Current</b>		
<b>Derivatives that are designated as hedging instruments in a cash flow hedge:</b>		
Commodity purchase contracts	(326)	(175)
Interest rate swap contracts	-	(2)
Foreign currency forward contracts	3	1
<b>Derivatives at fair value through profit and loss (FVTPL):</b>		
Commodity purchase contracts	(8)	1
Foreign currency forward contracts	5	13
<b>Total current derivative financial instruments</b>	<b>(326)</b>	<b>(162)</b>
<b>Split by:</b>		
<b>Current assets</b>	<b>37</b>	<b>91</b>
<b>Current liabilities</b>	<b>(363)</b>	<b>(252)</b>
<b>Non-current</b>		
<b>Derivatives that are designated as hedging instruments in a cash flow hedge:</b>		
Commodity purchase contracts	(73)	(74)
Interest rate swap contracts	-	-
Cross-currency interest rate swaps	58	39
Foreign currency forward contracts	-	-
<b>Derivatives at fair value through profit and loss (FVTPL):</b>		
Commodity purchase contracts	(4)	(34)
Foreign currency forward contracts	1	3
<b>Total non-current derivative financial instruments</b>	<b>(18)</b>	<b>(66)</b>
<b>Split by:</b>		
<b>Non-current assets</b>	<b>60</b>	<b>51</b>
<b>Non-current liabilities</b>	<b>(78)</b>	<b>(118)</b>
<b>Total derivative financial instruments</b>	<b>(344)</b>	<b>(228)</b>

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 2017	Utilised in the year	Released in the year	Arising during the year	Disposal via divestment	Unwinding of discount	At 31 December 2018
	£m	£m	£m	£m	£m	£m	£m
Obligations under EU emissions	32	(34)	-	72	-	-	<b>70</b>
Renewable obligation certificates	535	(757)	(2)	921	-	-	<b>697</b>
Decommissioning on non-nuclear assets	115	-	-	6	(3)	-	<b>118</b>
Restructuring costs	15	(10)	(2)	24	-	-	<b>27</b>
Nuclear (note 30)	6,721	(20)	-	369	-	343	<b>7,413</b>
Provision for unburnt fuel at station closure	1,334	-	-	16	-	61	<b>1,411</b>
Onerous contracts	2	(1)	-	38	-	-	<b>39</b>
Other costs	19	(4)	-	11	(1)	-	<b>25</b>
	<b>8,773</b>	<b>(826)</b>	<b>(4)</b>	<b>1,457</b>	<b>(4)</b>	<b>404</b>	<b>9,800</b>

The provisions have been split as follows:

	At 31 December 2018			At 31 December 2017		
	Current	Non-current	Total	Current	Non-current	Total
	£m	£m	£m	£m	£m	£m
Obligations under EU emissions	<b>70</b>	-	<b>70</b>	32	-	32
Renewable obligation certificates	<b>697</b>	-	<b>697</b>	535	-	535
Decommissioning on non- nuclear assets	-	<b>118</b>	<b>118</b>	-	115	115
Restructuring	<b>8</b>	<b>19</b>	<b>27</b>	15	-	15
Nuclear	-	<b>7,413</b>	<b>7,413</b>	-	6,721	6,721
Provision for unburnt fuel at station closure	-	<b>1,412</b>	<b>1,412</b>	-	1,334	1,334
Other provisions	<b>63</b>	-	<b>63</b>	21	-	21
	<b>838</b>	<b>8,962</b>	<b>9,800</b>	<b>603</b>	<b>8,170</b>	<b>8,773</b>

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 2019 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 2019.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

### 29. Provisions for liabilities continued

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 2019 and 2020. See note 11 for further information.

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); and
- EDF Energy is responsible for funding certain excluded or disqualified liabilities (mainly liabilities incurred in connection with the event of an unsafe or careless operation of the power stations) and the potential associated obligations of its subsidiaries to the NLF and the Secretary of State are guaranteed by the principal members of the EENG.

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 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)	-	-	-
- Operating costs	9	1	2	-	12
Payments in the period	(226)	-	-	(2)	(228)
<b>At 31 December 2017</b>	<b>1,390</b>	<b>572</b>	<b>280</b>	<b>5,422</b>	<b>7,664</b>
Charged to profit and loss account:					
- Unwinding of the discount	86	30	14	277	407
- Updated cash flows	(8)	(1)	-	(12)	(21)
- Discount rate update	24	62	34	259	379
- Operating costs	10	2	2	-	14
Payments in the period	(193)	-	-	(9)	(202)
<b>At 31 December 2018</b>	<b>1,309</b>	<b>665</b>	<b>330</b>	<b>5,937</b>	<b>8,241</b>

Nuclear liabilities are included in the balance sheet as follows:

	2018 £m	2017 £m
Other liabilities:		
- amounts due within one year (note 26)	163	174
- amounts due after more than one year (note 26)	665	769
Provision for liabilities (see note 29)	7,413	6,721
	<b>8,241</b>	<b>7,664</b>

**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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

### 30. Nuclear liabilities continued

#### 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 2018, there was no significant change to the cost estimates underpinning the nuclear liabilities.

#### Updated discount rate applicable to nuclear liabilities

During 2018, an assessment of long-term bond yields and inflationary assumptions resulted in a change to the discount rate used in the present value calculation of the liabilities from a real, pre-tax discount rate of 2.7% used in 2017, to 2.5% used in 2018.

#### 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	2018 Total £m	2017 Total £m
Undiscounted	2,384	3,260	1,660	14,081	21,385	21,084
Discounted	1,442	688	356	5,937	8,423	7,834
Accrued to date	1,309	665	330	5,937	8,241	7,664

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 2.5% pre-tax real rate was applied during 2018, and a pre-tax real rate of 2.7% was applied during 2017.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued**

**30. Nuclear liabilities continued**

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	2018 Total £m	2017 Total £m
Within five years	712	1	-	333	<b>1,046</b>	924
6 – 10 years	440	56	16	1,921	<b>2,433</b>	2,250
11 – 25 years	356	221	63	4,279	<b>4,919</b>	5,057
26 – 50 years	133	258	84	1,160	<b>1,635</b>	1,729
51 years and over	743	2,724	1,497	6,388	<b>11,352</b>	11,124
	<b>2,384</b>	<b>3,260</b>	<b>1,660</b>	<b>14,081</b>	<b>21,385</b>	<b>21,084</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

**31. Deferred tax**

The following are the major deferred tax assets and (liabilities) 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 2016	<b>(1,025)</b>	<b>(53)</b>	<b>56</b>	<b>3</b>	<b>7</b>	<b>(1,012)</b>
Credit/(charge) to income:						
o current year	19	8	(1)	17	1	<b>44</b>
o adjustments in respect of previous years' reported tax charges	(32)	-	-	-	1	<b>(31)</b>
o effect of decreased tax rate on opening liability	9	-	-	-	-	<b>9</b>
(Charge) to equity						
o current year	-	(67)	(22)	-	-	<b>(89)</b>
o adjustments in respect of previous years' reported tax charges	-	-	-	-	-	<b>-</b>
o effect of decreased tax rate on opening liability	-	-	-	-	-	<b>-</b>
Business disposals	5	-	-	-	-	<b>5</b>
<b>At 31 December 2017</b>	<b>(1,024)</b>	<b>(112)</b>	<b>33</b>	<b>20</b>	<b>9</b>	<b>(1,074)</b>
Credit/(charge) to income:						
o current year	(2)	9	-	27	4	<b>38</b>
o adjustments in respect of previous years' reported tax charges	1	-	-	-	-	<b>1</b>
o effect of decreased tax rate on opening liability	15	-	-	-	-	<b>15</b>
Credit/(charge) to equity						
o current year	-	(29)	22	-	-	<b>(7)</b>
o effect of decreased tax rate on opening liability	-	2	-	-	-	<b>2</b>
Business disposals	27	-	-	-	-	<b>27</b>
<b>At 31 December 2018</b>	<b>(983)</b>	<b>(130)</b>	<b>55</b>	<b>47</b>	<b>13</b>	<b>(998)</b>

The Group has unrecognised tax losses of £8m (2017: £8m). The losses give rise to a deferred tax asset of £1m (2017: £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.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued**

**31. Deferred tax continued**

Deferred tax assets and liabilities are offset where the Company has a legal enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	<b>2018</b>	<b>2017</b>
	<b>£m</b>	<b>£m</b>
Deferred tax assets	<b>115</b>	63
Deferred tax liabilities	<b>(1,113)</b>	(1,137)
<b>At 31 December</b>	<b>(998)</b>	(1,074)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

32. Non-controlling interest

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	
	2018	2017	2018	2017	2018	2017
	£m	£m	£m	£m	£m	£m
Non-current assets	19,057	18,764	6,976	4,707	119	103
Current assets	2,942	2,864	138	209	7	9
<b>Total assets</b>	<b>21,999</b>	<b>21,628</b>	<b>7,114</b>	<b>4,916</b>	<b>126</b>	<b>112</b>
Current liabilities	650	613	419	236	6	2
Non-current liabilities	9,665	9,125	289	222	-	-
Equity attributable to owners of the company	11,684	11,890	6,406	4,458	120	110
<b>Total equity and liabilities</b>	<b>21,999</b>	<b>21,628</b>	<b>7,114</b>	<b>4,916</b>	<b>126</b>	<b>112</b>
Sales	2,446	2,690	1	1	-	-
Profit/(loss) for the year	(93)	107	(9)	(5)	-	-
Profit/(loss) attributable to owners of the company	(75)	86	(6)	(4)	-	-
Profit/(loss) attributable to the non-controlling interests	(18)	21	(3)	(1)	-	-
<b>Profit for the year</b>	<b>(93)</b>	<b>107</b>	<b>(9)</b>	<b>(5)</b>	<b>-</b>	<b>-</b>
Total other comprehensive income attributable to owners of the company	4	168	-	-	-	-
Total other comprehensive income attributable to the non-controlling interests	1	42	-	-	-	-
<b>Total other comprehensive income for the year</b>	<b>5</b>	<b>210</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Dividends paid to non-controlling interest	(20)	(57)	-	-	-	-
Net cash inflow/(outflow) from operating activities	574	760	38	(9)	-	9
Net cash inflow/(outflow) from investing activities	(491)	(451)	(1,988)	(1,449)	(12)	(22)
Net cash inflow/(outflow) from financing activities	(100)	(287)	1,957	1,472	10	-
<b>Net cash inflow/(outflow)</b>	<b>(17)</b>	<b>22</b>	<b>7</b>	<b>14</b>	<b>(2)</b>	<b>(13)</b>

## 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	
	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m
Balance at beginning of year	2,383	2,377	1,904	1,465	256	256	4,543	4,098
Profit/(loss) arising during the year	(18)	21	(3)	(1)	-	-	(21)	20
Other comprehensive income: actuarial gains on pension scheme, net of tax	1	42	-	-	-	-	1	42
<b>Total comprehensive income</b>	<b>(17)</b>	<b>63</b>	<b>(3)</b>	<b>(1)</b>	<b>-</b>	<b>-</b>	<b>(20)</b>	<b>62</b>
Acquisition of non-controlling interest	-	-	-	-	-	-	-	-
Capital injection	-	-	655	440	2	-	657	440
Dividends paid	(20)	(57)	-	-	-	-	(20)	(57)
<b>Balance at end of year</b>	<b>2,346</b>	<b>2,383</b>	<b>2,556</b>	<b>1,904</b>	<b>258</b>	<b>256</b>	<b>5,160</b>	<b>4,543</b>

### 33. Commitments

#### Capital and other commitments

At 31 December 2018, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £7,847m (2017: £9,019m).

At 31 December 2018, the Group had entered into operating purchase commitments amounting to £592m (2017: £653m).

At 31 December 2018, the Group had contracted to purchase power, gas and other fuel to the value of £5,861m (2017: £3,755m).

#### Operating lease commitments given

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

	2018 £m	2017 £m
Within one year	14	16
After one year but not more than five years	44	58
More than five years	80	147
<b>Future lease charges</b>	<b>138</b>	<b>221</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

### 33. Commitments continued

#### 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	
	2018 £m	2017 £m	2018 £m	2017 £m
Within one year	26	12	16	2
After one year but not more than five years	48	46	12	8
More than five years	208	220	110	114
	282	278	138	124
Less: future finance charges	(144)	(154)		
Present value of minimum lease payments	138	124		

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

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. During 2018, the Group entered 2 finance leases for the procurement of IT hardware. The term of the finance leases end in 2020 and 2021 and have effective interest rates of 1.6% at inception. The lease is denominated in sterling and there are no contingent rental payments or restrictions attached to the lease arrangement.

#### Contingent liabilities

The Group has given letters of credit and guarantees to the value of £710m (2017: £590m) 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.

#### Contingent assets

As a result of the suspension of the UK Capacity Market outlined in the Principal risks and uncertainties section of the Strategic Report the Group recognised a contingent asset related to Capacity Market revenue.

The recognition of capacity market revenues earned from generation assets and pass-through I&C customers is dependent on the outcome of the investigation into the capacity market by the European Commission. Should the capacity market be re-instated retrospectively, the revenue will be recognised. The total value of the contingent asset is shown below:

#### Contingent Assets

	2018 £m	2017 £m
I&C pass-through Customer revenue	37	-
Generation CM revenue	69	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

34. Share capital

Authorised, issued, called up and fully paid	2018 Number	2017 Number	2018 £m	2017 £m
Ordinary shares of £1.00 each	10,174,689,122	8,381,442,467	10,174	8,382

During 2018, 1,793,246,655 shares were issued at par for consideration of £1,793m.

35. Capital reserves

	Share premium £m	Capital reserve £m	Total £m
At 31 December 2017	-	9	9
<b>At 31 December 2018</b>	<b>-</b>	<b>9</b>	<b>9</b>

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

	2018 £m	2017 £m
<b>At 31 December</b>	<b>(2)</b>	<b>(2)</b>

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

	2018 £m	2017 £m
Balance at start of year	5,711	5,868
Loss for the year attributable to the equity holders of the parent	(361)	(233)
Dividends paid to parent company	-	(146)
Capital reduction	-	-
Disposal of joint operations	162	-
Actuarial gains, net of tax	87	220
Gains/(loss) on available-for-sale investments	(2)	2
Capital contributions	45	-
UURBS Pensions transfer	2	-
Unwinding of the Deed of Settlement	(35)	-
Balance at end of year	5,609	5,711

38. Hedging reserve

	2018 £m	2017 £m
Balance at start of year	(178)	(284)
Cost of hedging reserve adjustment	(8)	-
<i>Net gains/(losses) arising on changes in fair value of instruments in a cash flow hedge:</i>		
Commodity purchase contracts	(182)	(124)
Cross currency interest rate swaps	24	(5)
Cost of hedging reserve	(4)	-
Foreign currency forward contracts	1	(10)
Interest rate swap contracts	(4)	2
<i>Net gains/(losses) arising on changes in fair value of hedging instruments transferred to profit or loss:</i>		
Commodity purchase contracts	47	260
Foreign currency forward contracts	(1)	5
Deferred tax on net losses in cash flow hedge	21	(22)
Total movement in year	(106)	106
Balance at end of year	(284)	(178)

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 2018 £m	31 December 2017 £m
Less than one year	(309)	(165)
Between one to five years	(59)	(63)
More than five years	25	12
Total fair value losses on derivatives designated as effective cash flow hedges	(343)	(216)
Deferred taxation	59	38
<b>Total</b>	<b>(284)</b>	<b>(178)</b>

During the year a loss of £47m (2017: £265m) 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**

	2018 £m	2017 £m
Loss before taxation	(459)	(299)
<i>Adjustments for:</i>		
(Gain)/loss on derivatives (note 5)	(6)	(17)
Share of (gain)/loss of associates	(4)	-
Depreciation (note 18)	774	831
Amortisation (note 17)	93	89
Impairment of non-current assets (note 16)	144	207
Utilisation of carbon and renewable obligations certificates	651	594
Finance costs	122	85
(Gain) on disposal of subsidiary	-	(33)
(Gain) on disposal of property, plant and equipment	(6)	-
Increase/(decrease) in provisions	301	63
Difference between pension funding contribution paid and pension cost charged	(9)	25
Release of fair value adjustments on inventory	4	12
<b>Operating cash flows before movements in working capital</b>	<b>1,605</b>	<b>1,557</b>
Decrease/(increase) in inventories	(121)	91
(Increase)/decrease in receivables	(90)	(332)
Increase/(decrease) in payables	224	180
<b>Cash generated by operations</b>	<b>1,618</b>	<b>1,496</b>
Income taxes (paid)/received	(58)	(29)
<b>Net cash from operating activities</b>	<b>1,560</b>	<b>1,467</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

**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.

Under the BEGG scheme, employees are either in the final salary section or a career average revalued earnings ("CARE") section. In the final salary section 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. In the CARE section of BEGG the employees accrue benefits based on their average salary during their period of employment within EDF Energy. The rate of accrual of CARE is 1/60<sup>th</sup> of the employee's average salary based on a 5% contribution rate. 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 either in the final salary section or a CARE section. Employees in the final salary section 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. The CARE section of the EEPS scheme has the exact same conditions and benefits as the CARE section of the BEGG scheme. 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.

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. The PCAE was how a CARE section within the BEGG scheme became open to new entrants. In addition, a closed section with benefit structure mirroring the EEPS final salary arrangements was also established. 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).

On 26 October 2018, the High Court handed down the main elements of a judgement relating to equalisation of member benefits for the gender effects of Guaranteed Minimum Pensions ("GMP"). The judgement confirmed that GMP equalisation was required and the impact of GMP equalisation on the pension scheme has been evaluated at 0.2% of the total liabilities (£11m), any additional reserve has been recognised as a past service cost.

*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 £239m.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

### 40. Retirement benefit schemes continued

#### 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.

##### *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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

40. Retirement benefit schemes continued

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 2018 % p.a	31 December 2017 % p.a
Discount rate		
- EEGSG – for service costs	2.90	2.55
– for defined benefit obligation	2.85	2.60
- EEPS – for service costs	3.00	2.65
– for defined benefit obligation	2.95	2.65
- BEGG – for service costs	3.00	2.65
– for defined benefit obligation	2.85	2.55
RPI inflation assumption and rate of increase in salaries		
- EEGSG	3.00	3.00
- EEPS	2.95	3.00
- BEGG	3.00	3.00
Rate of increase of pensions in deferment		
- EEGSG	3.00	3.00
- EEPS	1.85	1.90
- BEGG	3.00	3.00

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

EEGSG	2018	2017
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	31	31
EEPS	2018	2017
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	24
Life expectancy for future female pensioner currently aged 45 from age 65	26	26
BEGG	2018	2017
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	28
Life expectancy for future female pensioner currently aged 40 from age 60	30	30

Mortality assumptions have been determined based on standard mortality tables, specifically the SAPS S2 standard tables (2017: SAPS S2 standard 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 2017 Core Projections subject to a 1.25% long-term rate of improvement.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

### 40. Retirement benefit schemes continued

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 2018 £m	EEGSG 2018 £m	EEPS 2018 £m	Total 2018 £m	Total 2017 £m
Present value of defined benefit obligations ("DBO")	(5,524)	(1,016)	(841)	(7,381)	(7,932)
Fair value of scheme assets	6,291	1,134	734	8,159	8,592
Surplus/(deficit) in scheme	767	118	(107)	778	660

In addition to the pension provision recognised, there is an additional amount of £14m (2017: £15m) included within other liabilities which relates to unapproved pension scheme amounts.

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

	BEGG 2018 £m	EEGSG 2018 £m	EEPS 2018 £m	Total 2018 £m	Total 2017 £m
Current service cost	156	25	50	231	232
Interest cost on DBO	155	27	24	206	213
Interest income on scheme assets	(171)	(29)	(20)	(220)	(218)
Past service costs - amendments	11	2	-	13	-
<b>Total pension costs</b>	<b>151</b>	<b>25</b>	<b>54</b>	<b>230</b>	<b>227</b>

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

	BEGG 2018 £m	EEGSG 2018 £m	EEPS 2018 £m	Total 2018 £m	Total 2017 £m
At 1 January	6,014	1,056	862	7,932	7,599
Current service cost	156	25	50	231	232
Past service cost- amendments	11	2	-	13	-
Interest cost on DBO	155	27	24	206	213
Actuarial gains from change in demographic assumptions	(39)	(5)	(5)	(49)	(135)
Actuarial (gains)/losses from change in financial assumptions	(322)	(59)	(96)	(477)	262
Actuarial losses from experience	49	9	5	63	45
Net benefits paid	(504)	(39)	(8)	(551)	(296)
Contributions by employees	4	-	9	13	12
<b>At 31 December</b>	<b>5,524</b>	<b>1,016</b>	<b>841</b>	<b>7,381</b>	<b>7,932</b>

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 2018 £m	EEGSG 2018 £m	EEPS 2018 £m	Total 2018 £m	Total 2017 £m
At 1 January	6,729	1,153	710	8,592	7,918
Interest income on scheme assets	171	29	20	220	218
Actuarial (losses)/gains	(265)	(44)	(46)	(355)	491
Contributions by employer	156	35	49	240	249
Net benefits paid	(504)	(39)	(8)	(551)	(296)
Contributions by employees	4	-	9	13	12
At 31 December	6,291	1,134	734	8,159	8,592

d) Breakdown of scheme assets:

	BEGG 2018 £m	EEGSG 2018 £m	EEPS 2018 £m	Total 2018 £m	Total 2017 £m
<b>Equities:</b>					
Region: UK	91	14	43	148	776
Europe	93	16	22	131	349
North America	204	44	55	303	654
Asia Pacific	61	6	16	83	95
Japan	43	12	9	64	255
Emerging Markets	13	-	20	33	212
<b>Total Equities:</b>	505	92	165	762	2,341
<b>Bonds:</b>					
Rating: AAA	143	41	1	185	2,336
AA	2,262	625	130	3,017	435
A	105	48	4	157	127
BBB	221	77	8	306	260
Non-investment grade	766	93	44	903	634
Other	335	29	33	397	478
<b>Total Bonds:</b>	3,832	913	220	4,965	4,270
<b>Property</b>	486	-	165	651	564
<b>Cash and derivatives</b>	172	19	29	220	72
<b>Other</b>	1,296	110	155	1,561	1,345
	6,291	1,134	734	8,159	8,592

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.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

### 40. Retirement benefit schemes continued

#### BEGG and EEGSG

Following strong asset performance in 2018, the Company and Trustees reached agreement to reduce the equity exposure in the growth portfolio and to reduce the expected return of the portfolio. The assets of BEGG and EEGSG are allocated in two separate portfolios referred to as the matching portfolio and the growth portfolio. Within tolerances, the BEGG matching portfolio is now supported by 40% of scheme assets while 60% of the assets are deployed in the growth portfolio. The EEGSG matching: growth split is now 50%: 50%. 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 c2.0% (BEGG) and 1.4% (EEGSG) p.a. return over the long term. 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 again in 2019. 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 30% of scheme assets while 70% of the assets are deployed in the growth portfolio. The matching portfolio now delivers interest rate and inflation hedging of 60% 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 c3.0% 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 49% of the BEGG liabilities are attributable to current employees, 5% to former employees and 46% to current pensioners. The weighted average time until benefits payments are made is 18 years which reflects the approximate split of the defined benefit obligation between current employees, deferred members and current pensioners.

##### EEGSG

Circa 61% of the EEGSG liabilities are attributable to current employees, 5% to former employees and 34% to current pensioners. For EEGS as a whole, the duration is approximately 18 years.

##### EEPS

Circa 72% of the EEPS liabilities are attributable to current employees, 23% to former employees and 5% to current pensioners. For EEPS as a whole, the duration is approximately 32 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 2018

Impact of a 25bp increase/decrease in discount rate	-4.6% to +4.9%
Impact of a 25bp increase/decrease in salary increase assumption	+0.5% to -0.5%
Impact of a 25bp increase/decrease in inflation rate	+3.5% to -3.3%

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

**41. Financial Instruments**

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

	2018 £m	2017 £m
<b>Financial assets</b>		
Deferred consideration (note 19)	74	106
Cash and cash equivalents (note 25)	1,252	1,065
Derivative instruments held at fair value through P&L (note 28)	9	27
Derivative instruments in designated hedging relationships (note 28)	88	115
Loans and receivables	2,205	1,973
NLF and Nuclear liabilities receivable (note 22)	8,248	7,675
Available for sale financial assets (note 19)	10	12
<b>Financial liabilities</b>		
Derivative instruments held at fair value through P&L (note 28)	(15)	(53)
Derivative instruments in designated hedging relationships (note 28)	(427)	(317)
Borrowings and other liabilities at amortised cost	(3,973)	(4,426)
Finance lease liabilities (note 33)	(122)	(124)
Contingent consideration for a business combination	(50)	(3)

Loans and receivables include trade and other receivables as well as long-term receivables and exclude other debtors and the allowances for expected credit losses.

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.

**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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

### 41. Financial Instruments continued

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 £3m higher (2017: loss before tax £2m lower) and hedging reserves would have been £180m lower (2017: £203m 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 £1m lower (2017: loss before tax £6m lower) and hedging reserves would have been £48m higher (2017: £51m 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 £1m higher (2017: loss before tax £2m higher) and hedging reserves would have no change (2017: £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 lower (2017: loss before tax £1m higher) and hedging reserves would have been £6m higher (2017: £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 £12m lower (2017: £10m lower loss) as a result of changes in financial instrument valuations.

#### **Interest rate profile**

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

	2018 £m	2017 £m
Floating rate borrowings	-	41
Fixed rate borrowings	738	1,286
Total borrowings (note 27)	738	1,327
Floating rate finance lease obligations (note 33)	122	124

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

41. Financial Instruments continued

In 2017, payments under the floating rate borrowings were based on overnight LIBOR +200bps. These related to finance lease obligation for windfarm assets which have since been deconsolidated from the Group accounts. Refer to note 33 for further information.

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

	2018	2017
Weighted average fixed interest rate %	3.6%	3.9%
Weighted average floating interest rate %	0.0%	1.7%

At 31 December 2018, the Group has no interest rate swaps (2017: three) and one cross currency interest rate swaps (2017: one). The fair value of the interest rate swaps outstanding at 31 December 2018 was a £0m (2017: £2m). The fair value of the cross-currency interest rate swaps outstanding at 31 December 2018 was an asset of £58m (2017: £39m asset). If interest rates moved by 100bps the change in value of the derivative asset and the hedging reserve would be £0.3m (2017: £0.3m). If interest rates moved by 100bps, the loss before tax would be £11.8m higher (2017: £9.4m higher loss).

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 2018	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	400	762	-	1,162	504	927	-	1,431	5
Cross currency swaps	22	879	-	901	25	769	-	794	58

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 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>	
	2018	2017	2018	2017
EUR	(134)	(431)	160	148
USD	(9)	(10)	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 £2.5m (2017: £1.6m) on the Group loss for the year (2017: loss). Pre-tax, the hedging reserve impact would have been £14.3m (2017: £6.7m). 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.

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

### 41. Financial Instruments continued

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.

	2018 £m	2017 £m
Guarantee provided by subsidiary relating to performance of contractual obligations	86	90
Guarantee relating to pension obligations	400	320
Guarantee relating to tax obligations	-	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 2018, the Group had available £379m (2017: £358m) 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 2018

	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	26	12	36	208	282
Borrowings	0	0	0	0	0	716	22	738
Other liabilities	364	694	29	1,337	7	9	1,216	3,656
Derivative and other financial instruments	388	219	65	(260)	(498)	42	673	629

#### 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 (Restated)	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

#### 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

### 41. Financial Instruments continued

- 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).

	2018 £m	2017 £m
<b>Level 2</b>		
<b>Derivative financial instruments</b>		
Hedging instruments in a cash flow hedge (note 28)	338	211
Instruments designated at FVTPL (note 28)	6	17
Contingent consideration (note 19)	(50)	(3)
<b>Level 3</b>		
Available for sale assets (note 19)	(10)	(12)
<b>Total</b>	<b>284</b>	<b>213</b>

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.

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		Fair value	
	2018 £m	2017 £m	2018 £m	2017 £m
<b>Financial liabilities</b>				
Borrowings and other liabilities	4,095	4,550	3,992	3,958

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

41. Financial Instruments continued

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:	<b>2018</b>	-	-	-	-
	2017 <sup>(*)</sup>	-	-	-	-
Associates:	<b>2018</b>	-	(126)	-	-
	2017	-	(177)	-	3
Transactions with other EDF S.A. group	<b>2018</b>	654	(1,404)	(77)	58
	2017	848	(1,005)	(64)	26
Finance lease commitment with EDF S.A. group	<b>2018</b>	-	-	(10)	-
	2017	-	-	(4)	-

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:	<b>2018</b>	-	-
	2017 <sup>(*)</sup>	-	-
Associates:	<b>2018</b>	-	(57)
	2017	117	-
Transactions with other EDF S.A. group companies	<b>2018</b>	1,753	(1,210)
	2017	1,405	(2,098)
Finance lease commitment with EDF S.A. group companies	<b>2018</b>	-	(134)
	2017	-	(124)

(\*) The 2017 related party balances with Joint Operations have been reclassified to Associates following the Group's disposal of investment in certain entities in the EDF Energy Renewables group, see note 21.

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 expected credit loss 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 £738m (2017: £1,328m) and loans receivable from EDF S.A. companies of £400m (2017: £320m).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

### 42. Related parties continued

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 £849m (2017: asset of £1,006m).

Transactions with key management personnel

	2018 £m	2017 £m
Short-term benefits	5.0	5.0
Post-employment benefits	0.1	0.1
	<b>5.1</b>	<b>5.1</b>

Key management personnel comprise members of the Executive Committee, a total of nine individuals at 31 December 2018 (2017: nine). 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

On 17 January 2019, the Group issued 142,975,000 shares at par for consideration of £143m. On 21 February 2019, the Group issued 110,390,000 at par for consideration of £110m. There is no material impact to the accounts.

On 29 January 2019, the Group settled the CVR contingent consideration liability for £50m. There is no material impact to the accounts.

On 7 February 2019, EDF Energy announced that generation would cease at its Cottam Power coal-fired power station. The proposed date to cease generation is 30 September 2019. There is no material impact to the accounts.

Hunterston B and Dungeness B stations are currently on extended outages for graphite inspections and main steam line inspections/repairs respectively. Current return to service dates are 14<sup>th</sup> May 2019 and 30<sup>th</sup> June 2019 for Hunterston B and 30<sup>th</sup> September 2019 and 15<sup>th</sup> October 2019 for Dungeness B.

In order to comply with the requirements of the EU ETS for 2018, EDF Energy is required to surrender Carbon Certificates to cover its EU ETS emissions obligations. It can either submit EU Allowances (EUA) or exchange Carbon Emission Rights (CER) for EUAs with the Environment Agency, the latter being the approach adopted by the Company. As at 1 January 2019, the European Commission suspended the UK's ability to exchange CERs for EUAs until after the Brexit Withdrawal Agreement has been ratified. In light of the suspension and inability to exchange CERs, EDF Energy was forced to purchase 3.2m additional EUAs at a cost of £65m from the external market to comply with the 2018 requirements. This has been accounted for as an exceptional item during 2019.

### 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. EDF S.A. 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 2018, EDF S.A. 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 2018**

	<i>Note</i>	<b>2018 £m</b>	<b>2017 £m</b>
<b>Non-current assets</b>			
Investments in subsidiary undertakings	10	<b>11,919</b>	12,381
Deferred consideration	11	<b>74</b>	106
		<b>11,993</b>	12,487
<b>Current assets</b>			
Trade and other receivables	12	<b>12</b>	93
Cash and cash equivalents		<b>211</b>	158
		<b>223</b>	251
<b>Total assets</b>		<b>12,216</b>	12,738
<b>Current liabilities</b>			
Other liabilities	13	<b>(137)</b>	(137)
Borrowings	14	<b>-</b>	(492)
<b>Total liabilities</b>		<b>(137)</b>	(629)
<b>Net assets</b>		<b>12,079</b>	12,109
<b>Equity</b>			
Share capital	15	<b>10,175</b>	8,382
Share premium		<b>-</b>	-
Retained earnings		<b>1,904</b>	3,727
<b>Total equity</b>		<b>12,079</b>	12,109

The Company reported a loss for the financial year ended 31 December 2018 of £1,823m (2017: loss of £4m).

The company financial statements of EDF Energy Holdings Limited, registered number 06930266, on pages 93 to 105 were approved by the Board of Directors on 25 April 2019 and were signed on its behalf by:

Robert Guyler  
Director



**COMPANY STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Share capital £m	Profit and loss account £m	Total Shareholders' funds £m
At 31 December 2016	8,382	3,877	12,259
Loss for the year	-	(4)	(4)
Dividends paid	-	(146)	(146)
<b>At 31 December 2017</b>	<b>8,382</b>	<b>3,727</b>	<b>12,109</b>
Loss for the year	-	(1,823)	(1,823)
Shares issued	1,793	-	1,793
<b>At 31 December 2018</b>	<b>10,175</b>	<b>1,904</b>	<b>12,079</b>

## 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 2018.

#### Transition measures of newly adopted International Financial Reporting Standards

- IFRS 9 – Financial Instruments

IFRS 9 "Financial Instruments" became mandatory on 1 January 2018. It introduces new principles for classification and measurement of financial instruments, impairment for credit risk on financial assets, and hedge accounting. In application of the simplified approach allowed by IFRS 9, the comparative figures for the first year of application have not been restated. There have been no changes to the accounting treatment as a result of the adoption of IFRS 9.

#### 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;
- 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; and
- i) the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement.

#### 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.



## NOTES TO THE COMPANY FINANCIAL STATEMENTS continued

### 1. Accounting policies continued

#### 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.

#### 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 2018, an amount of £6,300 (2017: £6,150) 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 2018, amounts payable to Deloitte LLP by the Company in respect of non-audit services were £nil (2017: £nil).

The Company had no employees in 2018 (2017: none).

**4. Directors' emoluments**

None of the Directors received any remuneration for services to the Company during the year (2017: £nil).

**5. Investment income**

	2018 £m	2017 £m
Income from investment	2,740	150
Other finance income	2	2
	<b>2,742</b>	<b>152</b>

NOTES TO THE COMPANY FINANCIAL STATEMENTS continued

6. Finance costs

	2018 £m	2017 £m
Forgiveness of a loan to a subsidiary	-	155
Other finance costs	-	1
	-	156

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

	2018 £m	2017 £m
Loss on disposal	35	-
Write off of investment in subsidiary	2,740	-
	2,775	-

8. Dividends

	2018 £m	2017 £m
Interim dividends paid	-	146
	-	146

Nil interim dividends paid to the parent company (2017: 1.7p per Ordinary share).

9. Impairment

	2018 £m	2017 £m
EDF Energy Lake Limited	651	-
EDF Energy Limited	1,140	-
	1,791	-

In 2018, 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 £651m 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 value in use 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.

An impairment test was also performed for the investment in subsidiary in EDF Energy Limited due to the decrease in Customers' valuation. The value in use was estimated based on discounted cash flows and estimated growth rate.

**NOTES TO THE COMPANY FINANCIAL STATEMENTS continued**

**10. Investments in subsidiary undertakings**

<b>Cost</b>	<b>Shares £m</b>
At 31 December 2017	15,709
Additions during the year	4,069
Disposals during the year	(2,740)
<b>At 31 December 2018</b>	<b>17,038</b>
<hr/>	
<b>Impairment</b>	
At 31 December 2017	(3,328)
Impairment (note 9)	(1,791)
<b>At 31 December 2018</b>	<b>(5,119)</b>
<hr/>	
<b>Carrying Value</b>	
<b>At 31 December 2018</b>	<b>11,919</b>
<hr/>	
At 31 December 2017	12,381
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The additions during the year related to the subscription of £2,740m shares in EDF Energy Limited, £1,301m shares in EDF Energy (NNB) Limited, £8m additional shares in NNB Holding Company (SZC) Limited, £18m additional shares in General Nuclear System Limited and £2m additional shares in Bradwell Power Holding Company Limited.

The disposal in the year of £2,740m related to the write off the Company's investment in EDF Energy Group Holdings Limited.

The principal subsidiary undertakings at 31 December 2018, which are incorporated in the United Kingdom and are registered and operate in England and Wales, or Scotland (unless otherwise stated), are as follows:

<b>Name of subsidiary</b>	<b>Proportion of ownership interest and voting power held %</b>	<b>Principal activity</b>
British Energy Bond Finance plc <sup>*(2)</sup>	80%	Financial activities
British Energy Generation (UK) Limited <sup>*(2)</sup>	80%	Holding company
EDF Energy Nuclear Generation Limited <sup>*(1)</sup>	80%	Power generation
EDF Energy Nuclear Generation Group Limited <sup>*(2)</sup>	80%	Holding company
British Energy International Holdings Limited <sup>*(2)</sup>	80%	Holding company
British Energy Limited <sup>*(2)</sup>	80%	Holding company
British Energy Renewables Limited <sup>*(2)</sup>	80%	Renewable power generation
British Energy Trading and Sales Limited <sup>*(2)</sup>	80%	Sale of electricity
British Energy Trustees Limited <sup>*(2)</sup>	80%	Financial activities
Hoppy Limited*	51%	Digital innovation system
Cheshire Cavity Storage Group Limited*	100%	Holding company
Cheshire Cavity Storage 1 Limited*	100%	Provision of gas storage facilities
EDF Energy Limited	100%	Sale of electricity
EDF Energy (Cottam Power) Limited*	100%	Provision and supply of electricity generation

**NOTES TO THE COMPANY FINANCIAL STATEMENTS continued**

**10. Investments in subsidiary undertakings continued**

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
Lake Acquisitions Limited*	80%	Holding company
Lochside Energy Inc * (Canada) <sup>(4)</sup>	80%	Financial activities
Lochside Insurance Limited * (Guernsey) <sup>(5)</sup>	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
EDF Energy Innovation Limited (formerly NNB Land Company Limited)*	100%	Provision of innovation services
EDF Energy (NNB) Limited (Hong Kong) <sup>(3)</sup>	100%	Holding company
NNB Finance Company (HPC) Limited*	100%	Financial activities
Northern Power Limited <sup>(2)</sup>	100%	Power generation
West Burton Power Limited*	100%	Dormant Company

\*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: PO Box 34, St Martin's House, Le Bordaige, 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 2018, British Energy Direct Limited, EDF Energy Investments, EDF Energy (Dormant Holdings) Limited, British Energy Finance Limited, British Energy Investment Limited, British Energy Trading Services Limited, British Energy Technical Services Limited, British Energy Treasury Finance Limited, British Energy Generation Limited, British Energy Group Limited, Hunterston Properties Limited, Stornoway Wind Power Limited, Eggborough Power (Holdings) Limited, Bruce Hydro Inc, Bruce Power Operating Corp, Lochside Energy Inc, British Energy Holdings Limited, NNB Holding Company (BRB) Limited, NNB Generation Company (BRB) Limited were placed in voluntary liquidation and subsequently dissolved.

**NOTES TO THE COMPANY FINANCIAL STATEMENTS continued**

**10. Investments in subsidiary undertakings continued**

The associates and joint operations at 31 December 2018, which are registered and operate in England and Wales, are as follows:

<b>Name of subsidiary</b>	<b>Percentage of ordinary shares held</b>	<b>Principal activity</b>
Fallago Rig Windfarm Limited <sup>*(2)</sup>	9.8%	Renewable energy generation
Fallago Rig II Wind Farm Limited <sup>*(5)</sup>	49.0%	Renewable energy generation
EDF Energy Renewables Limited <sup>*(5)</sup>	49.0%	Renewable energy generation
Boundary Lane Windfarm Limited <sup>*(5)</sup>	24.9%	Renewable energy generation
Braemore Wood Windfarm Limited <sup>*(5)</sup>	49.0%	Renewable energy generation
Glass Moor II Windfarm Limited <sup>*(3)</sup>	9.8%	Renewable energy generation
Green Rigg Windfarm Limited <sup>*(3)</sup>	9.8%	Renewable energy generation
Navitus Bay Development Limited <sup>*(1)</sup>	24.5%	Renewable energy generation
Bicker Fen Windfarm Limited <sup>*(6)</sup>	9.8%	Renewable energy generation
Fenland Windfarms Limited <sup>*(6)</sup>	19.8%	Renewable energy generation
Burnfoot Windfarm Limited <sup>*(5)</sup>	24.9%	Renewable energy generation
Fairfield Windfarm Limited <sup>*(5)</sup>	24.9%	Renewable energy generation
Rusholme Windfarm Limited <sup>*(3)</sup>	19.8%	Renewable energy generation
Walkway Windfarm Limited <sup>*(5)</sup>	24.9%	Renewable energy generation
Round 3 Isle of Wight Limited <sup>*(5)</sup>	49.0%	Renewable energy generation
Teesside Windfarm Limited <sup>*(5)</sup>	24.9%	Renewable energy generation
High Hedley Hope Wind Limited <sup>*(5)</sup>	24.9%	Renewable energy generation
EDF Energy (Northern Offshore Wind) Limited <sup>*(5)</sup>	24.9%	Renewable energy generation
EDF Energy Renewables Holdings Limited <sup>*(5)</sup>	24.9%	Holding company
Red Tile Wind Limited <sup>*(5)</sup>	49.0%	Renewable energy generation
Kirkheaton Wind Limited <sup>*(5)</sup>	24.9%	Renewable energy generation
Longpark Windfarm Limited <sup>*(5)</sup>	24.9%	Renewable energy generation
Lewis Wind Power Holdings Limited <sup>*(7)</sup>	24.5%	Renewable energy generation
Stornoway Wind Farm Limited <sup>*(7)</sup>	24.5%	Renewable energy generation
Nearr Na Gaoithe Offshore Wind Limited <sup>*(2)</sup>	49.0%	Renewable energy generation
Uisenis Power Limited <sup>*(7)</sup>	24.5%	Renewable energy generation
Roade Windfarm Limited <sup>*(5)</sup>	24.9%	Renewable energy generation
Burnhead Moss Wind Farm Limited <sup>*(5)</sup>	24.9%	Renewable energy generation
Barmoor Wind Power Limited <sup>*(5)</sup>	24.9%	Renewable energy generation
Cemmaes Windfarm Limited <sup>*(5)</sup>	24.9%	Renewable energy generation
Llangwryfion Windfarm Limited <sup>*(5)</sup>	24.9%	Renewable energy generation
Great Orton Windfarm II Limited <sup>*(5)</sup>	24.9%	Renewable energy generation
Park Spring Wind Farm Limited <sup>*(5)</sup>	24.9%	Renewable energy generation
Corriemoillie Windfarm Limited <sup>*(5)</sup>	24.9%	Renewable energy generation
EDF EN Services UK Limited <sup>*(5)</sup>	49.0%	Renewable energy generation
Dorenell Windfarm Limited <sup>*(5)</sup>	24.9%	Renewable energy generation

NOTES TO THE COMPANY FINANCIAL STATEMENTS continued

10. Investments in subsidiary undertakings continued

Beck Burn Windfarm Limited <sup>*(5)</sup>	24.9%	Renewable energy generation
Pearie Law Windfarm Limited <sup>*(5)</sup>	24.9%	Renewable energy generation
First Windfarm Holdings Limited <sup>*(5)</sup>	49.0%	Renewable energy generation
Stranoch Windfarm Limited (formerly Cumbria Wind Farms Limited) <sup>*(5)</sup>	49.0%	Renewable energy generation
EDF ER Development Limited <sup>*(5)</sup>	49.0%	Renewable energy generation
South Clare Windfarm Limited <sup>*(5)</sup>	49.0%	Renewable energy generation
Mosscastle Windfarm Limited <sup>*(5)</sup>	49.0%	Renewable energy generation
EDF ER Nominee Limited <sup>*(5)</sup>	49.0%	Renewable energy generation
Camilty Windfarm Limited <sup>*(5)</sup>	49.0%	Renewable energy generation
Cloich Windfarm Limited <sup>*(5)</sup>	49.0%	Renewable energy generation
Heathland Windfarm Limited <sup>*(5)</sup>	49.0%	Renewable energy generation
Newcastleton Windfarm Limited <sup>*(5)</sup>	49.0%	Renewable energy generation
The Mosses Windfarm Limited <sup>*(5)</sup>	49.0%	Renewable energy generation
Tinnisburn Windfarm Limited <sup>*(5)</sup>	49.0%	Renewable energy generation
Wauchope Windfarm Limited <sup>*(5)</sup>	49.0%	Renewable energy generation
West Benhar Windfarm Limited <sup>*(5)</sup>	49.0%	Renewable energy generation
Camilty Windfarm Partnership LLP <sup>*(5)</sup>	49.0%	Renewable energy generation
Cloich Windfarm Partnership LLP <sup>*(5)</sup>	49.0%	Renewable energy generation
Heathland Windfarm Partnership LLP <sup>*(5)</sup>	49.0%	Renewable energy generation
Newcastleton Windfarm Partnership LLP <sup>*(5)</sup>	49.0%	Renewable energy generation
The Mosses Windfarm Partnership LLP <sup>*(5)</sup>	49.0%	Renewable energy generation
Tinnisburn Windfarm Partnership LLP <sup>*(5)</sup>	49.0%	Renewable energy generation
Wauchope Windfarm Partnership LLP <sup>*(5)</sup>	49.0%	Renewable energy generation
West Benhar Windfarm Partnership LLP <sup>*(5)</sup>	49.0%	Renewable energy generation
Burnfoot East Windfarm Limited <sup>*(5)</sup>	49.0%	Renewable energy generation
EDF Renewables Solar Limited <sup>*(5)</sup>	49.0%	Renewable energy generation
NNG Windfarm Holdings Limited <sup>*(2)</sup>	50.0%	Holding company
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
ESSCI Limited <sup>*(8)</sup>	50.0%	Development of generation and supply
ESSCI Engineering Services Limited <sup>*(8)</sup>	50.0%	Development of generation and supply
Imtech Engineering Services North Ltd <sup>*(10)</sup>	50.0%	Development of generation and supply
Imtech Engineering Services Central Ltd <sup>*(9)</sup>	50.0%	Development of generation and supply
Imtech Engineering Services London and South Ltd <sup>*(8)</sup>	50.0%	Development of generation and supply
Imtech Aqua Ltd <sup>*(11)</sup>	50.0%	Development of generation and supply

**NOTES TO THE COMPANY FINANCIAL STATEMENTS continued**

**10. Investments in subsidiary undertakings continued**

Imtech Aqua Building Services Ltd <sup>*(11)</sup>	50.0%	Development of generation and supply
Imtech Aqua Controls Ltd <sup>*(11)</sup>	50.0%	Development of generation and supply
Imtech Low Carbon Solutions Ltd <sup>*(9)</sup>	50.0%	Development of generation and supply
ESSCI Technical Facilities Management Limited <sup>*(8)</sup>	50.0%	Development of generation and supply
Inviron Holdings Limited <sup>*(12)</sup>	50.0%	Development of generation and supply
Imtech Inviron Limited <sup>*(12)</sup>	50.0%	Development of generation and supply
Inviron Property Limited <sup>*(12)</sup>	50.0%	Development of generation and supply
Imtech Aqua Maintenance Ltd <sup>*(12)</sup>	50.0%	Development of generation and supply
ESSCI Technical Services Limited <sup>*(8)</sup>	50.0%	Development of generation and supply
Capula Group Limited <sup>*(13)</sup>	50.0%	Development of generation and supply
Capula Limited <sup>*(13)</sup>	50.0%	Development of generation and supply
ESSCI Ireland Limited <sup>*(8)</sup>	50.0%	Development of generation and supply
Suir Engineering Limited (Ireland) <sup>*(14)</sup>	50.0%	Development of generation and supply
General Nuclear System Limited <sup>(4)</sup>	33.5%	Development of generation and supply
Bradwell Power Holding Company Limited <sup>(4)</sup>	33.5%	Holding company
Bradwell Power Generation Company Limited <sup>*(4)</sup>	33.5%	Development of generation and supply
Clash Gour Windfarm Holdings Limited <sup>*(2)</sup>	49.0%	Renewable energy generation
Dallas Windfarm Limited <sup>*(2)</sup>	49.0%	Renewable energy generation
Altyre II Windfarm Limited <sup>*(2)</sup>	49.0%	Renewable energy generation
Dunphail Windfarm Limited <sup>*(2)</sup>	49.0%	Renewable energy generation
Dunphail II Windfarm Limited <sup>*(2)</sup>	49.0%	Renewable energy generation
Dunphail Windfarm Partnership LLP <sup>*(2)</sup>	49.0%	Renewable energy generation

\*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, 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: Twenty, Kingston Road, Staines-Upon-Thames, England, TW18 4LG

(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: 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.



NOTES TO THE COMPANY FINANCIAL STATEMENTS continued

11. Deferred consideration

	2018 £m	2017 £m
Deferred consideration	74	106
	<b>74</b>	<b>106</b>

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 has been discounted to its present value using a risk free discount rate of 2%. A risk free rate has been applied because risk has already been taken into consideration when assessing the value of the HPC project.

During 2018 an agreement to reduce the deferred consideration by £32m was reached.

12. Trade and other receivables

	2018 £m	2017 £m
Amounts owed by other Group companies	12	93
	<b>12</b>	<b>93</b>

The amounts owed by other Group companies are owed by subsidiaries of the Company. They 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

	2018 £m	2017 £m
Amounts owed to other Group companies	137	137
	<b>137</b>	<b>137</b>

The amounts owed to other Group companies are owed to EDF Energy Limited, a subsidiary of the Company. They are non-interest bearing and are repayable on demand. The Directors consider that the carrying amount of other liabilities approximates to their fair value.

14. Borrowings

	2018 £m	2017 £m
EDF UK loan	-	492
	<b>-</b>	<b>492</b>

In 2017, a total of £492m was borrowed from EDF Energy (UK) Limited, the immediate parent of the Company, in order to finance the NNB cash calls. During 2018 a further £424m was borrowed from EDF Energy (UK) Limited and the balance of £916m was settled via a share issue. The loan was interest free and repayable on demand.

**NOTES TO THE COMPANY FINANCIAL STATEMENTS continued**

**15. Share capital**

Allotted, called up and fully paid	2018	2017	2018	2017
	Number	Number	£m	£m
Ordinary shares of £1.00 each	10,174,689,122	8,381,442,467	10,175	8,382

During 2018, 1,793,246,655 shares were issued at par for consideration of £1,793m.

**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. During the year, interest of £1.7m was payable to one of the Company's ultimate parent companies, EDF S.A. (2017: £1.3m). This related to commitment and upfront fees on the available facilities and interest on loan.

**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. EDF S.A. 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 2018, EDF S.A. 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.