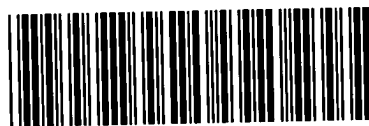


E.ON UK ENERGY MARKETS LIMITED
STRATEGIC REPORT, DIRECTORS' REPORT AND FINANCIAL STATEMENTS
for the Year Ended 31 December 2017

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Registered No: 09884706

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

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

Fair review of the business

The Company commenced commodity trading during the year for the E.ON SE group's operations in the UK. There was a phased transfer of existing contracts from other group undertakings to the Company for £nil consideration during the first half of the year. From 1 July 2017, the Company entered into new trades to purchase and sell gas and power with external counterparties with corresponding intra-group contracts to either purchase or sell energy as required for those businesses.

Both the level of business during the year and the financial position of the Company at the year end were as expected. At 31 December 2017, the Company had net assets of £27 million (2016: net assets of £20 million). Further information regarding the financial position of the Company at the year end is provided in the Directors' Report.

The directors believe that the present level of activity will increase in the current year, as there will be a full year of trading.

Principal risks and uncertainties

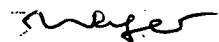
The key business risks and uncertainties affecting the Company are considered to relate to commodity prices, currency, credit, and liquidity. Further discussion of these risks and uncertainties, is provided within the financial risk management section of these financial statements on page 17.

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the E.ON SE consolidated group ('group') and are not managed separately. Accordingly, the principal risks and uncertainties of E.ON SE, which include those of the Customer Solutions UK division of E.ON SE, which includes the Company, are discussed within the financial review section of the group's annual report which does not form part of this report.

Key performance indicators ('KPIs')

Given the nature of the business, the Company's directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the Company.

Approved by the Board of Directors on 25 June 2018 and signed on its behalf by:



B Wagner
Director

E.ON UK Energy Markets Limited
Company No: 09884706
Westwood Way
Westwood Business Park
Coventry
CV4 8LG

**E.ON UK ENERGY MARKETS LIMITED
DIRECTORS' REPORT
for the Year Ended 31 December 2017**

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

Directors of the Company

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

D C A Baumber
S J Grove
J Nospickel
S L Vaughan
B Wagner (appointed 12 December 2017)
J T Lightfoot (resigned 8 December 2017)

Principal activities

The Company undertakes energy procurement, sales and optimisation to provide a route to the wholesale markets for E.ON's supply and generation businesses in the UK.

Results and dividends

The Company's profit for the financial year is £7 million (2016: result of £nil). No interim dividends were paid during the year (2016: £nil). The directors do not recommend the payment of a final dividend (2016: £nil).

Financial risk management

Objectives and policies

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

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

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

See note 16 for further details of financial risk management.

Political donations

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

Future developments

The Company's future developments are discussed in the Strategic Report.

Directors' indemnities

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

Going concern

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

Disclosure of information to auditors

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

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

Statement of directors' responsibilities in respect of these financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared these financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

Under company law the directors must not approve these financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

Approved by the Board of Directors on 25 June 2018 and signed on its behalf by:



B Wagner
Director

E.ON UK Energy Markets Limited
Company No: 09884706
Westwood Way
Westwood Business Park
Coventry
CV4 8LG

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

Report on the audit of the financial statements

Opinion

In our opinion, E.ON UK Energy Markets Limited's financial statements:

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

We have audited the financial statements, included within the Strategic Report, Directors' Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2017; the profit and loss account, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

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

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

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

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

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

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the statement of directors' responsibilities in respect of these financial statements set out on page 3, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

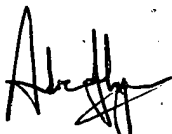
Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



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

Date 26 June 2018

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

	<i>Note</i>	For the year ended 31 December 2017 £000 000	For the 13 months ended 31 December 2016 £000 000
Turnover	2	1,686	-
Cost of sales		(1,675)	-
Gross profit/result		11	-
Administrative expenses		(10)	-
Operating profit/result before derivative gains and losses		1	-
Other gains/(losses) - net		9	-
Operating profit/result	3	10	-
Interest payable and similar expenses	7	(1)	-
Profit/result before taxation		9	-
Tax on profit/result	8	(2)	-
Profit/result for the financial year/period		<u>7</u>	<u>-</u>

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

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

	<i>Note</i>	2017 £000 000	2016 £000 000
Fixed assets			
Intangible assets	9	1	-
		1	-
Current assets			
Debtors: amounts falling due after more than one year	10	41	-
Debtors: amounts falling due within one year	11	482	20
		523	20
Creditors: amounts falling due within one year	12	(458)	-
Net current assets		65	20
Total assets less current liabilities		66	20
Creditors: amounts falling due after more than one year	13	(37)	-
Provisions for liabilities	14	(2)	-
Net assets		27	20
Capital and reserves			
Called up share capital	15	20	20
Profit and loss account		7	-
Total shareholders' funds		27	20

The financial statements on pages 6 to 23 were approved by the Board of Directors on 25 June 2018 and signed on its behalf by:



B Wagner
Director
E.ON UK Energy Markets Limited
Company No: 09884706

The notes on pages 9 to 23 form part of these financial statements.

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

	Called up share capital £000 000	Profit and loss account £000 000	Total shareholders' funds £000 000
At 23 November 2015	-	-	-
Result for the financial period and total comprehensive income	-	-	-
New share capital subscribed and total transactions with owners recognised directly in equity	20	-	20
At 31 December 2016	20	-	20
Profit for the financial year and total comprehensive income	-	7	7
At 31 December 2017	20	7	27

The notes on pages 9 to 23 form part of these financial statements.

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

1. Accounting policies

General information

The Company undertakes energy procurement, sales and optimisation to provide a route to the wholesale markets for E.ON's supply and generation businesses in the UK.

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

Basis of preparation of financial statements

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

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

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

Going concern

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

Judgement in applying accounting policies and key sources of estimation uncertainty

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

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

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

Determination of fair value derivatives

Fair values of energy derivatives are estimated by reference in part to published price quotations in active markets and in part by using valuation techniques. More detail on the assumptions used in determining fair valuations of energy derivatives is provided in note 17 and of the sensitivities to these assumptions in note 16.

Taxation

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

Turnover

All turnover generated by the Company during the year arose from its principal activities. Turnover comprises realised (settled) net gains and losses from trading in physical and financial energy contracts.

Accrued income

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

Current and deferred income tax

The tax charge for the year comprises current tax and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in shareholders' funds. In this case, the tax is also recognised in other comprehensive income or directly in shareholders' funds, respectively.

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

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

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

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Pensions

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

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

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

Pension costs represent amounts recharged by the immediate parent company, E.ON UK plc, for the cost of contributions to defined benefit and defined contribution schemes. Further details of these schemes are available in E.ON UK plc's financial statements.

Intangible assets

Intangibles relate primarily to carbon certificates which have been purchased in order to meet the carbon requirements of other E.ON UK plc's businesses. The certificates are stated at the cost at which they have been acquired.

Amortisation

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

No amortisation is provided on carbon certificates as they are surrendered on an annual basis.

Financial instruments

The Company routinely enters into sale and purchase transactions for physical delivery of gas and power. Purchase and sale contracts for the physical delivery of gas and power are within the scope of IAS 39 due to the fact that they net settle. Such contracts are accounted for as derivatives under IAS 39 and are recognised in the balance sheet at fair value. Gains and losses arising from changes in fair value on derivatives are taken to the income statement for the year.

The Company uses a range of derivatives for both trading and to hedge exposures to financial risks, such as foreign exchange and energy price risks, arising in the normal course of business. The use of derivative financial instruments is governed by the Company's risk management policies which are approved by the Board of Directors, for which further detail is available within note 16.

All derivatives are recognised at fair value on the date on which the derivative is entered into and are re-measured to fair value at each reporting date. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Derivative assets and derivative liabilities are offset and presented on a net basis only when both a legal right of off-set exists and the intention to net settle the derivative contracts is present.

Inter-company balances

Inter-company payable and receivable trading balances within the E.ON SE group are consolidated at each period end into a single balance with each group company. These transactions are net settled. As a result the directors consider it appropriate to present inter-company balances within these financial statements on a net basis. Formal loan balances are settled and presented gross.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the balance sheet, when the Company has a legally enforceable right to set off the recognised amounts and it intends either to settle on a net basis or realise the asset and settle the liability simultaneously.

Foreign currency

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

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

2. Turnover

The Company's turnover, all of which arises in the course of the Company's principal activity, arises in the UK.

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

3. Operating profit/result

Operating profit/result is stated after crediting:

	For the year ended 31 December 2017 £000 000	For the 13 months ended 31 December 2016 £000 000
Derivative gains	(9)	-

4. Auditors' remuneration

Auditors' remuneration of £167,087 (2016: £2,000) was charged (2016: not charged) to the profit and loss account for the audit of these financial statements. Of this amount, £110,000 (2016: £2,000) relates to the audit of the Company. The remaining £57,087 (2016: £nil) relates to other audit assurance services.

5. Employee information

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

	2017 Number	2016 Number
Operations	68	-

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

	For the year ended 31 December 2017 £000 000	For the 13 months ended 31 December 2016 £000 000
Wages and salaries	4	-
Social security costs	1	-
Other pension costs	1	-
	6	-

6. Directors' remuneration

The directors' remuneration for the year was as follows:

	For the year ended 31 December 2017 £	For the 13 months ended 31 December 2016 £
Aggregate emoluments (including benefits in kind)	430,994	-

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

The above amounts relate to two (2016: no) directors whose emoluments were paid by the immediate parent, E.ON UK plc and recharged in full to the Company.

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

	2017 Number	2016 Number
Received or were entitled to receive shares under long term incentive schemes	1	-
Accruing benefits under a defined contribution pension scheme	2	-

During the year, no (2016: no) directors exercised Performance Rights over shares in the ultimate parent company, E.ON SE, that they were awarded for services to the E.ON SE group under Long Term Incentive ('LTI') arrangements. No payments were made under the LTI arrangements during the year (2016: £nil).

During the year the Company paid, or treated as paid, contributions to a pension scheme in respect of money purchase benefits in respect of the above directors totalling £42,769 (2016: £nil).

In respect of the highest paid director:

	For the year ended 31 December 2017 £	For the 13 months ended 31 December 2016 £
Aggregate emoluments (including benefits in kind)	282,932	-

7. Interest payable and similar expenses

	For the year ended 31 December 2017 £000 000	For the 13 months ended 31 December 2016 £000 000
Interest payable to group undertakings	1	-

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

8. Tax on profit/result

	For the year ended 31 December 2017 £000 000	For the 13 months ended 31 December 2016 £000 000
Current tax:		
UK corporation tax charge	-	-
Total current tax charge	-	-
Deferred tax:		
Origination and reversal of timing differences	2	-
Total deferred tax charge	2	-
Tax charge on profit/result	<u>2</u>	<u>-</u>

Factors affecting current tax expense for the year

There is no material difference (2016: no material difference) between the tax charge for the year and the tax charge at the standard rate of corporation tax in the UK for the year ended 31 December 2017 of 19.25% (2016: 20.00%).

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

9. Intangible assets

	Other intangibles £000 000
Cost	
At 1 January 2017	-
Additions	1
At 31 December 2017	1
Accumulated amortisation	
At 1 January 2017	-
Charge for the year	-
At 31 December 2017	-
Net book value	
At 31 December 2017	<u>1</u>
At 31 December 2016	<u>-</u>

Other intangibles relate to carbon certificates, which are surrendered annually and are not amortised.

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

10. Debtors: amounts falling due after one year

	2017 £000 000	2016 £000 000
Commodity and other derivative financial instruments	41	-

11. Debtors: amounts falling due within one year

	2017 £000 000	2016 £000 000
Amounts owed by group undertakings	303	20
Commodity and other derivative financial instruments	174	-
Other taxation and social security	3	-
Prepayments and accrued income	2	-
	482	20

Amounts owed by group undertakings include a £19,350,000 deposit and a €547,000 deposit to E.ON UK plc (2016: £nil and €nil), which incur interest at LIBOR plus 55 basis points. The remaining amounts owed by group undertakings are unsecured, interest free and repayable on demand.

Prepayments and accrued income include £2 million (2016: £nil) of accrued income.

12. Creditors: amounts falling due within one year

	2017 £000 000	2016 £000 000
Trade payables	147	-
Amounts owed to group undertakings	40	-
Accruals and deferred income	102	-
Commodity and other derivative financial instruments	169	-
	458	-

Amounts owed to group undertakings are unsecured, interest free and are repayable on demand.

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

	2017 £000 000	2016 £000 000
Commodity and other derivative financial instruments	37	-

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

14. Provisions for liabilities

	Deferred tax £000 000
At 1 January 2017	-
Debited to the profit and loss account	2
At 31 December 2017	2

Analysis of deferred tax

The following are the deferred tax liabilities recognised by the Company and movements thereon during the year:

	2017 £000 000	2016 £000 000
Liability at beginning of year/period	-	-
Deferred tax charge for the year/period (note 8)	2	-
Liability at year end/period end	2	-

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

Within the deferred tax credit of £2 million, no amount relates to the change in the tax rate.

15. Called up share capital

	2017 £000 000	2016 £000 000
Allotted, called-up and fully paid		
20,000,000 (2016: 20,000,000) ordinary shares of £1 each	20	20

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16. Financial risk management

The Company's and E.ON SE's UK businesses (referred to as the 'UK Group') normal operating, investing and financing activities expose it to a variety of financial risks: market risk (including commodity price risk and currency risk), credit risk and liquidity risk. E.ON SE's overall financial risk management processes are designed to identify, manage and mitigate these risks. The Company used derivatives to hedge certain risk exposures. Further detail on E.ON SE's overall risk management processes is included within the Strategic Report.

Market risk

Market risk is the risk of loss resulting from changes in market prices (commodity prices and foreign exchange rates). The level of market risk to which the Company and the UK Group is exposed at a point in time varies depending on market conditions, expectations of future price or market rate movements and the composition of the UK Group's physical asset and contract portfolios.

Commodity price risk

The UK Group's supply and generation businesses are exposed to commodity price risk in their procurement and sales activities. Trading risk associated with transacting and optimising the agreed UK Group's hedging strategies in the relevant markets is controlled by the Company through a framework of volumetric limits, Value at Risk (VaR) and financial thresholds. VaR measures the estimated potential loss at a 95% confidence level over a one-day holding period.

The purpose of the Company is to enter into derivative transactions on behalf of the UK Group and therefore act as a pass through company for the wider UK Group. As such, there is no impact to the Company's profit or equity as a result of commodity price risk.

The Company conducts its trading activities in the over-the-counter market and through UK and continental European exchanges. Instruments traded are financial and physical derivatives and forward contracts for power, gas, carbon and weather. The carrying value of energy contracts used in energy trading activities at 31 December 2017 is disclosed in note 17.

Currency risk

The Company is exposed to currency risk on transactions denominated in currencies other than its functional currency of Sterling. The risk is that the functional currency value of cash flows will vary as a result of movements in exchange rates. Transactional exposure arises from the UK Group's energy procurement and upstream activities, where many transactions are denominated in foreign currencies.

It is the Company's policy to hedge material transactional exposures using derivatives to fix the functional currency value of non-functional currency cash flows, except where there is an economic hedge inherent in the transaction. At 31 December 2017, there were no material unhedged non-functional currency monetary assets or liabilities, firm commitments or probable forecast transactions (2016: nil), other than transactions which have an inherent economic hedge.

The Company has performed an analysis of the sensitivity of the Company's financial position and performance to changes in foreign exchange rates. The impact of such movements on profit and equity, both before and after taxation, is immaterial to the Company.

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability or failure to discharge its obligations under a contract. The Company continually reviews its rating thresholds for counterparty credit limits, and updates these as necessary based on a consistent set of principles. It continues to operate within its limits.

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The Company is exposed to credit risk in its trading, energy procurement and downstream activities. Credit risk from financial assets is measured by counterparty credit rating as follows:

	31 December 2017		31 December 2016	
	Derivative financial instruments with positive fair values £000 000	Receivables from trading and energy procurement counterparties £000 000	Derivative financial instruments with positive fair values £000 000	Receivables from trading and energy procurement counterparties £000 000
With fellow group undertakings	84	303	-	20
AAA to AA	5	-	-	-
AA- to A-	14	-	-	-
BBB+ to BBB-	20	-	-	-
BBB	92	-	-	-
	215	303	-	20

Wholesale counterparty credit exposures are monitored by individual counterparty and by category of credit rating, and are subject to approved limits. The Company employs a variety of methods to mitigate credit risk including various forms of bank and parent company guarantees and letters of credit. The Company may also net settle payments with counterparties where net settlement provisions exist.

100% of the Company's credit risk associated with its trading and energy procurement activities is with counterparties in related energy industries or with financial institutions.

Liquidity risk and going concern:

Liquidity risk is the risk that the Company is unable to meet its financial obligations as they fall due. The Company experiences movements in its liquidity position due to the seasonal nature of its business, but is primarily affected by power and gas wholesale price movements, particularly in the short term markets and in relation to margin payments.

The Company has a number of treasury and risk policies to monitor and manage liquidity risk. Cash forecasts identifying the Company's liquidity requirements are produced regularly and are stress-tested for different scenarios, including, but not limited to, reasonably possible increases or decreases in commodity prices and the potential cash implications of a credit rating downgrade. The Company seeks to ensure that sufficient financial headroom exists for at least a 12 month period to safeguard the Company's ability to continue as a going concern.

At 31 December 2017, the Company had undrawn committed credit facilities of £25m (2016: £nil).

The relatively high level of undrawn committed bank facilities and available cash resources has enabled the directors to conclude that the Company has sufficient headroom to continue as a going concern. The statement of going concern is included in the accounting policy note on page 9.

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Maturity profiles

The following are the contractual maturities of financial liabilities:

	1 year or less £000 000	1 to <2 years £000 000	2 to <5 years £000 000	Total £000 000
At 31 December 2017:				
Gas derivative contracts	(52)	(1)	-	(53)
Power derivative contracts	(112)	(28)	(8)	(148)
Weather derivative contracts	(5)	-	-	(5)
Trade payables	(147)	-	-	(147)
Amounts owed to group undertakings	(40)	-	-	(40)
	<u>(356)</u>	<u>(29)</u>	<u>(8)</u>	<u>(393)</u>

	1 year or less £000 000	1 to <2 years £000 000	2 to <5 years £000 000	Total £000 000
At 31 December 2016:				
Gas derivative contracts	-	-	-	-
Power derivative contracts	-	-	-	-
Weather derivative contracts	-	-	-	-
Trade payables	-	-	-	-
Amounts owed to group undertakings	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for its shareholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to its shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

17. Financial instruments

a) Financial instruments by category

	Loans and receivables £000 000	Assets at fair value through profit and loss £000 000	Total £000 000
Assets as per balance sheet as at 31 December 2017:			
- Derivative financial instruments	-	215	215
- Trade and other receivables excluding prepayments	308	-	308
Total	308	215	523

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	Other financial liabilities at amortised cost £000 000	Liabilities at fair value through profit and loss £000 000	Total £000 000
Liabilities as per balance sheet as at 31 December 2017:			
- Derivative financial instruments	-	(206)	(206)
- Trade and other payables excluding non-financial liabilities	(289)	-	(289)
Total	(289)	(206)	(495)

	Loans and receivables £000 000	Assets at fair value through profit and loss £000 000	Total £000 000
Assets as per balance sheet as at 31 December 2016:			
- Derivative financial instruments	-	-	-
- Trade and other receivables excluding prepayments	20	-	20
Total	20	-	20

	Other financial liabilities at amortised cost £000 000	Liabilities at fair value through profit and loss £000 000	Total £000 000
Liabilities as per balance sheet as at 31 December 2016:			
- Derivative financial instruments	-	-	-
- Trade and other payables excluding non-financial liabilities	-	-	-
Total	-	-	-

There is no material difference between the carrying amount and the fair value amount of the financial assets and liabilities disclosed above.

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b) Derivative financial instruments

The carrying values of derivative financial instruments by product type for accounting purposes are as follows:

	31 December 2017		31 December 2016	
	Assets	Liabilities	Assets	Liabilities
	£000 000	£000 000	£000 000	£000 000
Derivative financial instruments:				
Gas derivatives	53	(53)	-	-
Power derivatives	157	(148)	-	-
Weather derivatives	5	(5)	-	-
Total derivative financial instruments	215	(206)	-	-
Included within:				
Derivative financial instruments - falling due within one year	174	(169)	-	-
Derivative financial instruments - falling due after more than one year	41	(37)	-	-

The notional principal amounts of derivatives are as follows:

	31 December 2017	31 December 2016
	£000 000	£000 000
Gas derivatives	1,625	-
Power derivatives	2,386	-
Weather derivatives	3	-
	4,014	-

The contracts included within energy derivatives are subject to a wide range of detailed specific terms but comprise the following general components, analysed on a net carrying value basis:

	31 December 2017	31 December 2016
	£000 000	£000 000
Structured gas purchase contracts	62	-
Structured gas sales contracts	(63)	-
Structured power purchase contracts	215	-
Structured power sales contracts	(205)	-
Net total	9	-

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c) Fair value hierarchy

Financial assets and financial liabilities measured and held at fair value are classified into one of three categories, known as hierarchy levels, which are defined according to the inputs used to measure fair value as follows:

- Level 1: fair value is determined using observable inputs that reflect unadjusted quoted market prices for identical assets and liabilities;
- Level 2: fair value is determined using significant inputs that may be directly observable inputs or unobservable inputs that are corroborated by market data; and
- Level 3: fair value is determined using significant unobservable inputs that are not corroborated by market data and may be used with internally developed methodologies that result in management's best estimate of fair value.

	31 December 2017 Level 2 £000 000	31 December 2016 Level 2 £000 000
Financial assets		
Derivative financial instruments:		
Gas derivatives	53	-
Power derivatives	157	-
Weather derivatives	5	-
Total financial assets at fair value	215	-
Financial liabilities		
Derivative financial instruments:		
Gas derivatives	(53)	-
Power derivatives	(148)	-
Weather derivatives	(5)	-
Total financial liabilities at fair value	(206)	-

d) Valuation process and techniques used to derive Level 2 fair values

The fair value of derivative instruments is sensitive to movements in underlying market rates and other relevant variables. The Company assesses and monitors the fair value of derivative instruments on a periodic basis. Fair values for each derivative financial instrument are determined as being equal to the price at which one party would assume the rights and duties of another party, and calculated using either quoted prices or common market valuation methods, with reference to available market data, as of the balance sheet date.

Level 2 energy derivatives are fair valued by comparing and discounting the difference between the expected contractual cash flows for the relevant commodities and the quoted prices for the commodities in an active market.

Active period of markets	Gas	Power
UK (years)	3	3

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e) Financial assets and liabilities subject to offsetting, master netting arrangements and similar arrangements

31 December 2017	Gross amount £000 000	Amount offset £000 000	Carrying amount £000 000
Financial assets:			
- Derivative financial instruments	265	(50)	215
- Trade and other receivables excluding prepayments	308	-	308
Total	573	(50)	523
Financial liabilities:			
- Derivative financial instruments	(232)	26	(206)
- Trade and other payables excluding non-financial liabilities	(289)	-	(289)
Total	(521)	26	(495)

An analysis of the prior year has not been performed as no commodities were held in the prior year.

18. Related party transactions

During the year the Company had the following related party transactions with companies in the Uniper Group, by virtue of it being 47% owned by E.ON SE, the ultimate controlling party of the Company:

Uniper Global Commodities SE ('UGC')

The Company recognised revenue of £181 million (2016: £nil) and costs of £1,161 million (2016: £nil) relating primarily to the purchase and sale of gas and power in the UK.

The Company had a derivative mark-to-market gain of £80 million relating to the forward purchase of power and gas from UGC (2016: £nil). There were commodity derivative assets of £93 million (2016: £nil), commodity derivative liabilities of £13 million (2016: £nil), debtor balances of £1 million (2016: £nil) and creditor balances of £147 million (2016: £nil) at the year end.

19. Ultimate holding company

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

E.ON SE
Brüsseler Platz 1
45131 Essen
Germany