

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



**Registered No: 01313782**

**E.ON UK HOLDING COMPANY 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 continued to act as a holding company and to service the funding requirements of companies within the E.ON SE group. The directors believe these activities will continue in the current year.

At 31 December 2017, the Company had net assets of £1,864 million (2016: net assets of £1,647 million). Further information regarding the financial position of the Company at the year end is provided in the Directors' Report.

**Principal risks and uncertainties**

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

The key business risks and uncertainties affecting the Company are considered to relate to fluctuations in exchange rates and interest rates on loans to and from other companies within the E.ON SE group. These risks are managed through cross currency swap agreements for all exposure on non-sterling denominated loans and a mixture of fixed and floating interest rates on the loans. Due to the fully hedged position of the Company, the risk associated with the significant volatility is deemed to be low.

On 23 June 2016, Britain voted to leave the European Union. Article 50 was triggered on 29 March 2017, which started a two year exit process from the European Union. If no agreement is reached during the two year period, all existing treaties will cease to apply. The Company has created a cross functional working group, which meets regularly to consider the impact of Brexit legislative changes on existing and new contracts, as well as other potential implications of Brexit, and to monitor further Brexit developments and their potential impact on the Company's business. Until such time as the final agreement and/or the transitional arrangements are agreed, the actual impact of Brexit on the Company's business is uncertain.

**Key performance indicators ('KPIs')**

Net interest payable:

The Company had net interest payable for the year of £146 million (2016: £164 million).

Other than the KPI stated above, the directors do not believe there are any further relevant KPIs that are not already disclosed within these financial statements.

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



**M D Lewis**  
Director

E.ON UK Holding Company Limited  
Company No: 01313782  
Westwood Way  
Westwood Business Park  
Coventry  
CV4 8LG

**E.ON UK HOLDING COMPANY 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 L Vaughan  
M D Lewis (appointed 26 April 2017)  
A D Cocker (resigned 31 July 2017)  
A Groth (resigned 30 May 2018)

**Principal activities**

The Company's principal activities during the year and at the year end were to act as a holding company and to service the funding requirements of companies within the E.ON SE group. The funding is sourced through loans from companies within the E.ON SE group.

**Results and dividends**

The Company's profit for the financial year is £229 million (2016: loss of £38 million). 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**

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**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 group. Major strategic financing and corporate finance activities 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 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 14 for further details of financial risk management.

**Political donations**

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

**Future developments**

Discussion of future developments is included 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**

Notwithstanding the fact that the Company has net current liabilities, the directors have prepared these financial statements on the going concern basis. The directors believe that it is probable that funding will continue to be provided by other group companies and hence the Company can meet its obligations as they fall due for a period of at least twelve months from the date of the approval of these financial statements.

**E.ON UK HOLDING COMPANY LIMITED**  
**DIRECTORS' REPORT**  
**for the Year Ended 31 December 2017 (continued)**

**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.

**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 these 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 18 June 2018 and signed on its behalf by:



**M D Lewis**  
Director

E.ON UK Holding Company Limited  
Company No: 01313782  
Westwood Way  
Westwood Business Park  
Coventry  
CV4 8LG

# **Independent Auditors' Report to the Members of E.ON UK HOLDING COMPANY LIMITED**

## **Report on the audit of the financial statements**

### **Opinion**

In our opinion, E.ON UK Holding Company Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of its 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 and statement of comprehensive income, 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 HOLDING COMPANY LIMITED (continued)**

### ***Strategic Report and Directors' Report***

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

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

### **Responsibilities for the financial statements and the audit**

#### ***Responsibilities of the directors for the financial statements***

As explained more fully in the statement of directors' responsibilities in respect of the financial statements set out on page 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](http://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.

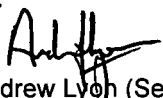
### **Other required reporting**

#### **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

18 June 2018

**E.ON UK HOLDING COMPANY LIMITED**  
**PROFIT AND LOSS ACCOUNT**  
**for the Year Ended 31 December 2017**

	<i>Note</i>	2017 £000 000	2016 £000 000
Administrative expenses		-	(1)
Other operating income		6	5
<b>Operating profit</b>	<b>2</b>	<b>6</b>	<b>4</b>
Income from shares in group undertakings		324	309
Other interest receivable and similar income	4	22	94
Interest payable and similar expenses	5	(168)	(258)
Amounts written off investments		-	(227)
<b>Profit/(loss) before taxation</b>		<b>184</b>	<b>(78)</b>
Tax on profit/(loss)	6	45	40
<b>Profit/(loss) for the financial year</b>		<b>229</b>	<b>(38)</b>

The notes on pages 10 to 26 form part of these financial statements.

**E.ON UK HOLDING COMPANY LIMITED**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**for the Year Ended 31 December 2017**

	2017 £000 000	2016 £000 000
<b>Profit/(loss) for the financial year</b>	<b>229</b>	<b>(38)</b>
<b>Other comprehensive (expense)/income: items that may be subsequently reclassified to profit or loss</b>		
Cash flow hedges	(15)	-
Tax credit on cash flow hedges	3	1
<b>Total other comprehensive (expense)/income</b>	<b>(12)</b>	<b>1</b>
<b>Total comprehensive income/(expense) for the year</b>	<b>217</b>	<b>(37)</b>

The notes on pages 10 to 26 form part of these financial statements.



**E.ON UK HOLDING COMPANY LIMITED**  
**BALANCE SHEET**  
**as at 31 December 2017**

	<i>Note</i>	2017 £000 000	2016 £000 000
<b>Fixed assets</b>			
Investments	7	5,301	5,301
		<b>5,301</b>	<b>5,301</b>
<b>Current assets</b>			
Debtors: amounts falling due within one year	8	396	917
Debtors: amounts falling due after more than one year	9	65	111
		<b>461</b>	<b>1,028</b>
<b>Creditors: amounts falling due within one year</b>	10	<b>(2,171)</b>	<b>(2,976)</b>
<b>Net current liabilities</b>		<b>(1,710)</b>	<b>(1,948)</b>
<b>Total assets less current liabilities</b>		<b>3,591</b>	<b>3,353</b>
<b>Creditors: amounts falling due after more than one year</b>	11	<b>(1,716)</b>	<b>(1,699)</b>
<b>Provisions for liabilities</b>	12	<b>(11)</b>	<b>(7)</b>
<b>Net assets</b>		<b>1,864</b>	<b>1,647</b>
<b>Capital and reserves</b>			
Called up share capital	13	911	911
Profit and loss account		931	702
Other reserves		22	34
<b>Total shareholders' funds</b>		<b>1,864</b>	<b>1,647</b>

The financial statements on pages 6 to 26 were approved by the Board of Directors on 18 June 2018 and signed on its behalf by:

  
**M D Lewis**  
 Director  
 E.ON UK Holding Company Limited  
 Company No: 01313782

The notes on pages 10 to 26 form part of these financial statements.

**E.ON UK HOLDING COMPANY 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	Other shareholders' reserves £000 000	Total funds £000 000
At 1 January 2016	625	740	33	1,398
Loss for the financial year	-	(38)	-	(38)
Other comprehensive (expense)/income:				
Cash flow hedge losses	-	-	(243)	(243)
Exchange movement on debt in cash flow hedges	-	-	243	243
Tax credit on cash flow hedge	-	-	1	1
Total comprehensive (expense)/income for the year	-	(38)	1	(37)
Proceeds from shares issued	286	-	-	286
At 31 December 2016	911	702	34	1,647
Profit for the financial year	-	229	-	229
Other comprehensive income/(expense):				
Cash flow hedge gains	-	-	121	121
Exchange movement on debt in cash flow hedges	-	-	(136)	(136)
Tax credit on cash flow hedge	-	-	3	3
Total comprehensive income/(expense) for the year	-	229	(12)	217
At 31 December 2017	<u>911</u>	<u>931</u>	<u>22</u>	<u>1,864</u>

The notes on pages 10 to 26 form part of these financial statements.

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

## **1. Accounting policies**

### **General information**

The Company acts as a holding company and services the funding requirements of UK companies within the E.ON SE group.

The Company is a private company, limited by shares, which 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, 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 following requirements of IAS 1 Presentation of Financial Statements
  - 10(d) (statement of cash flows),
  - 16 (statement of compliance with all IFRS)
  - 38A (requirement for minimum of 2 primary statements, including cash flow 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**

Notwithstanding the fact that the Company has net current liabilities, the directors have prepared these financial statements on the going concern basis. The directors believe that it is probable that funding will continue to be provided by other group companies and hence the Company can meet its obligations as they fall due for a period of at least twelve months from the date of the approval of these financial statements and therefore the Company will continue to operate for the foreseeable future.

### **Foreign currency**

These financial statements are presented in Great British Pounds (GBP) which is the Company's functional currency. All financial information 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 except when deferred in other comprehensive income as qualifying cash flow hedges.

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

**Exemption from preparing group financial statements**

The Company is a wholly-owned subsidiary undertaking of E.ON SE, the ultimate parent undertaking, and is included in the publicly available consolidated financial statements of E.ON SE. Consequently, the Company has taken advantage of the exemption from preparing consolidated financial statements under the terms of Section 400 of the Companies Act 2006.

**Financial assets**

The Company classifies its financial assets as loans and receivables. The Company does not hold financial assets for trading purposes.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in "Debtors: amounts falling due within one year", except for maturities greater than 12 months after the end of the reporting period which are classified in "Debtors: amounts falling due after one year". The Company's loans and receivables comprise receivables and cash in the balance sheet.

Initial measurement takes place at fair value plus transaction costs. They are subsequently measured at amortised cost, using the effective interest method. Valuation allowances are provided for identifiable individual risks. If the loss of a certain part of the receivables is probable, valuation allowances are provided to cover the expected loss.

**Impairment of financial assets**

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

**Derivative financial instruments and hedging activities**

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company designates its derivatives as hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

The E.ON UK treasury or E.ON SE group finance teams document at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. Also documented are assessments, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair value of various derivative instruments used for hedging purposes is disclosed in note 14. Movements on the hedging reserve in other comprehensive income are shown on page 7. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months.

**Cash flow hedge**

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the profit and loss account.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the profit and loss account. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the profit and loss account.

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

**Cash and cash equivalents**

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. In the balance sheet, bank overdrafts are shown within borrowings in current liabilities.

**Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

**Interest income**

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables is recognised using the original effective interest rate.

**Investments in subsidiaries**

Investments in subsidiaries are held at cost less accumulated impairment losses.

**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.

**Taxation**

The tax credit for the year comprises current and deferred tax. Tax is recognised in the profit and loss account, 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 credit 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 the 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.

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

**Critical accounting estimates and judgements**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

**2. Operating profit/(loss)**

Auditors' remuneration of £33,000 (2016: £59,000) was charged to the profit and loss account for the audit of the financial statements of the Company and certain of its subsidiaries. Of this amount, £30,000 (2016: £30,000) relates to the audit of the Company and the remaining £3,000 (2016: £29,000) represents the audit fee for certain subsidiaries of the Company, which is borne by the Company and not recharged. The Company also incurred £27,000 (2016: £30,000) related to other audit assurance services.

Ineffective hedge losses of £461,000 (2016: gains of £1,933,000) are included in the profit and loss account in other operating income.

**3. Employee information**

The Company had no employees during the year (2016: none).

The directors received no emoluments from the Company during the year (2016: £nil) in respect of services to the Company.

**4. Other interest receivable and similar income**

	2017 £000 000	2016 £000 000
Interest receivable from group undertakings	1	2
Interest rate swaps - gains	21	92
	<u>22</u>	<u>94</u>

**5. Interest payable and similar expenses**

	2017 £000 000	2016 £000 000
Interest payable to group undertakings	139	168
Other interest payable	9	-
Interest rate swaps - losses	20	90
	<u>168</u>	<u>258</u>

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

**6. Tax on profit/(loss)**

	2017 £000 000	2016 £000 000
UK corporation tax credit	(23)	(20)
Adjustment in respect of prior years	(22)	(21)
<b>Total current tax credit</b>	<b>(45)</b>	<b>(41)</b>
<b>Deferred tax:</b>		
Origination and reversal of timing differences	(3)	1
Deferred tax not recognised	3	-
<b>Total deferred tax charge</b>	<b>-</b>	<b>1</b>
<b>Tax credit on profit/(loss)</b>	<b>(45)</b>	<b>(40)</b>

**Tax credit included in other comprehensive income**

	2017 £000 000	2016 £000 000
<b>Deferred Tax:</b>		
Origination and reversal of timing differences	(3)	(1)
<b>Total tax credit included in other comprehensive income</b>	<b>(3)</b>	<b>(1)</b>

**Factors affecting current tax credit for the year**

The tax credit for the year is higher (2016: higher) than the standard rate of corporation tax in the UK for the year ended 31 December 2017 of 19.25% (2016: 20.00%).

The differences are explained below:

	2017 £000 000	2016 £000 000
<b>Profit/(loss) before taxation</b>	<b>184</b>	<b>(78)</b>
<b>Tax charge/(credit) on profit/(loss) before taxation at 19.25% (2016: 20.00%)</b>	<b>35</b>	<b>(15)</b>
<b>Effects of:</b>		
Impairment of non-qualifying fixed assets not deductible for tax purposes	-	45
Expenses not deductible for tax purposes	1	12
Dividends not taxable	(62)	(61)
Deferred tax not recognised	3	-
Adjustment in respect of prior years - current tax	(22)	(21)
<b>Tax credit for the year</b>	<b>(45)</b>	<b>(40)</b>

Reductions to the UK corporation tax rates were included in the Finance Act (No. 2) 2015 and which reduced the main rate to 19% from 1 April 2017. A further reduction in the UK corporation tax 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 the impacts of these changes have been included in these financial statements.

The corporation tax receivable has been reduced by £45 million because of group relief surrendered to a fellow group undertaking for which a payment will be received (2016: receipt of £41 million). Accordingly, no tax losses are available for carry forward.

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**7. Investments**

	2017 £000 000	2016 £000 000
Shares in group undertakings and participating interests	<u>5,301</u>	<u>5,301</u>
<b>Shares in group undertakings and participating interests</b>		
		<b>Subsidiary undertakings £000 000</b>
<b>Cost or valuation</b>		
At 1 January 2017		10,547
At 31 December 2017		10,547
<b>Provision for impairment</b>		
At 1 January 2017		5,246
At 31 December 2017		5,246
<b>Net book value</b>		
At 31 December 2017		<u>5,301</u>
At 31 December 2016		<u>5,301</u>

**Details of undertakings**

Details of the investments which the Company holds at 31 December 2017 are as follows:

Undertaking	Holding	Proportion of voting rights and shares held	Principal Activity
<b>Subsidiary undertakings</b>			
E.ON UK plc	Ordinary shares	100%	Generation of electricity and intermediate holding company
Powergen Limited	Ordinary shares	100%	Intermediate holding company
Powergen UK Investments	Ordinary shares	100%	Non-trading company.
<b>Subsidiary undertakings of Powergen Limited</b>			
Powergen Ergon	A and B Ordinary shares	100%	In member's voluntary liquidation
Powergen US Holdings	Ordinary shares	100%	In member's voluntary liquidation
Powergen US Investments	Ordinary and Preference shares	100%	In member's voluntary liquidation
Powergen US Securities	Voting shares	100%	In member's voluntary liquidation



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Undertaking	Holding	Proportion of voting rights and shares held	Principal Activity
<b>Subsidiary undertakings of E.ON UK plc</b>			
E.ON Climate & Renewables UK Limited	Ordinary shares	100%	Intermediate holding company for the Renewables business
E.ON Energy Solutions Limited	Ordinary shares	100%	Sale of electricity, gas and other energy-related products to residential, business and industrial customers throughout Great Britain
E.ON UK CHP Limited	Ordinary shares	100%	Sale of energy and related services, primarily from the operation of combined heat and power plants
E.ON UK Energy Markets Limited	Ordinary shares	100%	Energy commodity trading business
E.ON Energy Installation Services Limited	Ordinary shares	100%	Installation services
E.ON UK Heat Limited	Ordinary shares	100%	New company for district heating business
E.ON UK Steven's Croft Limited (formerly agile accelerator limited)	Ordinary shares	100%	Intermediate holding company
Powergen International Limited	Ordinary shares	100%	Investment holding company
Lighting for Staffordshire Holdings Limited	Ordinary shares	60%	Holding company of Lighting for Staffordshire Limited, a subsidiary company established for the financing, organisation and operation of a street lighting scheme in Staffordshire, under the Government's Private Finance Initiative Scheme
Hams Hall Management Company Limited	Ordinary shares	47%	Control, supervision, maintenance and management of the premises known as Hams Hall, Coleshill, Birmingham, for the benefit of the tenants
Avon Energy Partners Holdings	Ordinary shares	100%	Dormant company
CHN Contractors Limited	Ordinary shares	100%	Dormant company
CHN Electrical Services Limited	Ordinary shares	100%	Dormant company
CHN Group Ltd	Ordinary shares	100%	Dormant company
CHN Special Projects Limited	Ordinary shares	100%	Dormant company
E.ON (Cross-Border) Pension Trustees Limited	Limited by guarantee	100%	Dormant company
E.ON UK Directors Limited	Ordinary shares	100%	Dormant company
E.ON UK Energy Services Limited	Ordinary shares	100%	Dormant company
E.ON UK Pension Trustees Limited	Ordinary shares	100%	Dormant company
E.ON UK Property Services Limited	Ordinary shares	100%	Dormant company
E.ON UK PS Limited	Ordinary shares	100%	Dormant company
E.ON UK Secretaries Limited	Ordinary shares	100%	Dormant company
E.ON UK Trustees Limited	Limited by guarantee	100%	Dormant company
East Midlands Electricity Distribution Holdings Limited	Ordinary shares	100%	Dormant company
East Midlands Electricity Share Scheme Trustees Limited	Ordinary shares	100%	Dormant company
Industry Development Services Limited	Ordinary shares	100%	Dormant company
Midlands Electricity Limited	Ordinary shares	100%	Dormant company
Matrix Control Solutions Limited (formerly E.ON Control Solutions Limited and E.ON Business Services (UK) Limited)	Ordinary shares	100%	Dormant company
Powergen Power No. 1 Limited	Ordinary shares	100%	Dormant company
Powergen Power No. 2 Limited	Ordinary shares	100%	Dormant company
The Power Generation Company Limited	Ordinary shares	100%	Dormant company

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Undertaking	Holding	Proportion of voting rights and shares held	Principal Activity
<b>Subsidiary undertakings of E.ON UK plc - dissolved or in member's voluntary liquidation</b>			
E.ON Climate & Renewables Carbon Sourcing Limited	Ordinary shares	100%	Dissolved on 18 April 2018
Powergen (East Midlands) Loan Notes	Ordinary shares	100%	In member's voluntary liquidation
Powergen Weather Limited	Ordinary shares	100%	Dissolved on 9 January 2018
<b>Indirect holdings</b>			
Citigen (London) Limited	Ordinary shares	100%	Sale of energy services involving the supply of heating hot water and ventilation
Economy Power Limited	Ordinary shares	100%	Dormant company
Energy Collection Services Limited	Ordinary shares	100%	Dormant company
E.ON Climate & Renewables UK Biomass Limited	Ordinary shares	100%	Biomass plant operation
E.ON Climate & Renewables UK Blyth Limited	Ordinary shares	100%	Offshore windfarm owner
E.ON Climate & Renewables UK Developments Limited	Ordinary shares	100%	Windfarm development
E.ON Climate & Renewables UK Humber Wind Limited	Ordinary A and B shares	100%	Offshore windfarm operation
E.ON Climate & Renewables UK London Array Limited	Ordinary shares	100%	Offshore windfarm operation
E.ON Climate & Renewables UK Offshore Wind Limited	Ordinary shares	100%	Offshore windfarm operation
E.ON Climate & Renewables UK Operations Limited	Ordinary shares	100%	Windfarm operation and investment holding company
E.ON Climate & Renewables UK Robin Rigg East Limited	Ordinary shares	100%	Offshore windfarm operation
E.ON Climate & Renewables UK Robin Rigg West Limited	Ordinary shares	100%	Offshore windfarm operation
E.ON Climate & Renewables UK Wind Limited	Ordinary shares	100%	Construction and development service provider
E.ON Climate & Renewables UK Zone Six Limited	Ordinary shares	100%	Dormant company
E.ON Energy Gas (Eastern) Limited	Ordinary shares	100%	Dormant company
E.ON Energy Gas (Northwest) Limited	Ordinary shares	100%	Dormant company
E.ON Project Earth Limited	Ordinary shares	100%	Leasing of ground source heating systems
E.ON UK Cogeneration Limited	Ordinary shares	100%	Sale of energy services involving the operation of CHP plants
E.ON UK Industrial Shipping Limited	Ordinary shares	100%	Dormant company
Ergon Overseas Holdings Limited	Ordinary shares	100%	Dormant company
Lighting for Staffordshire Limited	Ordinary shares	60%	Servicing of street lighting
London Array Limited	Ordinary shares	30%	Joint operator of offshore windfarm
Novo Innovations Limited	Ordinary shares	100%	Energy solutions company
Powergen Holdings B.V.	Ordinary shares	100%	Intermediate holding company
Powergen Serang Limited	Ordinary shares	100%	Dormant company
Rampion Offshore Wind Limited	Ordinary shares	50.1%	Offshore windfarm construction and operation
Scarweather Sands Limited	Ordinary A shares	50%	Dormant company
TPG Wind Limited	Ordinary B shares	50%	Generation and sale of electricity
Utility Debt Services Limited	Ordinary shares	100%	Dormant company
Visioncash	Ordinary A, B and preference shares	100%	Dormant company
Yorkshire Windpower Limited	Ordinary A shares	50%	Generation and sale of electricity

All of the undertakings disclosed above are incorporated in the United Kingdom and have a registered office of Westwood Way, Westwood Business Park, Coventry, CV4 8LG. The only exceptions to this are the companies in member's voluntary liquidation which have a registered office of KPMG LLP, 16 Canada Square, Canary Wharf, London, E14 5GL, Powergen Holdings B.V. which is registered in the Netherlands and London Array Limited which has a registered office of Number 22 Mount Ephraim, Tunbridge Wells, Kent, TN4 8AS.

The directors believe that the carrying value of the investments is supported by their underlying net assets and future anticipated cash flows.

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**8. Debtors: amounts falling due within one year**

	2017 £000 000	2016 £000 000
Amounts owed by group undertakings	396	758
Derivative financial instruments	-	159
	<u>396</u>	<u>917</u>

Amounts owed by group undertakings at 31 December 2017 include the following loans:

A loan to E.ON Connecting Energies Limited of £47 million (2016: £nil) which bears interest at a rate of LIBOR plus 50 basis points and is a drawdown from a facility of £50 million which has a maturity date of 14 December 2018; and

A loan to Green Sky Energy Limited of £24 million (2016: £nil) which bears interest at a rate of LIBOR plus 50 basis points and is a drawdown from a facility of £25 million which has a maturity date of 14 December 2018.

During 2017, the following amounts owed by group undertakings were repaid:

A loan to E.ON SE of £331 million which bore interest at a rate of LIBOR minus 3 basis points and rolled forward (principal and interest) on a daily basis.

All other amounts are unsecured, interest free and repayable on demand.

As at 31 December 2017, the Company had made available to fellow subsidiaries within the E.ON SE group committed facilities totalling £75 million (2016: £75 million), of which £75 million (2016: £75 million) was still available for drawdown.

Foreign currency swaps have been entered into with E.ON SE with the objective of stabilising the exchange rates, under which certain loans became equivalent to sterling assets of £nil (2016: £159 million).

**9. Debtors: amounts falling due after more than one year**

	2017 £000 000	2016 £000 000
Amounts owed by group undertakings	-	61
Derivative financial instruments	65	50
	<u>65</u>	<u>111</u>

During 2017, the following amounts owed by group undertakings were moved to Debtors falling due in less than one year include the following loans:

A loan to E.ON Connecting Energies Limited of £nil (2016: £37 million) which bears interest at a rate of LIBOR plus 50 basis points and is a drawdown from a facility of £50 million which has a maturity date of 14 December 2018; and

A loan to Green Sky Energy Limited of £nil (2016: £24 million) which bears interest at a rate of LIBOR plus 50 basis points and is a drawdown from a facility of £25 million which has a maturity date of 14 December 2018.

Foreign currency swaps have been entered into with E.ON SE with the objective of stabilising the exchange rates, under which certain loans became equivalent to sterling assets of £65 million (2016: £50 million) at interest rates of 6.01%.

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**10. Creditors: amounts falling due within one year**

	2017 £000 000	2016 £000 000
Amounts owed to group undertakings	2,166	2,971
Other creditors	5	5
	<u>2,171</u>	<u>2,976</u>

Amounts owed to group undertakings at 31 December 2017 include the following loans which are repayable on demand:

A loan of £1,508 million (2016: £1,895 million) from E.ON UK plc which bears interest at LIBOR minus 5 basis points and currently rolls forward (principal and interest) on a daily basis;

A loan of £577 million (2016: £nil million) from E.ON SE which bears interest at a rate of LIBOR minus 3 basis points and currently rolls forward (principal and interest) on a daily basis. As at 31 December 2017, committed facilities totalling £1,300 million (2016: £1,300 million) were available to the Company, of which £723 million (2016: £1,300 million) was still available for drawdown;

A loan of £7 million (2016: £23 million) from E.ON IT UK Limited which bears interest at a rate of LIBOR minus 5 basis points and currently rolls forward (principal and interest) on a daily basis;

A loan of £5 million (2016: £3 million) from E.ON Control Solutions Limited (formerly Matrix Control Solutions Limited) which bears interest at a rate of LIBOR minus 5 basis points and currently rolls forward (principal and interest) on a daily basis;

A loan of €1 million (2016: €2 million) from E.ON SE which bears interest at a rate of LIBOR minus 3 basis points and currently rolls forward (principal and interest) on a daily basis; and

A loan of £1 million (2016: £1 million) from Powergen Limited which bears interest at a rate of LIBOR minus 5 basis points and currently rolls forward (principal and interest) on a daily basis.

Amounts owed to group undertakings at 31 December 2016 and settled during 2017 include the following:

A loan of €1,110 million from E.ON International Finance BV which bore interest at a rate of 4.966%; and

A loan of €1 million from E.ON Control Solutions Limited (formerly Matrix Control Solutions Limited) which bore interest at a rate of LIBOR minus 5 basis points.

All other amounts owed to group undertakings are unsecured, interest free and repayable on demand.

**11. Creditors: amounts falling due after more than one year**

	2017 £000 000	2016 £000 000
Amounts owed to group undertakings	1,696	1,670
Derivative financial instruments	20	29
	<u>1,716</u>	<u>1,699</u>

Amounts owed to group undertakings at 31 December 2017 include the following loans:

A loan of £250 million (2016: £250 million) from E.ON International Finance BV which bears interest at a rate of 6.65% and is due for repayment in October 2019;

A loan of £700 million (2016: £700 million) from E.ON SE which bears interest at a rate of 7.4% and is due for repayment in January 2039; and

Eight loans totalling €850 million (2016: eight loans totalling €850 million) from MEON Pensions GmbH which bear interest at a weighted average rate of 5.7% and are due for repayment between 2019 and 2024.

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Foreign currency swaps have been entered into with E.ON SE with the objective of stabilising the exchange rates, under which certain loans became equivalent to sterling borrowings of £20 million (2016: £29 million) at interest rates of 6.01%.

The maturity profile of the carrying amount of the Company's long term borrowings was as follows:

	2017 £000 000	2016 £000 000
In more than one year, but not more than two years	521	-
In more than two years, but not more than five years	326	837
In more than five years	869	862
	<u>1,716</u>	<u>1,699</u>

## 12. Provisions for liabilities

	Deferred Tax £000 000	Other Provision £000 000	Total £000 000
At 1 January 2017	7	-	7
Debited to the profit and loss account	-	7	7
Deferred tax credit to other comprehensive income	(3)	-	(3)
<b>At 31 December 2017</b>	<u>4</u>	<u>7</u>	<u>11</u>

Other provision relates to interest in respect of withholding tax liability.

### 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
Other timing differences	4	7
The opening and closing deferred tax positions can be reconciled as follows:		
Liability at beginning of year	7	7
Deferred tax charge for the year (note 6)	-	1
Deferred tax credit to other comprehensive income	(3)	(1)
<b>Liability at year end</b>	<u>4</u>	<u>7</u>

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

Within the deferred tax credit of £88,000, the amount that relates to the change in the tax rate is a £1,000 charge.

There is a deferred tax asset that has not been recognised in respect of restricted interest payable of £3,000,000. This would only be recognised in the event of a reduction in the restriction of future interest payable.

There are no unused tax losses or tax credits.

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**13. Called up share capital**

	2017 £000 000	2016 £000 000
<b>Allotted, called-up and fully paid</b>		
7,410,900,576 (2016: 7,410,900,576) ordinary shares of £0.123 each	<u>911</u>	<u>911</u>

**14. Financial risk management**

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The E.ON SE group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by E.ON UK treasury and the directors of the Company under E.ON SE group finance policies approved by their board of management. E.ON UK treasury identifies, evaluates and hedges financial risks in close cooperation with E.ON SE group finance. The E.ON SE board provides written principles for overall risk management as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments and investment of excess liquidity.

**Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments.

The Company acts as a holding company and does not enter into trades or sales and as such has no commodity price risk.

**Market risk - foreign currency risk**

The Company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Euros, which arise when recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. Management require group companies to manage their foreign exchange risk against their functional currency. The Company hedges its entire foreign exchange risk exposure with E.ON SE.

All foreign exchange rate exposure is hedged and therefore it is expected that movements in foreign exchange rates will have no impact on post tax profit or losses.

The Company uses cross currency swaps to manage the foreign exchange exposure. Cross currency swaps are entered into to convert long term Euro loans into equivalent sterling loans. They are designated as cash flow hedges under FRS 101. Currency swaps are valued separately at their forward rates and prices as of the balance sheet date. The notional value of the cross currency swaps in place at 31 December 2017 is €850 million (2016: €1,960 million).

**Market risk - interest rate risk**

The Company's interest rate risk arises from long term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk.

The Company has a portfolio of fixed and floating interest rate debt and, in order to mitigate interest rate risk, arranges interest rate hedges to achieve a desired mix of fixed and floating interest rates, with a range of different maturities. The desired mix is managed by E.ON SE treasury. Floating rate financial liabilities bear interest at variable rates determined with reference to LIBOR. The Company seeks to maintain an appropriate mix of fixed and floating rate debt in its overall debt portfolio. The Company has only fixed interest rate exposure in the cash flow hedges.

The Company uses interest rate swaps to manage the foreign exchange exposure. Interest rate swaps are entered into by the Company to convert fixed Euro interest payments into fixed sterling interest payments for long term loans entered into. The fair values of existing instruments to hedge interest rate risk are determined by discounting future cash flows using market interest rates over the remaining term of the instrument. The notional values of the interest rate swaps in place at 31 December 2017 are €250 million and £217 million (2016: €250 million and £217 million).

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**Credit risk**

In order to minimise credit risk arising from the use of financial instruments and from operating activities, the Company enters into transactions only with counterparties that satisfy the E.ON SE group's internally established minimum requirements. Maximum credit risk limits are set on the basis of credit quality ratings established internally, and from Moody's and Standard & Poor's. The setting and monitoring of credit limits is subject to certain minimum requirements applicable throughout the E.ON SE group. Long-term contracts arising from the operating activities and asset management transactions are not included in this process. The maximum exposure to credit risk at the reporting date is the carrying value of the derivative financial instruments and the amounts owed by group undertakings.

**Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Following a review it has been agreed that as all the financial agreements are within the E.ON SE group, any liquidity risk is minimal. E.ON UK treasury monitors rolling forecasts of the liquidity requirements to ensure that the Company has sufficient cash to meet operational needs at all times to ensure that borrowing limits are not breached. Any surplus cash held by the Company is transferred to E.ON SE.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements. The amounts shown in the table are the contractual undiscounted cash flows:

	Carrying amount £000 000	Expected cash flows £000 000	<1 year £000 000	1 to < 2 years £000 000	2 to < 5 years £000 000	5 years and over £000 000
<b>As at 31 December 2017</b>						
- Borrowings	(3,867)	(5,189)	(2,280)	(617)	(520)	(1,772)
- Interest rate swaps (net)	3	(23)	(5)	(6)	(12)	-
- Cross currency swaps (net)	42	4	1	2	3	(2)
<b>As at 31 December 2016</b>						
- Borrowings	(4,637)	(7,096)	(4,077)	(110)	(1,075)	(1,834)
- Interest rate swaps (net)	2	(5)	(1)	(1)	(3)	-
- Cross currency swaps (net)	178	161	176	(3)	(10)	(2)

**Capital risk management**

The Company defines capital as called up share capital and profit and loss account.

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.

**Cash flow hedges**

The following table indicates the periods in which the discounted cash flows associated with cash flow hedging instruments are expected to affect profit or loss:

	Carrying amount £000 000	Expected cash flows £000 000	<1 year £000 000	1 to < 2 years £000 000	2 to < 5 years £000 000	5 years and over £000 000
<b>As at 31 December 2017</b>						
- Interest rate swaps assets	23	23	-	5	18	-
- Interest rate swaps liabilities	(20)	(20)	-	(5)	(15)	-
- Cross currency swaps assets	42	42	-	12	15	15
- Cross currency swaps liabilities	-	-	-	-	-	-
<b>As at 31 December 2016</b>						
- Interest rate swaps assets	31	31	-	-	31	-
- Interest rate swaps liabilities	(29)	(29)	-	-	(29)	-
- Cross currency swaps assets	178	178	159	-	8	11
- Cross currency swaps liabilities	-	-	-	-	-	-

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**Fair values estimation**

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: 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).
- Level 3: inputs for the assets or liability that are not based on observable market data (unobservable inputs).

The following table presents the Company's assets and liabilities that are measured at fair value at 31 December 2017.

	Level 1 £000 000	Level 2 £000 000	Level 3 £000 000	Fair value £000 000	Carrying value £000 000
<b>Financial assets</b>					
Derivatives used for hedging					
- Interest rate swaps	-	23	-	23	23
- Cross currency swaps	-	42	-	42	42
<b>Total financial assets</b>	-	65	-	65	65

	Level 1 £000 000	Level 2 £000 000	Level 3 £000 000	Fair value £000 000	Carrying value £000 000
<b>Financial liabilities</b>					
Derivatives used for hedging					
- Interest rate swaps	-	(20)	-	(20)	(20)
- Cross currency swaps	-	-	-	-	-
<b>Total financial liabilities</b>	-	(20)	-	(20)	(20)

The following table presents the Company's assets and liabilities that are measured at fair value at 31 December 2016.

	Level 1 £000 000	Level 2 £000 000	Level 3 £000 000	Fair value £000 000	Carrying value £000 000
<b>Financial assets</b>					
Derivatives used for hedging					
- Interest rate swaps	-	31	-	31	31
- Cross currency swaps	-	178	-	178	178
<b>Total financial assets</b>	-	209	-	209	209

	Level 1 £000 000	Level 2 £000 000	Level 3 £000 000	Fair value £000 000	Carrying value £000 000
<b>Financial liabilities</b>					
Derivatives used for hedging					
- Interest rate swaps	-	(29)	-	(29)	(29)
<b>Total financial liabilities</b>	-	(29)	-	(29)	(29)

During the year, there have been no transfers from Level 1 to Level 2. There have also been no transfers from Level 2 to Level 1 in the year (2016: no transfers in either direction). At 31 December 2017, the Company did not have any liabilities classified at Level 3 of the fair value hierarchy (2016: none).



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*Financial instruments in Level 2*

The following is a summary of the methods and assumptions used for the valuation of derivative financial instruments, together with their classification according to the IFRS 7 fair value hierarchy, where they cannot be observed directly from quoted prices (Level 1):

- Interest rate swaps are entered into by the Company to convert fixed Euro interest payments into fixed sterling interest payments for long term loans entered into. The fair values of existing instruments to hedge interest rate risk are determined by discounting future cash flows using market interest rates over the remaining term of the instrument (Level 2).
- Cross currency swaps are entered into to convert long term Euro loans into equivalent sterling loans. They are designated as cash flow hedges under FRS 101. Currency swaps are valued separately at their forward rates and prices as of the balance sheet date. Forward rates and prices are based on market quotations, with forward premiums and discounts taken into consideration (Level 2).

To the extent that hedges are effective changes in the fair value are recognised directly in equity, with any ineffectiveness recognised in the income statement. No derivative instruments are held for trading.

*Valuation*

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.

## **15. Financial Instruments**

### **Credit quality of financial assets**

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

	2017 £000 000	2016 £000 000
<b>Derivative financial instruments (S&amp;Ps)</b>		
BBB+	65	209
<b>Trade and other receivables excluding prepayments</b>		
Existing companies with no defaults in past	396	819

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Financial instruments by category:

31 December 2017					
	Loans and receivables £000 000	Assets at fair value through profit and loss £000 000	Derivatives used for hedging £000 000	Available for sale £000 000	Total £000 000
<b>Assets as per balance sheet</b>					
- Derivative financial instruments	-	-	65	-	65
- Trade and other receivables excluding prepayments	396	-	-	-	396
<b>Total</b>	<b>396</b>	<b>-</b>	<b>65</b>	<b>-</b>	<b>461</b>
		Liabilities at fair value through profit and loss £000 000	Derivatives used for hedging £000 000	Other financial liabilities at amortised cost £000 000	Total £000 000
<b>Liabilities as per balance sheet</b>					
- Borrowings		-	-	(3,862)	(3,862)
- Derivative financial instruments		-	(20)	-	(20)
- Trade and other payables excluding non-financial liabilities		-	-	(5)	(5)
<b>Total</b>		<b>-</b>	<b>(20)</b>	<b>(3,867)</b>	<b>(3,887)</b>
31 December 2016					
	Loans and receivables £000 000	Assets at fair value through profit and loss £000 000	Derivatives used for hedging £000 000	Available for sale £000 000	Total £000 000
<b>Assets as per balance sheet</b>					
- Derivative financial instruments	-	-	209	-	209
- Trade and other receivables excluding prepayments	819	-	-	-	819
<b>Total</b>	<b>819</b>	<b>-</b>	<b>209</b>	<b>-</b>	<b>1,028</b>
		Liabilities at fair value through profit and loss £000 000	Derivatives used for hedging £000 000	Other financial liabilities at amortised cost £000 000	Total £000 000
<b>Liabilities as per balance sheet</b>					
- Borrowings		-	-	(4,641)	(4,641)
- Derivative financial instruments		-	(29)	-	(29)
- Trade and other payables excluding non-financial liabilities		-	-	(5)	(5)
<b>Total</b>		<b>-</b>	<b>(29)</b>	<b>(4,646)</b>	<b>(4,675)</b>

**E.ON UK HOLDING COMPANY LIMITED**  
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**16. Derivative financial instruments**

	2017 Assets £000 000	Liabilities £000 000	2016 Assets £000 000	Liabilities £000 000
Interest rate swaps - cash flow hedge	23	(20)	31	(29)
Cross currency swaps - cash flow hedge	42	-	178	-
<b>Total</b>	<b>65</b>	<b>(20)</b>	<b>209</b>	<b>(29)</b>
Less non-current portion:	65	(20)	50	(29)
Current portion	-	-	159	-

The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and, as a current asset or liability, if the maturity of the hedged item is less than 12 months.

The ineffective portion recognised in the profit and loss account that arises from cash flow hedges amounts to a loss of £461,000 (2016: gain of £1,933,000).

**Fair value of financial instruments:**

	Carrying amount 2017 £000 000	2016 £000 000	Fair value 2017 £000 000	2016 £000 000
<b>Assets</b>				
Amounts owed by group undertakings	396	819	396	819
Derivative financial instruments	65	209	65	209
	<b>461</b>	<b>1,028</b>	<b>461</b>	<b>1,028</b>
<b>Liabilities</b>				
Amounts owed to group undertakings	(3,862)	(4,641)	(4,809)	(6,759)
Derivative financial instruments	(20)	(29)	(20)	(29)
	<b>(3,882)</b>	<b>(4,670)</b>	<b>(4,829)</b>	<b>(6,788)</b>

Within assets amounts owed by group undertakings, are balances owed by E.ON SE group companies and are repayable on demand.

Within liabilities amounts owed to group undertakings, are balances which are repayable on demand as well as long term loans.

**17. Ultimate holding company**

The Company is controlled by E.ON Finanzanlagen GmbH. 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