E.ON UK plc

Strategic Report, Directors' Report and Financial Statements

for the Year Ended 31 December 2016

Company number: 02366970

E.ON UK PLC
STRATEGIC REPORT
for the Year Ended 31 December 2016

The directors present their strategic report of the Company for the year ended 31 December 2016.

Fair review of the business

The Company's turnover during the year was £302 million (2015: £1,126 million), a reduction of £824 million in comparison with the prior year, with an operating loss of £20 million (2015: operating profit of £150 million). The decrease in the operating result was primarily due to the disposal of the conventional generation assets in the prior year. The directors believe that the level of operating activity of the continuing business of the Company will remain stable in future years.

During the year, the Company made a profit before tax of £146 million (2015: profit before tax of £716 million). The decrease in the profit was mainly due to a lower level of dividend income received compared to the prior year.

At 31 December 2016, the Company had net assets of £2,410 million (2015: net assets of £2,536 million). This position was as expected.

In June 2014, the Office of Gas and Electricity Markets referred the entire UK energy market for review by the Competition and Markets Authority ('CMA'). In June 2016, the CMA published its final report and conclusions. These have been reviewed by the Company and remedies have been implemented where appropriate.

New strategy

The Company's ultimate parent company, E.ON SE ('E.ON'), announced a new strategy on 30 November 2014. As part of this strategy E.ON combined its conventional generation, global energy trading and exploration and production businesses into a distinct group of companies, Uniper.

Since 1 January 2016, Uniper has been operationally separate as a wholly-owned subsidiary of E.ON. Following shareholder approval at the Annual General Meeting on 8 June 2016, E.ON proceeded to spin off the majority of Uniper to E.ON's shareholders and listed Uniper on the stock market. E.ON intends to divest its remaining minority shareholding in Uniper over the medium term. The continuing E.ON group will focus on customer energy solutions including the selling of power and gas, renewable generation and energy networks.

As part of the implementation of the new E.ON strategy, on 30 September 2015 the Company disposed of assets and liabilities associated with its conventional generation activities. This included all power stations and their associated assets and liabilities previously reported under the Generation business, together with the Kingsnorth and Grain A sites under demolition but excluding the biomass power station at Steven's Croft in Scotland. The Company also disposed of five subsidiary companies to Uniper.

During 2016, the Company continued to operate the biomass plant at Steven's Croft, to purchase power from wind farm operators and to act as a holding company for E.ON's Customer Solutions UK and Renewables UK activities.

In 2016, the Company re-segmented its results following the disposal of the majority of its Generation assets. The Generation segment was removed and a new segment, Business to Municipalities, was created. The segments for Renewables and Other areas remain as in 2015.

Business to Municipalities

The Company's Business to Municipalities business (which forms part of the Customer Solutions UK division) consists primarily of the biomass plant at Steven's Croft. This plant has a capacity of 44MW and operated as expected during the year.

The turnover of the Business to Municipalities segment was £49 million (2015: £45 million), an increase of £4 million. The increase was mainly due to turnover recognised in relation to a district heating scheme accounted for under IFRIC 12 Service Concession Arrangements ('IFRIC 12'). The Business to Municipalities segment made a profit on ordinary activities before taxation of £11 million (2015: loss of £40 million). The improvement in the performance of the segment is mainly due to costs in the prior year relating to a biomass pellets contract.

Renewables

The Company's Renewables business forms part of E.ON's Climate & Renewables global unit, which combines the development, construction and operation of renewable generation assets, as well as renewable related trading activities.

The turnover of the Renewables segment was £295 million (2015: £464 million), a decrease of £169 million. The decrease was mainly due to reduced revenue from trading Renewable Obligation Certificates ('ROCs'). The Renewables segment made a profit on ordinary activities before taxation of £38 million (2015: profit of £155 million).

Other

The Company's Other segment includes central support services delivering facilities management, human resources, procurement, insurance, property, legal and finance support to other E.ON companies operating in the UK and dividend income received from certain subsidiaries.

The Other segment generated a profit on ordinary activities before taxation of £97 million (2015: profit of £470 million). The decrease was due to reduced dividend income received during the year compared to the prior year. During 2016, the reorganisation and restructuring costs of £12 million related to the Uniper spin off project (2015: £8 million). In the prior year there was also a £5 million charge relating to the HR transformation project.

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:

Regulatory risk

The political, legal and regulatory environments within which the Company operates are a source of external risk. Changes to these environments can lead to considerable uncertainty. The Company manages these risks by engaging in intensive and constructive dialogue with government agencies and policy makers. Under United Kingdom legislation the carrying out of certain electricity and gas activities are prohibited unless authorised by a licence or exemption. A number of the Company's activities are authorised by licence and failure to comply with the requirements of such licences risks a fine of up to 10% of the licensed entity's turnover.

Credit risk - financial instruments

The Company is at risk if a counterparty is unable to meet its obligations, resulting in potential losses. The Company is subject to the E.ON group finance policy which sets a credit limit for every financial institution with which the Company does a significant amount of business. The creditworthiness of the institutions with which the Company does significant business is established by the ratings they receive from external rating agencies including Standard & Poor's. In addition, other counterparty credit risk is subject to the E.ON group credit risk management policy supported by individual business unit policies to establish internal ratings for limit setting. Credit risk assessment involves quantitative and qualitative criteria including ratings by independent rating agencies where these are available.

Reputational risk

The Company is a prominent energy company in the UK and is frequently mentioned during public discussions of energy policy issues. Trust and credibility are essential for the Company to remain successful over the long term. The foundation for earning trust and credibility is built by clear and consistent communications with the Company's key stakeholders and customers. The Company works hard to engage in dialogue and maintain good relationships with its key stakeholders and customers. This is achieved in part by paying attention to environmental and social issues. The Company's objective is to minimise its reputational risks and garner public support so that it can continue to operate its business successfully.

Commodity prices

The Company sells the majority of its power to Uniper Global Commodities SE ('UGC'), using a transfer pricing mechanism which transfers substantially all of the associated short term commodity price risk out of the Company. UGC then trades this volume on the market. During 2017, the Company will transition to using E.ON Energy Markets Limited, a wholly owned subsidiary, as its primary route to market.

Key performance indicators ('KPIs')

The Board of Management of E.ON manages the group's operations on a divisional basis. For this reason, the Company's directors believe that analysis using financial key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of the Company. The development, performance and position of the Customer Solutions UK and Renewables divisions of E.ON, which includes the Company, is discussed within the financial review section of the group's annual report which does not form part of this report.

The Company's non-financial KPIs for the Business to Municipalities segment during the year are disclosed in the table below. There are no non-financial KPIs for the Renewables and Other segments. The directors do not believe there are any further relevant financial KPIs that are not already disclosed within these financial statements.

	2016	2015	
Business to Municipalities			
Plant technical availability (taking account of planned and unplanned outages)	**85.0%**	89.0%	Availability of the Steven's Croft plant was as expected.
Installed generating capacity at year end (MW)	**44**	44	The generation capacity of 44 MW relates solely to the biomass assets at Steven's Croft.
Generation production during the year (TWh)	**0.30**	0.30	The Steven's Croft power station generated 0.3 TWh of electricity during 2016, which was in line with the level in 2015 (0.3 TWh).

Approved by the Board of Directors on 19 June 2017 and signed on its behalf by:

Tony Cocker

A D Cocker
Chairman and Director

E.ON UK plc
Company No: 02366970
Westwood Way
Westwood Business Park
Coventry
CV4 8LG

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2016.

Directors of the Company

The directors of the Company who were in office during the year and up to the date of signing these financial statements were:

A D Cocker
S L Vaughan
D G Newborough
J T Lightfoot
A Groth (appointed 1 June 2016)
M D Lewis (appointed 26 April 2017)
R Matthies (resigned 31 May 2016)
F S Stark (resigned 31 December 2016)

Principal activities

The Company's principal activities during the year were the generation of electricity through the use of a biomass power station and the buying and selling of renewable energy and ROCs through power purchase arrangements. The Company also provides central support services to other E.ON companies operating within the UK and acts as a holding company.

Results and dividends

The Company's profit for the financial year is £147 million (2015: profit of £492 million). No interim dividends were paid during the year (2015: £nil). The directors do not recommend the payment of a final dividend (2015: £nil).

Financial risk management

Objectives and policies

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

E.ON 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. 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 treasury framework. The E.ON treasury team liaises closely with the Company to ensure that liquidity and risk management needs are met within the requirements of the E.ON policies and procedures.

E.ON's central financing strategy

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

The Company's treasury team employs a continuous forecasting and monitoring process to ensure that the Company complies with all its banking and other covenants that apply to the financing of the UK business. The treasury team works in close liaison with the other E.ON companies operating within the UK, when considering hedging requirements related to their activities. A group-wide cash forecasting and currency exposure reporting process exists which ensures regular reporting into UK treasury of future positions, both short and medium term. Information is submitted to E.ON for incorporation into E.ON group forecasting processes on a weekly and quarterly basis.

The Company does not enter into speculative treasury arrangements. Accordingly, all transactions in financial instruments are matched to an underlying business requirement, such as committed purchases or forecast funding requirements. Treasury activities are reviewed by internal audit on a regular basis.

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

Foreign exchange risk management

The Company primarily trades in Sterling but its principal currency exposures are to the Euro and US Dollar. The Company operates within the framework of E.ON's guidelines for foreign exchange risk management. The Company has local policies dealing with operational exposures (typically cash flows arising on construction and maintenance which impact the cash flow and profit and loss account).

The Company's policy is to hedge all contractually committed operational exposures, as soon as the commitment arises. The Company will also partly hedge less certain cash flows when appropriate. The Company determines the hedging of translation exposures (the value of foreign currency liabilities and assets in the balance sheet) on a case by case basis in consultation with the E.ON Treasury department.

Interest rate risk management

The Company operates within the E.ON framework for interest rate risk management. The Company has a number of funding arrangements and is exposed to movements in interest rates. These interest rate exposures are managed primarily through the use of a mixture of fixed and floating rate borrowings.

Credit risk management

The Company is subject to the E.ON group finance policy which sets a credit limit for every financial institution with which the Company does a significant amount of business. The creditworthiness of the institutions with which the Company does significant business is established by the ratings they receive from external rating agencies including Moody's and Standard & Poor's. In addition, other counterparty credit risk is subject to the E.ON group credit risk management policy supported by individual business unit policies to establish internal ratings for limit setting. Credit risk assessment involves quantitative and qualitative criteria including ratings by independent rating agencies where these are available.

Liquidity planning, trends and risks

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

Political donations

It is the Company's policy not to make cash donations to any political party. However, the Company undertakes activities, such as event sponsorship, which are not designed to support or influence support for any particular political party, but which are covered under The Political Parties, Elections and Referendums Act 2000 and must be disclosed. As in the prior year, the Company sponsored receptions at the Labour Party conference at a cost of £5,000 (2015: £5,000) and at the Conservative Party conference at a cost of £7,450 (2015: £nil). The total cost required to be disclosed as political donations was £12,450 (2015: £5,000).

Equal opportunities

The Company's employment policies are designed to attract, retain and motivate the very best people recognising that this can only be achieved through offering equal opportunities for all, irrespective of sex, race, marital status, age or disability.

Employment practices and procedures are regularly reviewed to ensure that they provide equality of opportunity to all employees within the current legislative framework. The Company encourages the use of flexible working arrangements where practicable.

Employee involvement

Recognising that the success of the Company depends on the quality of performance of its employees, the Company has communication programmes to ensure that employees understand the business strategy and can contribute towards its achievements. Throughout the year, principally through regular team briefings and meetings with employees and their representatives, individual businesses have continued to improve their arrangements for employee consultation and communication on matters relating to business performance and objectives. There are also well established consultative and negotiating arrangements involving employees, employee representatives and trade union officials to ensure that employee's views are considered in relation to employment conditions, safety and health, welfare and training issues.

The Company provides appropriate training in order to satisfy business needs and to develop the talents and skills of employees, benefiting the individual, the Company and its customers.

Safety and health

The Company considers that good safety and health performance is an essential part of business activities and the Company aims to achieve the highest standards. All aspects of safe and healthy working practices are promoted by the Company in the interests of employees, customers, suppliers and the wider community.

People with disabilities

The Company fully recognises its responsibility to encourage and assist the recruitment, employment, training and career development of people with disabilities. If employees become disabled during their service with the Company arrangements are discussed to enable continuity of employment and development as appropriate.

Corporate responsibility

Society expects increasingly more of the energy industry, particularly of large energy companies. The Company is committed to providing answers to questions about climate change, energy efficiency and what tomorrow's energy supply will look like. The Company continues to engage in dialogue with its stakeholders and its customers and deals with society's evolving expectations. This is the only way the Company will continue to earn its licence to operate and grow. The Company's ability to remain successful over the long term depends in part on incorporating its stakeholders' and customers' interests and expectations into the way it operates its business. More information on the Company's corporate responsibility efforts is available on the Company's website (www.eonenergy.com). This information is not considered to be part of these financial statements.

Future developments

Further 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.

Post balance sheet event

On 5 June 2017, the Company declared an interim dividend for the year ending 31 December 2017 of £160 million.

Disclosure of information to the auditors

Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information. The directors confirm that there is no relevant information that they know of and which they know the auditors are unaware of.

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report, the Directors' Report and these financial statements in accordance with applicable law and regulations..

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

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that these financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approved by the Board of Directors on 19 June 2017 and signed on its behalf by:

Tony Cocker

A D Cocker
Chairman and Director

E.ON UK plc
Company No: 02366970
Westwood Way
Westwood Business Park
Coventry
CV4 8LG

Independent Auditors' Report to the Members of
E.ON UK PLC

Report on the financial statements

Our Opinion

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

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Strategic Report, Directors' Report and the financial statements (the "Annual Report"), comprise:

- the balance sheet as at 31 December 2016;
- the profit and loss account and statement of comprehensive income for the year then ended;
- statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matters prescribed by the Companies Act 2006

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

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

In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Director' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence, about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Director's Report, we consider whether those reports include the disclosures required by applicable legal requirements.

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

Date 19 June 2017

E.ON UK PLC
PROFIT AND LOSS ACCOUNT
for the Year Ended 31 December 2016

	Note	2016 Continuing £000 000	2016 Discontinued £000 000	2016 Total £000 000	2015 Continuing £000 000	2015 Discontinued £000 000	2015 Total £000 000
Turnover	3	**302**	-	**302**	467	659	1,126
Cost of sales		**(239)**	-	**(239)**	(327)	(582)	(909)
Gross profit		**63**	-	**63**	140	77	217
Administrative expenses excluding impairments		***(150)***	-	***(150)***	*(144)*	*(100)*	*(244)*
(Impairment)/impairment reversal of fixed assets		-	-	-	*(1)*	*59*	*58*
Administrative expenses		**(150)**	-	**(150)**	(145)	(41)	(186)
Other operating income		**67**	-	**67**	62	57	119
Operating (loss)/profit	5	**(20)**	-	**(20)**	57	93	150
Income from shares in group undertakings		**220**	-	**220**	580	73	653
Interest receivable and similar income	9	**28**	-	**28**	28	1	29
Interest payable and similar charges	10	**(82)**	-	**(82)**	(80)	(1)	(81)
Amounts written off investments		-	-	-	-	(35)	(35)
Profit on ordinary activities before taxation		**146**	-	**146**	585	131	716
Tax on profit on ordinary activities	11	**1**	-	**1**	(5)	24	19
Profit after tax		**147**	-	**147**	580	155	735
Loss on disposal of Discontinued operations	12	-	-	-	-	(243)	(243)
Profit/(loss) for the financial year		**147**	-	**147**	580	(88)	492

The notes on pages 14 to 43 form an integral part of these financial statements.

E.ON UK PLC
STATEMENT OF COMPREHENSIVE INCOME
for the Year Ended 31 December 2016

	Note	**2016 £000 000**	2015 £000 000
Profit for the financial year		**147**	492
Other comprehensive (expense)/income			
Actuarial losses on pensions scheme arrangements	25	**(319)**	(108)
Tax credit on actuarial loss	11	**46**	11
Available for sale financial assets		**-**	(1)
Total other comprehensive expense		**(273)**	(98)
Total comprehensive (expense)/income for the year		**(126)**	394

E.ON UK PLC
BALANCE SHEET
as at 31 December 2016

	Note	**2016 £000 000**	2015 £000 000
Fixed assets			
Intangible assets	13	**22**	4
Tangible assets	14	**117**	115
Investment property	15	**24**	22
Investments	16	**2,294**	2,269
		2,457	2,410
Current assets			
Stocks	17	**3**	3
Debtors: amounts falling due after more than one year	18	**110**	94
Debtors: amounts falling due within one year	19	**4,419**	5,083
		4,532	5,180
Creditors: amounts falling due within one year	20	**(3,124)**	(3,586)
Net current assets		**1,408**	1,594
Total assets less current liabilities		**3,865**	4,004
Creditors: amounts falling due after more than one year	21	**(900)**	(900)
Provisions for liabilities	23	**(555)**	(568)
Net assets		**2,410**	2,536
Capital and reserves			
Called up share capital	24	**1,325**	1,325
Share premium account		**97**	97
Capital redemption reserve		**85**	85
Special capital reserve		**474**	474
Profit and loss account		**429**	555
Total shareholders' funds		**2,410**	2,536

The financial statements on pages 10 to 43 were approved by the Board of Directors on 19 June 2017 and signed on its behalf by:

Tony Cocker

A D Cocker
Chairman and Director
E.ON UK plc
Company No: 02366970

The notes on pages 14 to 43 form an integral part of these financial statements.

E.ON UK PLC
STATEMENT OF CHANGES IN EQUITY
for the Year Ended 31 December 2016

	Called up share capital £000 000	Share premium account £000 000	Capital redemption reserve £000 000	Special capital reserve £000 000	Profit and loss account £000 000	Total Shareholders' Funds £000 000
At 1 January 2015	1,325	97	85	474	161	2,142
Profit for the financial year	-	-	-	-	492	492
Other comprehensive expense:						
Actuarial losses on pensions schemes	-	-	-	-	(108)	(108)
Tax credit on actuarial losses	-	-	-	-	11	11
Available for sale financial assets	-	-	-	-	(1)	(1)
Total comprehensive expense:	-	-	-	-	(98)	(98)
At 31 December 2015	1,325	97	85	474	555	2,536
Profit for the financial year	-	-	-	-	147	147
Other comprehensive expense:						
Actuarial losses on pensions schemes	-	-	-	-	(319)	(319)
Tax credit on actuarial losses	-	-	-	-	46	46
Total comprehensive expense:	-	-	-	-	(273)	(273)
At 31 December 2016	**1,325**	**97**	**85**	**474**	**429**	**2,410**

The share premium account, capital redemption reserve and special capital reserve are not available for distribution. The special capital reserve was determined in accordance with the Transfer Scheme made pursuant to the Electricity Act 1989, under which the Central Electricity Generating Board's ('CEGB') net assets were vested in its successor companies.

The notes on pages 14 to 43 form part of these financial statements

1. General information

The Company generates electricity using biomass assets and buys and sells renewable energy and ROCs. It also provides central support services delivering facilities management, human resources, procurement, insurance, property, legal and finance support to other E.ON companies operating in the UK.

The Company is an indirect subsidiary of a listed company, is a public 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, CV4 8LG.

2. Accounting policies

Basis of preparation of financial statements

These financial statements are prepared on the going concern basis, under the historical cost convention as modified by revaluation of derivative financial instruments and listed investments, in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The principal accounting policies, which have been applied consistently throughout the year, are set out below.

The values of assets and liabilities vested in the Company on 31 March 1990 under the Transfer Scheme made pursuant to the Electricity Act 1989 are based on their historical cost to the CEGB.

The Company has prepared these financial statements in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101).

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

- The requirements of paragraphs 10(d) (statement of cash flows), 16 (statement of compliance with all IFRS), 111 (cash flow statement information) and 134-136 (capital management disclosures) of IAS 1 Presentation of Financial Statements
- The 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 the end of the year)
- The requirements of IAS 7 Statement of Cash Flows
- The requirements of Paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- The requirements of paragraph 17 of IAS 24 Related Party Disclosures (key management compensation)
- The requirements of IAS 24 Related party disclosures to disclose related party transactions entered into between two or more members of a group
- The requirements of IFRS 7 Financial Instruments: Disclosures
- The disclosures required by IFRS 5 Non-current Assets Held for Sale and Discontinued Operations in respect of the cash flows of discontinued operations
- The requirements of paragraphs 91 to 99 of IFRS 13 Fair value measurement (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
- The requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 Share based payments

Exemption from preparing group financial statements

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

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

Going concern

In adopting the going concern basis for preparing these financial statements, the directors have considered the business activities as set out on page 1 as well as the Company's principal risks and uncertainties as set out on page 2. Based on the Company's cash flow forecasts and projections, the directors are satisfied that the Company will be able to operate within its current facilities for the foreseeable future, being a period of at least twelve months from the date of the auditors' approval of these financial statements. For this reason the Company continues to adopt the going concern basis.

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 the financial statements and the reported amounts of incomes 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 the financial statements.

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

Defined benefit pension schemes

The Company has an obligation to pay pension benefits to certain current and ex-employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including, life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends. See note 25 for further details of the defined benefit schemes.

Determination of fair values of derivatives

Derivative contracts are carried in the balance sheet at fair value, with changes in fair value recorded in the profit and loss account. As quoted market prices for certain derivatives used by the Company are not readily available, the fair values of these derivatives have been calculated using common market valuation methodologies and value influencing market data at the balance sheet date. For certain long-term physical commodity contracts, forward looking market data is unavailable. In this case the Company uses other valuation techniques, incorporating estimated cash flows based on the most relevant market data available.

The use of valuation models requires the Company to make assumptions and estimates regarding the volatility of commodity prices and other indices at the balance sheet date and actual results could differ significantly due to fluctuations in value influencing market data.

Corporation tax

Significant judgement is required in determining the Company's provision for corporation taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Company recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax assets and liabilities in the period in which such determination is made.

Decommissioning costs

Significant judgements and estimates are made about the costs of decommissioning the Company's biomass power station at the end of its useful life. The estimated costs of decommissioning and subsequent site restoration are reviewed periodically and a provision is made for the estimated decommissioning cost at the balance sheet date. The payment dates of total expected future decommissioning costs are uncertain and dependent on the life of the power station.

Impairment

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

Turnover

Turnover from the generation of electricity from renewable and biomass sources represents the value of the sale of electricity from wind farms and the biomass plant and related renewable credits and is recognised when the power is supplied. Turnover excludes value added tax.

Accrued income

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

Current and deferred income tax

The tax credit for the year represents the sum of the current 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 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 these financial statements. Deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; or arise from an initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profits or losses. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

Operating leases

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

Pensions

Payments to defined contribution schemes are charged against profits as incurred. The Company has no further payment obligation once contributions have been paid. Contributions are recognised in the profit and loss account as employee costs when they are due and prepaid contributions are recognised as an asset to the extent that a cash refund or reduction in the future payments is available.

The Company also contributes to a funded group defined benefit pension scheme operated by the Company, the assets of which are invested in a separate trustee-administered fund. The liability recognised on the balance sheet in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the end of the year less the fair value of the plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to shareholders' funds in other comprehensive income in the period in which they arise.

The amount charged or credited to finance costs is a net interest amount calculated by applying the liability discount rate to the net defined benefit liability or asset.

Past service costs are recognised immediately in the income statement.

Share-based payments

Certain directors and senior management personnel participate in cash settled share-based payment schemes administered by the ultimate parent company, E.ON. One scheme is currently relevant to the Company – the E.ON Share Performance Plan. The Company accounts for this scheme in accordance with IFRS 2 "Share–based payment". The liability is measured initially and at each reporting date, based on fair value, by applying the Monte Carlo option pricing model, taking into account rights granted and service rendered to date. Costs are recognised in the income statement over the expected vesting period.

Provisions

Provisions are recognised in the balance sheet when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Future operating costs are not provided for.

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

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

Intangible assets

Software development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognised as intangible assets.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed five years.

During the contracted construction phase of the arrangement, the Company's asset (representing its accumulating right to be paid for providing district heating services) is classified as an intangible asset (licence to charge users of the infrastructure). The Company measures the fair value of its consideration received or receivable as equal to the construction costs plus 5 per cent margin, which the Company concludes is consistent with the rate that a market participant would require as compensation for providing the construction services and for assuming the risk associated with the construction costs.

Emission rights held under national and international emissions rights systems are reported as intangible assets. Emission rights are capitalised at their acquisition costs when issued for the respective reporting period as (partial) fulfilment of the notice of allocation from the responsible national authorities, or purchased from third parties. The consumption of emission rights is recognised at average cost based on emissions made. A shortfall in emission rights is recognised within other provisions at cost. The expenses incurred for the consumption of emission rights and the recognition of a corresponding, provision are reported under cost of goods sold.

Tangible assets

Tangible assets are stated at original cost less accumulated depreciation and any provision for impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Land and buildings and plant and machinery relate primarily to generating assets.

Major assets in the course of construction are included in tangible assets on the basis of expenditure incurred at the balance sheet date. In the case of assets constructed by the Company, directly related overheads and commissioning costs are included in cost. Where borrowings are used to finance the construction of a major capital project with a long period of development, interest payable is capitalised as part of the cost of the asset and written off over the economic useful life of the asset. Where specific borrowings are used, the amount capitalised is based on actual interest payable. Where general borrowings are used, the amount capitalised is based on the weighted average cost of capital of the E.ON group not exceeding the actual expenditure incurred during the relevant period of construction.

Depreciation is provided on tangible assets so as to write off the cost, less any estimated residual value, over their expected useful economic life as follows:

Asset class	**Depreciation method and rate**
Freehold buildings	Straight-line basis over 25-40 years
Long leasehold land and buildings	Straight-line basis over 15-40 years
Plant and machinery	Straight-line basis over 35-40 years
Fixtures and fittings	Straight-line basis over 3-40 years

Estimated useful lives are reviewed annually. No depreciation is provided on freehold land or assets in the course of construction.

Overhaul of generation plant

Major periodic overhaul costs on generation plant are capitalised as part of generating assets and depreciated on a straight-line basis over their useful economic life, typically the period until the next major overhaul. That period is usually four years.

Investment properties

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties are stated at cost less accumulated depreciation.

Stock

Stock is valued at the lower of cost and net realisable value, after due regard for obsolete and slow moving stocks. Net realisable value is based on selling price less anticipated costs to completion and selling costs. In general, stocks are recognised in the profit and loss account on a weighted average cost basis. The Companies Act 2006 requires stocks to be categorised between raw materials, work in progress and finished goods.

Stores are considered to be raw materials under this definition.

Decommissioning costs

The fair value of a liability arising from the decommissioning of an asset is recognised in the period in which the asset is commissioned and when a reasonable estimate of the fair value can be made. When the provision is recorded, the Company capitalises the costs of the provision by increasing the carrying amount of the tangible assets. In subsequent periods, the provision is accreted to its present value and the carrying amount of the asset is depreciated over its useful life. Changes to estimates arise, particularly when there are deviations from original cost estimates or changes to the payment schedule or the level of relevant obligation. The provision must be adjusted in the case of both negative and positive changes to estimates. Such an adjustment is usually effected through a corresponding adjustment to tangible fixed assets and is not recognised directly in the profit and loss account.

Research and development

Research and development expenditure is written off as incurred only when it does not meet the capitalisation criteria.

Fixed asset investments

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

Listed and other investments are treated as available for sale and are carried at fair value. Unrealised gains and losses on available for sale investments are recognised in equity until the investment is disposed of.

Cash and short-term deposits

Short-term deposits include cash at bank and in hand.

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.

Financial instruments

The Company's financial risk management policies are consistent with those of the E.ON group and are described in the E.ON's group financial statements.

Debt instruments

All borrowings are initially stated at the fair value of consideration received after deduction of directly attributable transaction costs. The issue costs and interest payable on bonds are charged to the profit and loss account at a constant rate over the life of the bond. Any premium or discount arising on the early repayment of borrowings is written off to the profit and loss account as incurred or received.

Derivative instruments

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

See note 22 for further details of the fair values of the financial instruments.

Derivative instruments are recorded as either assets or liabilities in the balance sheet and measured at fair value. Changes in the fair value of derivatives that do not qualify for hedge accounting are recognised in the profit and loss account as they arise.

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

Inter-company balances

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

Dividend distribution

Dividend distribution to the Company's shareholder is recognised as a liability in the financial statements in the period in which the dividends are approved.

3. Turnover

Turnover from the generation of electricity from renewable and biomass sources represents the value of the sale of electricity from wind farms and the biomass plant and related renewable credits and is recognised when the power is supplied.

4. *Segmental reporting*

In 2016, the Company re-segmented its results following the disposal of the majority of its Generation assets. The Generation segment was removed and a new segment, Business to Municipalities, was created. The Renewables and Other segments remain as in 2015. The comparatives below have been re-stated to reflect these changes.

The segments derive their turnover from the following sources:

Segment	**Description**
Business to Municipalities	Sale of generating capacity and exercise fees upon power generation
Renewables	Sale of energy and ROCs purchased from renewable sources
Other	Support functions for other segments and other E.ON companies in the UK

The turnover in respect of Europe relates to sales to UGC.

Year ended 31 December 2016	Business to Municipalities £000 000	Renewables £000 000	Generation £000 000	Other £000 000	Inter-Segment elimination £000 000	Total £000 000
Turnover:						
UK	49	96	-	-	(42)	103
Europe	-	199	-	-	-	199
Total turnover	49	295	-	-	(42)	302
Profit on ordinary activities before taxation	11	38	-	97	-	146
Net assets	109	488	-	1,813	-	2,410

Year ended 31 December 2015	Business to Municipalities £000 000	Renewables £000 000	Generation £000 000	Other £000 000	Inter-Segment elimination £000 000	Total £000 000
Turnover:						
UK	45	226	88	-	(112)	247
Europe	-	238	641	-	-	879
Total turnover	45	464	729	-	(112)	1,126
(Loss)/profit on ordinary activities before taxation	(40)	155	131	470	-	716
Net assets	69	451	-	2,016	-	2,536

Within the Generation segment for the year ended 31 December 2015, there is a profit before tax of £131 million which relates to discontinued operations.

5. Operating (loss)/profit

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

	2016 £000 000	2015 £000 000
Operating leases	8	16
Depreciation of owned assets (note 14)	8	77
Depreciation of investment property assets	1	1
Foreign currency gains/(losses)	-	7
Derivative gains	(14)	(8)
Loss on disposal of discontinued operations	-	243
Impairment reversal of tangible assets	-	(58)
Profit on disposal of investments	(3)	-
Auditors' remuneration	1	1

Operating profit includes costs of £12 million relating to the Uniper spin off project (2015: £8 million).

In the prior year, operating profit included restructuring costs of £11 million relating to the closure of the Killingholme power station and £5 million relating to the HR transformation project.

6. Auditors' remuneration

Auditors' remuneration of £479,000 (2015: £708,000) was charged for the audit of these financial statements. The Company also incurred £59,000 (2015: £680,000) in relation to other audit related assurance services and £193,000 (2015: £260,000) in relation to tax advisory services.

In the prior year, other assurance services of £608,000 predominantly related to the IFRS conversion project and the separation of Uniper.

7. Employee information

The monthly average number of persons employed by the Company (including directors) and whose costs were not directly recharged to other companies during the year, analysed by category, was as follows:

	2016 No.	2015 No.
Production	**65**	691
Administration and support	**1,126**	933
	1,191	1,624

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

	2016 £000 000	2015 £000 000
Wages and salaries	**58**	87
Social security costs	**5**	8
Other pension costs	**53**	60
	116	155
Less: pension costs recharged to other companies	**(31)**	(44)
Less: capitalised in fixed assets	**-**	(3)
	85	108

8. Directors' remuneration

The directors' remuneration for the year was as follows:

	2016 £	2015 £
Aggregate emoluments (including benefits in kind)	**2,962,370**	2,491,866

The above amounts include seven (2015: six) directors, all of which shared their management time between the Company and E.ON Energy Solutions Limited ('EESL'), a fellow group company. Of these costs, £2,703,764 (2015: £1,309,856) was recharged to EESL based on the proportion of time that the directors spent on each company's business. In addition to the above, one director who mutually agreed to leave the Company during the year as part of a significant reorganisation of the business, will receive £1,492,084 as compensation for loss of office.

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

	2016 No.	2015 No.
Received or were entitled to receive shares under long term incentive ('LTI') schemes	**7**	6
Accruing benefits under a defined benefit pension scheme	**5**	5

During the year, five (2015: five) directors exercised Performance Rights over shares in the ultimate parent company, E.ON, that they were awarded for services to the E.ON group. Total payments under the LTI were £194,698 (2015: £224,675).

In respect of the highest paid director:

	2016 £	2015 £
Annual salary	**437,265**	426,600
Annual bonus	**391,062**	290,927
Long term incentive	**103,063**	121,018
Other benefits	**29,552**	28,688
Total amount of emoluments and amounts receivable under long-term incentive schemes	**960,942**	867,233
Defined benefit accrued pension entitlement at the year end	**262,833**	244,379

The highest paid director shared their management time between the Company and EESL. All of these costs were borne by the Company and recharged based on the proportion of time that the director spent on the Company's business. Of their emoluments, £864,847 (2015: £520,340) and of their defined benefit accrued pension entitlement, £236,550 (2015: £146,627) was recharged to EESL.

9. Interest receivable and similar income

	2016 £000 000	2015 £000 000
Interest receivable from group undertakings	**24**	22
Other interest receivable	**4**	7
	28	29

10. Interest payable and similar charges

	2016 £000 000	2015 £000 000
Interest payable to group undertakings	**64**	65
Other interest payable	**1**	-
Interest - provision unwind	**-**	1
Net cost of post-employment benefits (note 25)	**17**	15
	82	81

11. Tax on profit on ordinary activities

	2016 £000 000	2015 £000 000
Current tax		
UK corporation tax on profits for the year at 20.00% (2015: 20.25%)	**(15)**	(41)
Adjustments in respect of prior years	**13**	26
Total current tax credit	**(2)**	(15)
Deferred tax		
Origination and reversal of timing differences	**12**	28
Adjustments in respect of prior years	**(1)**	(20)
Deferred tax not recognised	**-**	(12)
Impact of change in tax rate	**(10)**	-
Total deferred tax charge/(credit)	**1**	(4)
Total tax credit on profit on ordinary activities	**(1)**	(19)
Current tax in other comprehensive income	**(29)**	-
Deferred tax in other comprehensive income	**(17)**	(11)
	(46)	(11)

The tax charge for the year is lower (2015: lower) than the standard rate of corporation tax in the UK for the year ended 31 December 2016 of 20.00% (2015: 20.25%). The differences are explained below:

	2016	2015
	£000 000	£000 000
Profit on ordinary activities before taxation	**146**	473
Tax credit on profit on ordinary activities before taxation at 20.00% (2015: 20.25%)	**29**	96
Effects of:		
Impact of rate changes	**(10)**	(6)
Other expenses not deductible for tax purposes/(not subject to tax)	**-**	(20)
Deferred tax asset not recognised on timing differences	**-**	(12)
Impairment of intercompany balances	**8**	-
Dividend income not taxable	**(44)**	(132)
Loss on disposal of share investment not deductible	**-**	49
Adjustments in respect of prior years - deferred tax written off on pension transfer	**4**	-
Adjustments in respect of prior years - deferred tax	**(1)**	(20)
Adjustments in respect of prior years - current tax	**13**	26
Tax credit for the year	**(1)**	(19)

Reductions to the UK corporation tax rate 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 rate was included in the Finance Act 2016 to reduce the rate to 17% from 1 April 2020. These changes have been substantively enacted at the balance sheet date and their impact has been included in these financial statements.

The corporation tax receivable has been reduced by £2 million because of group relief surrendered to a fellow group undertaking for which a payment will be received (2015: payment received of £15 million). Accordingly no tax losses are available for carry forward.

12. Discontinued operation

On 30 September 2015, the Company sold the assets and liabilities relating to its conventional generation power stations to Uniper UK Limited ('UUK'). The proceeds of the sale were in the form of cash of £663 million and shares with a value of £589 million. The net assets sold totalled £1,263 million resulting in a loss on disposal of £11 million before tax. Included within the net assets sold was a provision for historic pension service. The assets and liabilities related to this transferred to UUK during 2016.

Also on 30 September 2015, the Company sold its investment in UUK to E.ON Fünfundzwanzigste Verwaltungs GmbH. The proceeds from the sale were £383 million (€518 million) resulting in a loss on sale of £206 million.

As a result of the disposal a deferred tax asset of £26 million was written off. This amount is included within the total loss on disposal. An additional deferred tax asset of £4 million transferred to UUK as part of the disposal. This amount was written off directly to deferred tax during the year and is not included within the loss on disposal.

The total proceeds received by the Company for the sale of its conventional generation power stations were £1,046 million.

The resultant effect of both of these transactions on individual assets and liabilities on the balance sheet in the prior year is shown below:

	2015 £000 000
Tangible assets	1,341
Stocks	148
Trade debtors	8
Other debtors	74
Trade creditors	(28)
Other liabilities	(106)
Provisions for liabilities	(174)
Net identifiable assets and liabilities	1,263
Deferred tax written off on disposal	26
Consideration received, satisfied in cash	(1,046)
Net loss on disposal	243

13. Intangible assets

	Capitalised Software £000 000	Other intangibles £000 000	Total £000 000
Cost			
At 1 January 2016	4	-	4
Additions	13	5	18
At 31 December 2016	17	5	22
Accumulated amortisation			
At 1 January 2016	-	-	-
At 31 December 2016	-	-	-
Net book value			
At 31 December 2016	**17**	**5**	**22**
At 31 December 2015	4	-	4

There is no amortisation relating to the capitalised software as the projects are ongoing. Amortisation will begin once the projects go live.

Other intangibles relate to emission rights held under national and international emissions rights systems and an asset recognised under IFRIC 12 in relation to the Business to Municipalities segment.

14. Tangible assets

	Freehold land and buildings £000 000	Long leasehold land and buildings £000 000	Plant and machinery £000 000	Fixtures and fittings £000 000	Assets in the course of construction £000 000	Total £000 000
Cost						
At 1 January 2016	24	10	123	7	57	221
Additions	-	-	8	2	3	13
Disposals	-	-	(20)	(2)	(48)	(70)
Transfers	-	-	2	4	(9)	(3)
At 31 December 2016	24	10	113	11	3	161
Accumulated depreciation						
At 1 January 2016	8	1	45	4	48	106
Charge for the year	1	1	4	2	-	8
Disposals	-	-	(20)	(2)	(48)	(70)
At 31 December 2016	9	2	29	4	-	44
Net book value						
At 31 December 2016	**15**	**8**	**84**	**7**	**3**	**117**
At 31 December 2015	16	9	78	3	9	115

Plant and machinery includes capitalised finance costs of £4 million (2015: £4 million) in relation to the Steven's Croft biomass plant.

The closing net book value includes £4 million (2015: £3 million) related to assets associated with the costs of decommissioning the Steven's Croft biomass plant.

One Asset in the course of construction was fully impaired in a previous year and was disposed of during the year.

15. Investment property

	Total £000 000
Cost	
At 1 January 2016	40
Transfers	3
At 31 December 2016	43
Accumulated depreciation	
At 1 January 2016	18
Charge for the year	1
At 31 December 2016	19
Net book value	
At 31 December 2016	**24**
At 31 December 2015	22

The properties that are classified as investment property are predominantly used by other companies within the E.ON group. There are no formal rental agreements and no rent is paid in relation to these properties.

The rent earned from third parties totalled £1 million (2015: £1 million) and there were no expenses relating to these properties (2015: £nil).

	2016 £000 000	2015 £000 000
Fair value	**28**	28

The fair value of investment property was determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued.

The independent valuers provided a fair value of the Company's investment property portfolio on 30 June 2015.

16. Investments

	2016 £000 000	2015 £000 000
Shares in group undertakings and participating interests	**2,260**	2,240
Other investments	**34**	29
	2,294	2,269

Shares in group undertakings and participating interests

	Subsidiary undertakings £000 000
Cost	
At 1 January 2016	3,671
Additions	20
Disposals	(377)
At 31 December 2016	3,314
Provision for impairment	
At 1 January 2016	1,431
Eliminated on disposal	(377)
At 31 December 2016	1,054
Net book value	
At 31 December 2016	**2,260**
At 31 December 2015	2,240

The additions represent the investment in E.ON UK Energy Markets Limited on 23 May 2016.

The disposals represent the investments in subsidiary undertakings that were dissolved during 2016, as part of the Company's ongoing corporate restructuring to simplify its structure.

Other investments	**Listed investments £000 000**
Cost	
At 1 January 2016	29
Additions	11
Disposals	(6)
At 31 December 2016	34
Net book value	
At 31 December 2016	**34**
At 31 December 2015	29

Details of undertakings

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

Undertaking	**Holding**	**Proportion of voting rights and shares held**	**Principal Activity**
Subsidiary undertakings			
E.ON Energy 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 Climate & Renewables UK Limited	Ordinary shares	100%	Intermediate holding company for the Renewables business
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%	Set up phase of an energy procurement business
E.ON Energy Installation Services Limited	Ordinary shares	100%	Installation services for residential customers
Powergen International Limited	Ordinary shares	100%	Investment holding company
:agile accelerator limited	Ordinary shares	100%	Intermediate holding company
Lighting for Staffordshire Holdings Limited	Ordinary shares	60%	Holding company to 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

Undertaking	Holding	Proportion of voting rights and shares held	Principal Activity
Subsidiary undertakings (continued)			
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 Business Services (UK) Limited	Ordinary shares	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	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
Powergen Power No. 1 Limited	Ordinary shares	100%	Dormant company
Powergen Power No. 2 Limited	Ordinary shares	100%	Dormant company
Powergen Weather Limited	Ordinary shares	100%	Dormant company
The Power Generation Company Limited	Ordinary shares	100%	Dormant company

Undertaking	Holding	Proportion of voting rights and shares held	Principal Activity
Subsidiary undertakings in member's voluntary liquidation or dissolved			
E.ON Climate & Renewables Carbon Sourcing Limited	Ordinary shares	100%	In liquidation
E.ON UK Energy Lincoln Limited	Ordinary shares	100%	Dissolved on 2 March 2017
E.ON UK Technical Services Limited	Ordinary shares	100%	Dissolved on 23 February 2017
Powergen (East Midlands) Loan Notes	Ordinary shares	100%	In liquidation

Undertaking	Holding	Proportion of voting rights and shares held	Principal Activity
Indirect holdings			
Citigen (London) Limited	Ordinary shares	100%	Sale of energy services involving the supply of heating hot water and ventilation
E.ON Climate & Renewables UK Biomass Limited	Ordinary shares	100%	Develop and operate biomass energy projects
E.ON Climate & Renewables UK Blyth Limited	Ordinary shares	100%	Offshore windfarm owner
E.ON Climate & Renewables UK Developments Limited	Ordinary shares	100%	Onshore windfarm operation and 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%	Onshore 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%	Non-trading company
E.ON Energy Gas (Eastern) Limited	Ordinary shares	100%	Dormant
E.ON Energy Gas (Northwest) Limited	Ordinary shares	100%	Dormant
E.ON Project Earth Limited	Ordinary shares	100%	Leasing of ground source heating systems
E.ON UK 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
Economy Power Limited	Ordinary shares	100%	Dormant
Energy Collection Services Limited	Ordinary shares	100%	Dormant
Ergon Overseas Holdings Limited	Ordinary shares	100%	Dormant
Lighting for Staffordshire Limited	Ordinary shares	60%	Servicing of street lighting
London Array Limited	Ordinary shares	30%	Joint operator
Novo Innovations Limited	Ordinary shares	100%	Energy solutions company
Powergen Holdings B.V.	Ordinary shares	100%	Holding company
Powergen Serang Limited	Ordinary shares	100%	Dormant
Rampion Offshore Wind Limited	Ordinary shares	50.1%	Offshore windfarm construction and operation
Scarweather Sands Limited	Ordinary A shares	50%	Dormant
TPG Wind Limited	Ordinary B shares	50%	Onshore windfarm operation
TXU Europe (AHST) Limited	Ordinary shares	100%	Dissolved 2 March 2017
Utility Debt Services Limited	Ordinary shares	100%	Dormant
Visioncash	Ordinary A, B and preference shares	100%	Dormant
Yorkshire Windpower Limited	Ordinary A shares	50%	Onshore windfarm operation

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 as follows: London Array Limited has a registered office of Number 22, Mount Ephraim, Tunbridge Wells, Kent, TN4 8AS, Powergen Holdings B.V. is registered in the Netherlands and the companies in member's voluntary liquidation have a registered office of KPMG LLP, 15 Canada Square, Canary Wharf, London, E14 5GL.

17. Stocks

	2016 **£000 000**	2015 £000 000
Stores	**3**	3

As at 31 December 2016 and 31 December 2015 there was no provision for impairment of stocks.

18. Debtors: amounts falling due after more than one year

	2016 **£000 000**	2015 £000 000
Deferred tax	**109**	93
Other debtors	**1**	1
	110	94

Deferred tax

The movement in the deferred tax asset in the year is as follows:

	2016 **£000 000**	2015 £000 000
At 1 January	**93**	104
Deferred tax charged to the profit and loss account	**3**	4
Deferred tax charged to other comprehensive income	**17**	11
Deferred tax written off on pension transfer	**(4)**	(26)
Deferred tax asset at 31 December	**109**	93

Analysis of deferred tax

	2016 £000 000	2015 £000 000
Accelerated capital allowances	**(12)**	(11)
Pension	**121**	96
Other timing differences	**-**	8
Deferred tax asset	**109**	93

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

There are unused capital tax losses of £28 million (2015: £28 million) on which a deferred tax asset has not been recognised and which are available to be carried forward indefinitely.

A deferred tax asset would only be recognised in the event of capital gains within the Company and its group being expected to crystallise within twelve months from the end of the accounting period.

19. Debtors: amounts falling due within one year

	2016 £000 000	2015 £000 000
Trade receivables	**52**	14
Amounts owed by group undertakings	**4,206**	4,876
Commodity and other derivative financial instruments (note 22)	**107**	107
Corporation tax	**-**	2
Other debtors	**18**	25
Other taxation and social security	**30**	39
Prepayments and accrued income	**6**	20
	4,419	5,083

Amounts owed by group undertakings are unsecured, are a combination of interest free and interest bearing, are denominated in Sterling, Euro and US Dollar and are repayable on predetermined dates. Interest bearing loans totalling £3,604 million (2015: £3,953 million) are set within the range of LIBOR minus 5 basis points to LIBOR plus 50 basis points.

Amounts owed by group undertakings include an impairment of £38 million (2015: £nil).

20. Creditors: amounts falling due within one year

	2016 £000 000	2015 £000 000
Bank loans and overdrafts	-	10
Trade payables	7	15
Amounts owed to group undertakings	2,951	3,353
Other taxation and social security	10	14
Accruals and deferred income	52	70
Commodity and other derivative financial instruments (note 22)	101	115
Other creditors	3	9
	3,124	3,586

Amounts owed to group undertakings are unsecured, are a combination of interest free and interest bearing, are denominated in Sterling, Euro and US Dollar and are repayable on predetermined dates. Interest bearing loans totalling £1,504 million (2015: £1,720 million) are set within the range of LIBOR minus 5 basis points to LIBOR plus 45 basis points.

The weighted average interest rate on all short-term bank loans and overdrafts during the year was 1.38% (2015: 1.57%).

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

	2016 £000 000	2015 £000 000
Amounts owed to group undertakings	900	900

Amounts owed to group undertakings are unsecured and relate to a long-term loan of £900 million (2015: £900 million) that is repayable in 2037 and incurs interest at a rate of 6.075% (2015: 6.075%). All amounts owed to group undertakings are non-instalment debts and do not contain any material covenant restrictions.

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

	2016 £000 000	2015 £000 000
In more than five years	900	900

22. Financial instruments

Amounts recognised in respect of derivative financial instruments are as follows:

	Assets		Liabilities	
	2016 £000 000	2015 £000 000	2016 £000 000	2015 £000 000
Foreign currency forward contracts	65	24	(59)	(32)
Commodity forward contracts	42	83	(42)	(83)
	107	107	(101)	(115)

Derivative financial instruments are classified within current assets and current liabilities.

The Company enters into forward foreign currency contracts to mitigate the exchange rate risk of certain foreign currency payables. At December 2016, the outstanding contracts will all mature within 48 months (2015: 30 months) of the year end.

The Company has a long term power purchase and sale agreement with an external counterparty which expires on 30 April 2019. The contract is fully hedged and there is no exposure for the Company in relation to commodity forward contracts.

The notional principal amounts of derivatives are as follows:

	2016 £000 000	2015 £000 000
Foreign currency forward contracts	**332**	157
Commodity forward contracts	**97**	161
	429	318

23. Provisions for liabilities

	Post employment benefits £000 000	**Decommiss-ioning provision £000 000**	**Restructuring /severance provisions £000 000**	**Other provisions £000 000**	**Total £000 000**
At 1 January 2016	526	4	3	35	568
Debited /(credited) to the profit and loss account	67	-	(1)	11	77
Utilised during the year	(343)	-	-	(40)	(383)
Sold to UUK	(26)	-	-	-	(26)
Transfer to other comprehensive income	319	-	-	-	319
At 31 December 2016	**543**	**4**	**2**	**6**	**555**

Decommissioning provisions comprise amounts set aside for the estimated costs of terminating power station grid connections, decommissioning and subsequent site restoration costs at the Steven's Croft power station which will be utilised when the power station closes.

Restructuring provisions relate primarily to the restructuring of central support functions, the majority of which will be utilised during 2017.

Other provisions relate primarily to onerous lease and fuel purchase contract provisions.

Further details on post-employment benefits are provided in note 25.

24. Called up share capital

Allotted and fully paid

	2016 £000 000	2015 £000 000
2,649,241,799 ordinary shares of £0.50	**1,325**	1,325

25. Post-employment benefits

Defined contribution scheme

The Company operates a defined contribution retirement benefit scheme for all qualifying employees not already a pension scheme member and for new employees joining the Company. The assets of the scheme are held separately from those of the Company in an independent administered fund held by the individual members. The total cost charged to the profit and loss account of £3 million (2015: £3 million) represents contributions payable to these schemes by the Company at rates specified in the rules of the plan.

The amount outstanding at 31 December 2016, included within other creditors, relating to pensions contributions to this scheme was £284,000 (2015: £243,000). This related to the contributions for December 2016 which were paid in January 2017.

Defined benefit schemes

At 31 December 2016, the Company had three registered pension schemes and one unfunded unregistered pension scheme. The main company pension scheme is the E.ON UK group of the Electricity Supply Pension Scheme ("the Scheme"). This is a funded scheme with several different benefit categories, largely of the defined benefit type. An actuarial valuation of the Scheme is carried out every three years by the Scheme Actuary, who recommends the rates of contribution payable by participating employers. In intervening years the actuary reviews the continuing appropriateness of the rates.

The latest actuarial valuation of the Scheme was at 31 March 2015. As part of the agreement of the valuation of the Scheme, a deficit repair plan was also agreed. The Company paid £50 million into the Scheme during January 2016 and, in accordance with the deficit repair plan, the Company paid £240 million into the Scheme in December 2016 to be followed by £65 million per annum payable in January each year for the next 10 years.

The amount outstanding at 31 December 2016, included within other creditors, relating to pension contributions to the Scheme was £4 million (2015: £11 million). This related to the contributions for December 2016 which were paid in January 2017.

The Scheme exposes the Company to a number of risks, the most significant of which are:

<u>Asset volatility</u>

The liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this will create a deficit. The Scheme holds a significant proportion of growth assets (equities, diversified growth fund and global absolute return fund) which, though expected to outperform corporate bonds in the long-term, create volatility and risk in the short-term. The allocation to growth assets is monitored to ensure it remains appropriate given the Scheme's long term objectives.

<u>Changes in bond yields</u>

A decrease in corporate bond yields will increase the value placed on the Scheme's liabilities for accounting purposes, although this will be partially offset by an increase in the value of the Scheme's bond holdings.

<u>Inflation risk</u>

The majority of the Scheme's benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation). The majority of the assets are either unaffected by or only loosely correlated with inflation, meaning that an increase in inflation will also increase the deficit.

<u>Life expectancy</u>

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

The amounts recognised in the balance sheet are as follows:

	2016 £000 000	2015 £000 000
Fair value of plan assets	**4,537**	4,074
Present value of funded obligations	**(5,043)**	(4,570)
	(506)	(496)
Present value of unfunded obligations	**(37)**	(30)
Net liability	**(543)**	(526)

Return on plan assets

	2016 £000 000	2015 £000 000
Interest income	**147**	153
Remeasurements	**452**	(144)
Total	**599**	9

Plan assets

The fair value of the plan assets was:

	2016 £000 000	2015 £000 000
Equity instruments	**606**	503
Government bonds	**2,101**	1,749
Corporate bonds	**266**	98
Investment funds	**1,562**	1,572
Property	**-**	151
Cash and cash equivalents	**2**	1
Total	**4,537**	4,074

Actuarial assumptions

Movements in the net defined benefit liability:

	Defined benefit obligation		Fair value of plan assets		Net defined liability	
	2016	2015	**2016**	2015	**2016**	2015
	£000 000	£000 000	**£000 000**	£000 000	**£000 000**	£000 000
Balance at 1 January	**(4,600)**	(4,611)	**4,074**	4,125	**(526)**	(486)
Current service cost	**(43)**	(50)	**-**	-	**(43)**	(50)
Past service cost	**(7)**	(7)	**-**	-	**(7)**	(7)
Interest cost/(income)	**(164)**	(168)	**147**	153	**(17)**	(15)
Total cost recognised as an expense	**(214)**	(225)	**147**	153	**(67)**	(72)
Included in other comprehensive income						
Remeasurements loss/(gain):						
Actuarial loss/(gain) arising from						
- Changes in demographic assumptions	**-**	71	**-**	-	**-**	71
- Change in financial assumptions	**(822)**	5	**-**	-	**(822)**	5
- Experience adjustment	**51**	(40)	**-**	-	**51**	(40)
Return on plan assets excluding interest income	**-**	-	**452**	(144)	**452**	(144)
Total	**(771)**	36	**452**	(144)	**(319)**	(108)
Other						
Contributions paid by the employer	**-**	-	**343**	140	**343**	140
Benefits paid	**204**	200	**(204)**	(200)	**-**	-
Pension scheme transferred on disposal	**301**	-	**(275)**	-	**26**	-
Balance at 31 December	**(5,080)**	(4,600)	**4,537**	4,074	**(543)**	(526)

Sensitivity analysis

The calculation of the defined benefit obligation is sensitive to the assumptions set out below. The following table summarises the impact on the defined benefit obligation at the end of the reporting period as a result of a change in the respective assumptions.

	2016	2015
	£000 000	£000 000
Current reported figure	**543**	526
Following a 0.2% decrease in the discount rate	**746**	680
Following a 0.25% increase in the salary increase assumption	**578**	553
Following a 10% decrease in the mortality rates	**691**	661
Following a 0.25% increase in the pension increase assumption	**729**	659

The sensitivity information shown above has been prepared using the same method as adopted when adjusting the results of the latest funding valuation to the balance sheet date. This is the same approach as has been adopted in previous years.

The Scheme was valued using the following assumptions:

	2016	2015
Discount rate	**2.9%**	3.8%
Average nominal rate of annual increase in salaries	**3.4%**	3.2%
Average nominal rate of annual increase in pensions	**3.2%**	3.0%
RPI inflation rate	**3.4%**	3.2%
CPI inflation rate	**2.3%**	2.1%

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in the UK. These assumptions translate into an average life expectancy in years for a pensioner retiring at age 60:

	2016 Years	2015 Years
Longevity at age 60 for current pensioners		
- Men	**28**	27
- Women	**30**	29
Longevity at age 60 for future pensioners		
- Men	**29**	29
- Women	**31**	31

26. Share based payments

The directors and certain executives of the Company receive share-based payments as part of their voluntary long-term variable compensation. The purpose of such compensation is to reward their contribution to E.ON's growth and to further the long-term success of the E.ON group. This variable compensation component, comprising a long-term incentive effect along with a certain element of risk, provides for a sensible linking of the interests of shareholders and management.

The following reports on the E.ON Share Matching Plan introduced in 2013 and on the multi-year bonus introduced in 2015.

E.ON Share Matching Plan

Since 2013, E.ON has been granting virtual shares under the E.ON Share Matching Plan. At the end of its four-year term, each virtual share is entitled to a cash payout linked to the final E.ON share price established at that time. The calculation inputs for this long-term variable compensation package are equity deferral, basis matching and performance matching.

The equity deferral is determined by multiplying an arithmetic portion of the beneficiary's contractually agreed target bonus by the beneficiary's total target achievement percentage from the previous year. Beneficiaries are additionally granted virtual shares in the context of basis matching and performance matching. For non-members of the Board of Management of E.ON, the proportion of basis matching to the equity deferral is 2:1. The performance-matching target value at allocation is equal to that for basis matching in terms of amount. Performance matching will result in a payout only on achievement of a minimum performance as specified at the beginning of the term by the Board of Management and the Supervisory Board.

In 2015 and 2016, virtual shares from the third and fourth tranche were granted in the context of base matching and performance matching exclusively to members of the Management Board of E.ON SE. Executives were instead granted a multi-year bonus, the terms of which are described further below.

Under the plan's original structure, the amount paid out under performance matching was to be equal to the target value at issuance if the E.ON share price was maintained at the end of the term and if the average ROACE performance matched a target value specified by the Board of Management and the Supervisory Board. If the average ROACE during the four-year term exceeded the target value, the number of virtual shares granted under performance matching increases up to a maximum of twice the target value. If the average ROACE had fallen short of the target value, the number of virtual shares, and thus also the amount paid out, were to decrease.

In 2016, the plan was changed to the effect that for periods from 2016 onwards, ROCE was used instead of ROACE for measuring performance. Accordingly, new targets were defined for 2016 and subsequent years. At the same time, the previous ROACE target achievement for the previous years will be included in the total performance of the respective tranches on a pro-rata basis. In the event of a defined underperformance, there is no payout under performance matching.

A payout generally will not take place until after the end of the four-year term. This applies even if the beneficiary retires beforehand, or if the beneficiary's contract is terminated on operational grounds or expires during the term. A payout before the end of the term will take place in the event of a change of control or on the death of the beneficiary. If the service or employment relationship ends before the end of the term for reasons within the control of the beneficiary, all virtual shares, except for those that resulted from the equity deferral, expire.

At the end of the term, the sum of the dividends paid to an ordinary shareholder during the term is added to each virtual share. The maximum amount to be paid out to a plan participant is limited to twice the sum of the equity deferral, the base matching and the target value under performance matching.

The 60-day average prices are used to determine both the target value at issuance and the final price in order to mitigate the effects of incidental, short-lived price movements. To offset the change in value resulting from the spinoff of Uniper, both the 60-day average price of an E.ON share and the total dividends paid to a shareholder will be multiplied by a correction factor at the end of the term.

The plan contains adjustment mechanisms to eliminate the effect of events such as interim corporate actions.

The following are the base parameters of the tranches active in 2016 under these plan terms:

	1st Tranche	2nd Tranche
Date of issuance	April 2013	April 2014
Term	4 years	4 years
Target value at issuance	€13.31	€13.65

The 60-day average of the E.ON share price as of the balance sheet date is used to measure the fair value of the virtual shares. In addition, the change in ROCE is simulated for performance matching. The provision for the first and second tranches of the E.ON Share Matching Plan as of the balance sheet date is £3 million (2015: £3 million).

Multi-Year Bonus

In 2015 and 2016, E.ON extended to those executives who in previous years had been granted virtual shares in the context of base matching and performance matching a multi-year bonus extending over a term of four years. Beneficiaries were informed individually of the target value of the multi-year bonus.

For executives in the E.ON Group, the amount paid out is equal to the target value if the E.ON share price at the end of the term is equal to the E.ON share price after the spinoff of Uniper. If the share price is higher or lower than the share price after the spinoff, the amount paid out relative to the target value will increase or decrease in equal proportion to the change in the share price, but in no event shall the pay out be higher than twice the target value.

A payout generally will not take place until after the end of the four-year term. This applies even if the beneficiary retires beforehand, or if the beneficiary's contract is terminated on operational grounds or expires during the term. A payout before the end of the term will take place in the event of a change of control or on the death of the beneficiary. If the service or employment relationship ends before the end of the term for reasons within the control of the beneficiary, there is no entitlement to a multi-year bonus payout.

The 60-day average prices are used to determine both the share price after the spinoff and the final price in order to mitigate the effects of incidental, short-lived price movements.

The plan contains adjustment mechanisms to eliminate the effect of events such as interim corporate actions.

The provision for the multi-year bonus as at the balance sheet date is £2 million (2015: £1 million).

27. Contingent liabilities

The Company has issued guarantees to third parties to support its subsidiaries' activities, particularly around the development of Renewables projects, gas and power procurement and banking activities. The amount guaranteed is £306 million (2015: £952 million).

The Company is aware of claims in respect of current and former employees, including former employees of the CEGB, and contractors in respect of industrial illness and injury and other potential claims which involve or may involve legal proceedings against the Company. The directors are of the opinion, having regard to legal advice received, the Company's insurance arrangements and provisions held, as appropriate, that it is unlikely that the matters referred to above will have a material effect on the Company's financial position results of operations or liquidity.

In the normal course of business the Company gives certain other indemnities and guarantees which are not considered to be material in the context of these financial statements and on which no losses are anticipated to arise.

28. Commitments

Capital commitments

There were no amounts contracted for but not provided for in these financial statements (2015: £4 million).

Operating lease commitments

As at 31 December, the Company had the following future minimum lease payments under non-cancellable operating leases as follows:

Operating leases which expire:

	2016 **£000 000**	2015 £000 000
Land and buildings		
Not later than one year	**7**	7
Later than one year and not later than five years	**27**	24
Later than five years	**24**	23
Other		
Not later than one year	**9**	9
Later than one year and not later than five years	**15**	11
	82	74

Other commitments

The Company has commitments to sell all power generated to UGC. The volumes generated are at the discretion of UGC and therefore this commitment cannot be quantified.

The Company is also committed to purchasing power under various power purchase agreements. At 31 December 2016, the estimated minimum, commitment for the supply of power under these contracts totalled £759 million (2015: £1,078 million).

29. Post balance sheet events

On 5 June 2017, the Company declared an interim dividend of £160 million for the year ending 31 December 2017.

30. Related party transactions

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

UUK

During the final quarter of 2016, the Company recharged UUK £2,690,000 of gross margin costs for transactions prior to the disposal of the conventional generation assets. The balance outstanding at the year end was a receivable of £3,404,000.

UGC

The Company had income of £36,804,000 and costs of £10,608,000 relating to the Generation transfer pricing mechanism. These amounts are offset by balances with E.ON UK CHP Limited, E.ON UK Cogeneration Limited and Citigen (London) Limited.

The Company had income of £78,503,000 relating to the Renewables transfer pricing mechanism. The balance outstanding at the year end was a receivable of £44,403,000.

Uniper Energy Trading UK Staff Company Limited

The Company recharged £1,999,000 relating to a deficit payment for the Cross Border Pension Scheme. The balance outstanding at the year end was a receivable of £144,000.

Uniper Technologies Limited

Provided engineering services to the Company amounting to £453,000 during the year. The balance outstanding at the year end was a receivable of £732,000.

31. Ultimate parent

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

E.ON SE
Brüsseler Platz 1
45131 Essen
Germany