E.ON UK CHP LIMITED

STRATEGIC REPORT, DIRECTORS' REPORT AND FINANCIAL STATEMENTS

for the Year Ended 31 December 2015

Registered No: 02684288

E.ON UK CHP LIMITED
STRATEGIC REPORT
for the Year Ended 31 December 2015

The directors present their strategic report of the Company for the year ended 31 December 2015.

Fair review of the business

Difficult trading conditions have continued to hinder the results of the Company during the year and these economic factors, when combined with operational issues, have resulted in performance below expected levels.

During 2014, the Company closed its Stoke Combined Heat and Power ("CHP") site to make the business more efficient and agile in the current economic environment. The ongoing review of this position has resulted in an increase in the onerous contract provision for the remaining contract of £770,000 (2014: £1,507,000) and an impairment charge of £352,000 (2014: £5,542,000) being recognised in these financial statements.

In 2013, the Company disposed of its Winnington CHP plant to a third party. The resulting profit on disposal was net of several provisions relating to indemnities provided in the asset purchase agreement for pension costs and the condition of the CHP asset at transfer. During the year, the status of the underlying liabilities was reviewed and resulted in a release of £800,000 relating to pension liabilities and a release of £5,000,000 relating to asset warranties.

The Company continues to review its contractual obligations and there are no plans at present to initiate any new CHP development projects. At 31 December 2015, the Company had net assets of £21,412,000 (2014: net assets of £66,577,000). Further information regarding the financial position of the Company at the year end is provided in the Directors' Report.

Principal risks and uncertainties

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

The key business risks and uncertainties affecting the Company are considered to relate to commodity prices, credit risks and asset performance. The management of risks is undertaken at the E.ON SE consolidated ('group') level. Further discussion of these risks and uncertainties, in the context of the group as a whole, is provided within the financial review section of the group's annual report which does not form part of this report.

Key performance indicators ('KPIs')

The Board of Management of E.ON SE manages the group's operations on a divisional basis. For this reason, the Company's directors believe that analysis using KPIs 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 Regional Unit UK division of E.ON SE, which includes the Company, are discussed within the group's annual report which does not form part of this report. The directors do not believe there are any further relevant KPIs that are not already disclosed within these financial statements.

Approved by the Board of Directors on 22 September 2016 and signed on its behalf by:

J T Lightfoot

J T Lightfoot
Director

E.ON UK CHP Limited
Company No: 02684288
Westwood Way
Westwood Business Park
Coventry
CV4 8LG

E.ON UK CHP LIMITED
DIRECTOR'S REPORT
for the Year Ended 31 December 2015

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2015.

Directors of the Company

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

J T Lightfoot (appointed 28 January 2016)
J A Ireton (appointed 22 August 2016)
M G Wake (appointed 22 August 2016)
D A Leiper (resigned 28 January 2016)
R J Pennells (resigned 18 May 2016)
R Matthies (resigned 31 May 2016)

Principal activity

The Company's principal activity during the year and at the year end was the sale of energy and related services, primarily from the operation of CHP plant.

Results and dividends

The Company's profit for the financial year is £4,835,000 (2014: loss of £8,863,000). An interim dividend of £50,000,000, (£25,000,000 per ordinary share) (2014: £nil) was paid during the year. The directors do not recommend the payment of a final dividend (2014: £nil).

Financial risk management

Objectives and policies

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

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

The management of risks is undertaken at the E.ON SE group level. Further discussion of these risks and uncertainties, in the context of the group as a whole, is provided within the financial review section of the group's annual report which does not form part of this report.

Political donations

No political donations were made during the year (2014: £nil).

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 financial statements.

Disclosure of information to auditors

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

Statement of directors' responsibilities

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

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

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing 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, including FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of 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 the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approved by the Board of Directors on 22 September 2016 and signed on its behalf by:

J T Lightfoot

J T Lightfoot
Director

E.ON UK CHP Limited
Company No: 02684288
Westwood Way
Westwood Business Park
Coventry
CV4 8LG

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

Report on the financial statements

Our opinion

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

- give a true and fair view of the state of the Company's affairs as at 31 December 2015 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 Financial Statements (the "Annual Report"), comprise:

- the balance sheet as at 31 December 2015;
- the profit and loss account for the year then ended;
- the 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.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion 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.

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.

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

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 3, 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 & 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.

Simon Evans

Simon Evans (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham

Date 22 September 2016

E.ON UK CHP LIMITED
PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2015

	Note	**Year ended 31 December 2015 £000**	Year ended 31 December 2014 £000
Turnover	2	**35,251**	43,762
Cost of sales		**(28,118)**	(34,080)
Gross profit		**7,133**	9,682
Administrative expenses		**(10,295)**	(11,915)
Impairment of fixed assets		**(352)**	(5,542)
Onerous contract and finance lease termination provision	3	**5,090**	(607)
Other operating income/(expense)		**1,462**	(592)
Operating profit/(loss)	3	**3,038**	(8,974)
Profit on disposal of fixed assets	5	**1,212**	-
Interest receivable and similar income	7	**1,305**	1,440
Interest payable and similar charges	8	**(939)**	(1,145)
Profit/(loss) on ordinary activities before taxation		**4,616**	(8,679)
Tax on profit/(loss) on ordinary activities	9	**219**	(184)
Profit/(loss) for the year		**4,835**	(8,863)

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

The notes on pages 9 to 25 form part of these financial statements.

E.ON UK CHP LIMITED
BALANCE SHEET
as at 31 December 2015

	Note	**2015 £000**	2014 £000
Fixed assets			
Intangible assets	10	**-**	115
Tangible assets	11	**17,199**	20,182
Investments	12	**6,360**	6,360
		23,559	26,657
Current assets			
Stocks	13	**975**	2,019
Debtors: amounts falling due after one year	14	**6,816**	10,730
Debtors: amounts falling due within one year	15	**79,548**	110,367
		87,339	123,116
Creditors: amounts falling due within one year	16	**(67,548)**	(48,788)
Net current assets		**19,791**	74,328
Total assets less current liabilities		**43,350**	100,985
Provisions for liabilities	17	**(21,938)**	(34,408)
Net assets		**21,412**	66,577
Capital and reserves			
Called up share capital	18	**-**	-
Profit and loss account		**21,412**	66,577
Total shareholders' funds		**21,412**	66,577

The financial statements on pages 6 to 25 were approved by the Board of Directors on 22 September 2016 and signed on its behalf by:

J T Lightfoot

J T Lightfoot
Director
E.ON UK CHP Limited
Company No: 02684288

The notes on pages 9 to 25 form part of these financial statements.

E.ON UK CHP LIMITED
STATEMENT OF CHANGES IN EQUITY
as at 31 December 2015

	Called up share capital £000	Profit and loss account £000	Total shareholders' funds £000
At 1 January 2014	-	75,440	75,440
Loss for the financial year	-	(8,863)	(8,863)
At 31 December 2014	-	66,577	66,577
Profit for the financial year	-	4,835	4,835
Dividends and total transactions with owners recognised directly in equity		(50,000)	(50,000)
At 31 December 2015	**-**	**21,412**	**21,412**

The notes on pages 9 to 25 form part of these financial statements.

1. Accounting policies

General Information

The Company sells energy and related services, primarily from the operation of CHP plant.

The Company is a private limited company and is incorporated and domiciled in the UK.

Basis of preparation of financial statements

This is the first year that the Company has prepared financial statements in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' ('FRS 101'). Further information relating to the impact of the conversion is disclosed in note 22. These financial statements have been prepared under the going concern basis, historical cost convention and in accordance with the Companies Act 2006 as applicable to companies using FRS 101. The principal accounting policies, which have been applied consistently throughout the year, are set out below.

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

- The requirements of IAS 1 Presentation of Financial Statements
- The requirements of IAS 7 Statement of Cash Flows
- The requirements of Paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- The requirements of Paragraph 17 of IAS 24 Related Party Disclosures (key management compensation)
- The requirements of IAS 24 Related party disclosures to disclose related party transactions entered into between two or more members of a group
- The requirements of IFRS 7 Financial Instruments: Disclosures
- 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)

Exemption from preparing group financial statements

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

Going concern

These financial statements have been prepared on the going concern basis. The directors of the Company believe that there are no material uncertainties that may cast significant doubt about the ability of the Company to continue as a going concern. The directors of the Company also believe that the Company has adequate resources to continue in operational existence for the foreseeable future.

Change in accounting policy

The accounting policy for the recognition of expenses relating to the operation and maintenance contracts was changed during the year to offset the expenses relating to these contracts against the income. The adjustment has reduced Administrative expenses by £10,238,000 (2014: £10,137,000), reduced Cost of sales by £446,000 (2014: £700,000) and hence reduced Other operating income by £10,684,000 (2014: £10,837,000).

Other operating income/(expense)

Other operating income/(expense) predominantly relates to the provision of operation and maintenance services for industrial customers. Income is recognised when earned on the basis of a contractual agreement with the customer. All operating expenses associated with these contracts are netted off within Other operating income/(expense) as set out in the Change in accounting policy note above. Other operating income/(expense) excludes value added tax.

Turnover

Turnover predominantly comprises revenue from the sale of electricity and steam to industrial customers, along with other income streams directly related to the operation of the plant portfolio. Turnover is recognised when earned on the basis of a contractual agreement with the customer. It reflects the value of the volume supplied. Turnover excludes value added tax.

Intangible fixed assets

Other intangibles relate to Levy Exemption Certificates (LECs), which are purchased from other group companies, capitalised at their acquisition cost and classified as an asset on the balance sheet. The consumption of LECs is recognised when they are sold on to other group companies.

Accrued income

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

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. Plant and machinery relate primarily to generating assets.

Depreciation is provided on tangible fixed assets so as to write off the cost or valuation, less any estimated residual value, over their expected usefully economic lives as follows:

Asset class	**Depreciation method and rate**
Plant and machinery	Straight line basis over 2 to 40 years

Estimated useful lives are reviewed periodically.

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. Value in use 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.

Impairments are recognised in the profit and loss account and, where material, are disclosed separately.

If the reasons for previously recognised impairment losses no longer exist, such impairment losses are reversed and recognised in the profit and loss account. Such reversal shall not cause the carrying amount to exceed the amount that would have resulted had no impairment taken place in previous years.

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.

Decommissioning costs

The fair value of a liability arising from the decommissioning of an asset is recognised in the period in which it is incurred and 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 fixed 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.

Fixed asset investments

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

Stocks

Stocks are 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.

Foreign currency

Transactions in foreign currencies are recorded at the exchange rate ruling at the date of the transaction, unless related or matching forward foreign exchange contracts have been entered into, when the rate specified in that contract is used. Monetary assets and liabilities denominated in foreign currencies are retranslated at the closing rates at the balance sheet date. All exchange differences are included in the profit and loss account.

Inter-company balances

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

Offsetting

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

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 in the balance sheet as a provision is the best estimate of the expenditure required to settle a present obligation at the balance sheet date. 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. 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 risk specific to the liability.

Future operating costs are not provided for.

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.

Current and deferred income tax

The tax credit for the year comprises current tax and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in shareholders' funds. In this case, the tax is also recognised in other comprehensive income or directly in shareholders' funds, respectively. The current income tax credit is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in respect of the relevant years, in the countries where the Company operates and generates taxable income.

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

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

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

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

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.

Finance leases

For assets leased out under a finance lease, the present value of the lease payments is recognised as a debtor at the amount of the net investment in the lease.

Lease payments receivable are apportioned between repayments of capital and interest so as to give a constant rate of return on the net investment in the lease.

Pensions

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

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

2. Turnover

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

3. Operating profit/(loss)

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

	2015 £000	2014 £000
Operating lease	**139**	113
Depreciation of owned assets (note 11)	**3,280**	2,805
Foreign currency losses/(gains)	**6**	(328)
Impairment of tangible fixed assets (note 11)	**352**	5,542
Onerous contract and finance lease termination provision	**(5,090)**	607
Stocks recognised as expense	**1,075**	1,336
Write down of stocks	**329**	222

At 31 December 2015, a review of the appropriateness of the carrying value of the Company's plant portfolio was undertaken, in accordance with IAS 36 'Impairment of assets'. The cash flows used in this impairment review were based on approved budgets and discounted at the E.ON UK plc group's cost of capital for CHP operations over a period of 8 years. As a result of the review, an impairment charge of £352,000 (2014: charge of £5,542,378) has been recorded in these financial statements. A tax credit of £70,000 (2014: credit of £1,177,000) arose in respect of this item. The discount rate used to calculate the impairment charge is a post-tax rate of 6.3% (2014: 6.6%).

Upon the termination of the Winnington CHP lease in 2013, and as part of the profit on disposal, several provisions were established. During the year, these provisions were reviewed and released as follows: £5,000,000 (2014: £nil) relating to CHP asset warranties; £800,000 (2014: £nil) relating to pension costs of employees no longer employed by the third party; and £60,000 relating to the meter provided to Holford Gas Storage following completion of certain works (2014: £900,000).

During 2014, the Company closed the Stoke CHP site. The ongoing review of this position has resulted in an increase in the onerous contract provision for the remaining contract of £770,000 (2014: £1,507,000)

4. Auditors' remuneration

Auditors' remuneration for the audit of these financial statements of £15,000 (2014: £15,000) was borne by the immediate parent undertaking, E.ON UK plc, and not recharged.

5. Exceptional items

	2015 £000	2014 £000
Profit on sale of fixed assets	**(1,212)**	-

Following the closure of the Stoke CHP site in 2014, disposals during the year generated a profit on sale of fixed assets of £1,212,000 (2014: £nil).

6. Employee information

The monthly average number of persons (excluding directors) employed by the Company or the E.ON UK plc group in respect of the Company during the year is set out below. In addition, £163,000 (2014: £333,000) of central salary costs associated with CHP activities in the UK was recharged to the Company and £588,000 (2014: £511,000) was recharged by the Company to other companies within the E.ON UK plc group.

	2015 Number	2014 Number
Administration and support	**21**	21
Other departments	**81**	70
	102	91

The aggregate payroll costs were as follows:

	2015 £000	2014 £000
Wages and salaries	**4,295**	4,542
Social security costs	**532**	476
Other pension costs	**1,888**	1,472
	6,715	6,490

Aggregate payroll costs include amounts recognised in Other operating income relating to the operation and maintenance service contracts of £3,351,000 (2014: £3,388,000)

The directors received no emoluments from the Company during the year (2014: £nil) in respect of services to the Company.

7. Interest receivable and similar income

	2015 £000	2014 £000
Interest receivable from group undertakings	**223**	129
Finance lease interest receivable	**1,082**	1,311
	1,305	1,440

8. Interest payable and similar charges

	2015 £000	2014 £000
Interest payable to group undertakings	**1**	1
Interest - provision unwind on contract based provision	**887**	1,072
Interest - provision unwind on decommissioning provision	**51**	72
	939	1,145

9. Tax on profit/(loss) on ordinary activities

	2015 £000	2014 £000
Current tax:		
UK corporation tax credit on profits/(losses) for the year	**(312)**	(389)
Adjustment in respect of prior years	**(232)**	5
Total current tax credit	**(544)**	(384)
Deferred tax:		
Origination and reversal of timing differences	**1,287**	(1,774)
Deferred tax asset not recognised on timing differences	**(2,338)**	2,338
Adjustment in respect of prior years	**1,331**	4
Impact of change in tax rates	**45**	-
Total deferred tax charge	**325**	568
Tax (credit)/charge on profit/(loss) on ordinary activities	**(219)**	184

Factors affecting tax (credit)/charge for the year

The tax expense for the year is higher (2014: higher) than the standard rate of corporation tax in the UK for the year ended 31 December 2015 of 20.25% (2014: 21.50%). The differences are explained below:

	2015 £000	2014 £000
Profit/(loss) on ordinary activities before taxation	**4,616**	(8,679)
Tax charge/(credit) on profit/(loss) on ordinary activities before taxation at 20.25% (2014: 21.50%)	**935**	(1,866)
Effects of:		
Movement due to changes in tax laws and rates	**4**	130
Initial recognition exemption	**93**	-
Deferred tax asset not recognised on timing differences	**(2,338)**	2,338
Income not subject to tax	**(12)**	(427)
Adjustment in respect of prior years - deferred tax	**1,331**	4
Adjustment in respect of prior years - current tax	**(232)**	5
Tax (credit)/charge for the year	**(219)**	184

The tax rate for the current year is lower than the prior year due to changes in the UK corporation tax rate which decreased from 21% to 20% from 1 April 2015 resulting in a standard rate of corporation tax in the UK of 20.25% for the year ended 31 December 2015.

Reductions to the UK corporation tax rates were included in the Finance Act (No. 2) 2015. These reduce the main rate to 19% from 1 April 2017 and to 18% from 1 April 2020. These changes were substantively enacted at the balance sheet date and the deferred tax impact of these changes have been included in these financial statements. A further reduction in the UK corporation tax rate was announced in the March 2016 Budget Statement to reduce the rate to 17% from 1 April 2020 (instead of the previously announced 18% rate). This further change has not been substantively enacted at the balance sheet date and therefore the impact has not been included in these financial statements.

The proposed further reduction in the rate of corporation tax to 17% from 1 April 2020 is expected to be enacted as part of the Finance Bill 2016. The overall effect of this further change, if applied to the deferred tax balance at the balance sheet date, would be to reduce the deferred tax liability provided at the balance sheet date by £21,000.

The corporation tax receivable has been reduced by £544,000 (2014: receipt of £384,000) because of group relief surrendered to a fellow group undertaking for which a payment will be received. Accordingly no tax losses are available for carry forward.

10. Intangible assets

	Other intangibles £000
Cost	
At 1 January 2015	115
Disposals	(115)
Accumulated amortisation	
At 1 January 2015	-
At 31 December 2015	-
Net book value	
At 31 December 2015	-
At 31 December 2014	115

Other intangibles relate to LECs.

11. Tangible assets

	Plant and machinery £000
Cost or valuation	
At 1 January 2015	95,296
Additions	649
Disposals	(7,376)
At 31 December 2015	88,569
Accumulated depreciation	
At 1 January 2015	75,114
Charge for the year	3,280
Disposals	(7,376)
Impairment	352
At 31 December 2015	71,370
Net book value	
At 31 December 2015	17,199
At 31 December 2014	20,182

Additions include £120,000 (2014: £185,000) resulting from a change in accounting estimate for the decommissioning provision. The closing net book value includes £237,000 (2014: £550,000) relating to the assets associated with the cost of decommissioning the sites.

12. Investments

	2015 £000	2014 £000
Shares in group undertakings and participating interests	**6,360**	6,360

	Subsidiary undertakings £000
Cost or valuation	
At 1 January 2015	35,506
At 31 December 2015	35,506
Provision for impairment	
At 1 January 2015	29,146
At 31 December 2015	29,146
Net book value	
At 31 December 2015	6,360
At 31 December 2014	6,360

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 UK Cogeneration Limited	Ordinary shares	100%	Sale of energy services involving the operation of CHP plants
Citigen (London) Limited	Ordinary shares	100%	Sale of energy services involving the supply of heating, hot water and ventilation

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

All of the undertakings disclosed above are incorporated in the United Kingdom.

13. Stocks

	2015 £000	2014 £000
Fuel stocks	**122**	122
Stores	**853**	1,897
	975	2,019

Stores are stated net of provision for impairment of £1,714,000 (2014: £1,385,000).

14. *Debtors: amounts falling due after one year*

	2015 £000	2014 £000
Finance lease receivables (note 251)	**6,816**	10,730

15. Debtors: amounts falling due within one year

	2015 £000	2014 £000
Trade receivables	**7,296**	9,314
Amounts owed by group undertakings	**68,006**	98,240
Finance lease receivables (note 251)	**3,914**	2,757
Other debtors	**331**	5
Prepayments and accrued income	**1**	51
	79,548	110,367

Amounts owed by group undertakings include a loan to E.ON UK plc of £67,321,700 (2014: £42,693,000) which is unsecured, bears interest at a rate of LIBOR minus 5 basis points, rolls forward (in principle and interest) on a daily basis, and is drawn from a credit facility of £80,000,000 which expires in December 2016. All other amounts are unsecured, interest free and repayable on demand.

Trade receivables are stated after provision for impairment of £1,361,000 (2014: £nil).

16. Creditors: amounts falling due within one year

	2015 £000	2014 £000
Bank loans and overdrafts	**-**	590
Trade payables	**1,507**	291
Amounts owed to group undertakings	**62,706**	42,558
Other taxation and social security	**1,084**	1,167
Accruals and deferred income	**2,251**	4,182
	67,548	48,788

Amounts owed to group undertakings include loans from E.ON UK plc of €1,965,000 (2014: €240,000) and US$208,000 (2014: US$149,000), both of which are unsecured, bear interest at a rate of LIBOR plus 50 basis points and currently roll forward (principal and interest) on a daily basis. All other balances are unsecured, interest free and repayable on demand.

17. Provisions for liabilities

	Deferred tax £000	Emissions obligation provisions £000	Decommissioning provisions £000	Contract based provisions £000	Other provisions £000	Total £000
At 1 January 2015	-	2,110	4,017	13,141	15,140	34,408
Debited/(credited) to the profit and loss account	325	1,087	-	1,282	(7,718)	(5,024)
Utilised during the year	-	(2,417)	-	(5,921)	(166)	(8,504)
Accretion of discount	-	-	51	887	-	938
Additions to tangible assets	-	-	120	-	-	120
At 31 December 2015	**325**	**780**	**4,188**	**9,389**	**7,256**	**21,938**

Emissions obligation provisions represent amounts payable to national authorities for emissions made during the year. Emissions obligations are settled on an annual basis.

Decommissioning provisions comprise amounts set aside for the estimated costs of decommissioning CHP plants and subsequent site restoration costs at CHP plants which will be utilised as each CHP plant closes. The amount capitalised in tangible assets relates to a change in the estimated cost of decommissioning the plant and to a change in the discount rate. The provision will be utilised when the sites are closed between 2017 and 2023.

Contract based provisions relate to the Stoke and Kemsley CHP sites. No tax credit or charge arose as a result of the creation of this provision. The provision for Stoke CHP will be utilised by the end of 2016. The provision for Kemsley CHP is utilised monthly, reviewed annually and it is expected to be utilised by the end of 2019.

Other provisions relate primarily to costs associated with the disposal of the Winnington CHP site. The provision is reviewed annually and is expected to be utilised by the end of 2016.

Analysis of deferred tax

The opening and closing deferred tax positions can be reconciled as follows:

	2015 £000	2014 £000
Difference between accumulated depreciation and amortisation and capital allowances	1,235	196
Other timing differences	(910)	(2,534)
Deferred tax asset not recognised on fixed asset and other timing differences	-	2,338
Provision for deferred tax at 31 December 2015	325	-

The Finance Act 2013 included legislation to reduce the main rate of corporation tax to 20% with effect from 1 April 2015. The Finance Act (No. 2) 2015 further reduced the main rate to 19% from 1 April 2017 and to 18% from 1 April 2020. The deferred tax asset at 31 December 2015 has been measured accordingly.

Within the deferred tax charge of £325,000, the amount that relates to the change in the tax rate is a £45,000 charge.

There are no unused tax losses or tax credits.

18. Called up share capital

	2015 £000	2014 £000
Allotted, called-up and fully paid		
2 ordinary shares of £1.00 each	-	-

19. Dividends

	2015 £000	2014 £000
Dividends paid		
Current year interim dividend paid 2015: £25,000,000 (2014: £nil) per ordinary share	**50,000**	-

20. Pension schemes

The Company participates in a funded group pension scheme operated by E.ON UK plc, which is part of an industry wide scheme, the Electricity Supply Pension Scheme. The pension scheme is primarily of the defined benefit type and its assets are held in a separate trustee-administered fund.

The fund is valued every three years by a professionally qualified, independent actuary, the rates of contribution payable being determined by the actuary. In the intervening years the actuary reviews the appropriateness of the rates. The latest actuarial valuation of the scheme was at 31 March 2010. Discussions with regard to the 31 March 2013 valuation were ongoing, however a new valuation as at 31 March 2015 was initiated in order to reflect the group strategy that was announced by E.ON SE in late 2014. The 31 March 2013 valuation has become an administrative exercise to be completed when the outcome of the new valuation is agreed.

Due to the complexity of actuarial calculations and the number of different companies contributing to the scheme, the Company is unable to identify its share of the underlying assets and liabilities in the scheme. Consequently, the Company accounts for the scheme as a defined contribution scheme. The cost of contributions to the scheme in the year amounts to £1,888,000 (2014: £1,472,000).

Further details of the scheme are available in E.ON UK plc's financial statements. Due to a deficit in the scheme, E.ON UK plc made a special contribution of £65,000,000 in January 2015 and £50,000,000 in January 2016. At the point that the 2015 valuation is completed, a further schedule of contributions will be agreed. None of this cost is expected to be recharged to the Company.

21. Additional disclosures on financial instruments

Finance lease receivables

The finance lease granted by the Company arose on the provision of a CHP plant at one client site and which provides steam and power to one principal client. The lease ends in 2019 and the lessee has the option to acquire the site at the end of the lease. The maturities of the finance lease are set out in the following table:

	2015 £000	2014 £000
Net investment in finance lease comprises:		
Total amounts receivable	**12,313**	16,152
Less: Interest allocated to future periods	**(1,583)**	(2,665)
	10,730	13,487
Finance lease – gross receivables due within one year	**3,914**	2,757
Finance lease – gross receivables due after one year	**6,816**	10,730
	10,730	13,487

22. Explanation of transition to FRS 101

As stated in note 1, these are the Company's first financial statements prepared in accordance with FRS 101.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 31 December 2015, the comparative information presented in these financial statements for the year ended 31 December 2014 and in the preparation of an opening FRS 101 balance sheet at 1 January 2014 (the Company's date of transition).

In preparing its FRS 101 balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to FRS 101 has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Reconciliation of equity

		1 January 2014			**31 December 2014**		
		UK GAAP	Effect of transition to FRS 101	FRS 101	**UK GAAP**	**Effect of transition to FRS 101**	**FRS 101**
	Note	£000	£000	£000	**£000**	**£000**	**£000**
Fixed assets							
Intangible assets		1,122	-	1,122	**115**	**-**	**115**
Tangible fixed assets	*(a)*	28,957	(2,416)	26,541	**21,771**	**(1,589)**	**20,182**
Investments		6,360	-	6,360	**6,360**	**-**	**6,360**
		36,439	(2,416)	34,023	**28,246**	**(1,589)**	**26,657**
Current assets							
Stocks		3,122	-	3,122	**2,019**	**-**	**2,019**
Debtors: amounts falling due after one year	*(a)*	3,058	10,998	14,056	**-**	**10,730**	**10,730**
Debtors: amounts falling due within one year	*(a)*	90,232	2,452	92,684	**107,610**	**2,757**	**110,367**
		96,412	13,450	109,862	**109,629**	**13,487**	**123,116**
Creditors: amounts due within one year		(27,971)	-	(27,971)	**(48,787)**	**(1)**	**(48,788)**
Net current assets		68,441	13,450	81,891	**60,842**	**13,486**	**74,328**
Total assets less current liabilities		104,880	11,034	115,914	**89,088**	**11,897**	**100,985**
Provisions for liabilities	*(a) and (b)*	(27,307)	(13,167)	(40,474)	**(22,774)**	**(11,634)**	**(34,408)**
Net assets		77,573	(2,133)	75,440	**66,314**	**263**	**66,577**
Capital and reserves							
Called up share capital		-	-	-	**-**	**-**	**-**
Profit and loss account	*(a) and (b)*	77,573	(2,133)	75,440	**66,314**	**263**	**66,577**
Shareholders' equity		77,573	(2,133)	75,440	**66,314**	**263**	**66,577**

Notes to the reconciliation of equity

a) Under UK GAAP a certain supply contract was treated as a fixed asset. IFRIC 4 and IAS 17 requires this contract to be recognised as a lease. All relevant fixed assets were removed from the balance sheet and replaced with the appropriate finance lease asset and associated provision for this contracts.

The finance lease asset represents the amounts due from the lessee for the lease of the CHP asset split between current and future years. At 31 December 2013 and 31 December 2014, the valuation of the contract was lower than the value of the finance lease asset and the difference between the valuation and the existing lease asset value was reflected in a contract based provision.

b) The Company has deferred tax balances. FRS 19 follows a 'timing difference' approach, whereas IAS 12 follows a 'temporary difference' approach which led to differences.

Reconciliation of profit for 2014

	Note	UK GAAP £000	2014 Effect of transition to FRS 101 £000	FRS 101 £000
Turnover	(a)	47,526	(3,764)	43,762
Cost of sales	(a)	(36,686)	2,606	(34,080)
Gross profit		**10,840**	**(1,158)**	**9,682**
Administrative expenses	(a)	(12,396)	481	(11,915)
Impairment of fixed assets	(a)	(5,887)	345	(5,542)
Onerous contract provision and finance lease termination provision	(a)	(1,507)	900	(607)
Other operating expense		(592)	-	(592)
Operating loss		**(9,542)**	**568**	**(8,974)**
Interest receivable and similar income	(a)	130	1,310	1,440
Interest payable and similar charges	(a)	(73)	(1,072)	(1,145)
Profit on disposal of fixed assets - discontinued operations	(a)	900	(900)	-
Loss on ordinary activities before taxation		**(8,585)**	**(94)**	**(8,679)**
Tax on loss on ordinary activities	(b)	(2,674)	2,490	(184)
Loss for the financial year		**(11,259)**	**2,396**	**(8,863)**

The "UK GAAP" figures above have been restated to reflect the following changes in presentation:
i) Costs associated with the operation and maintenance contracts are now offset against Other operating income/(expense) (note 1). The adjustment has reduced Administrative expenses by £10,137,000, reduced Cost of sales by £700,000 and hence reduced Other operating income by £10,837,000.
ii) The release of a provision established as part of a fixed asset sale in 2013 which was included as part of Administrative expenses has been shown as a reduction in the Profit on disposal of fixed assets.

Notes to the reconciliation of profit

a) Under UK GAAP a certain supply contract was treated as a fixed asset. IFRIC 4 and IAS 17 requires this contract to be recognised as a lease. All costs associated with the fixed assets are removed and replaced with a lease asset and associated provision.

A £3,764,000 reduction in Turnover which represents the reduction in income now recognised as lease payments received.

A £2,606,000 reduction in Cost of sales which represents the utilisation of the contract based provision recognised at 31 December 2013. This provision reflects the difference between the contract valuation and lease asset value at 31 December 2013.

A £481,000 reduction in depreciation expense and a £345,000 reduction in fixed asset impairment expense due to fixed assets associated with the finance leases no longer recognised.

A £900,000 switch between Profit on disposal of fixed assets and Finance lease termination provisions. This reflects the change in termination of the supply agreement relating to Winnington CHP from a fixed asset disposal to a finance lease termination.

A £1,310,000 increase in interest receivable which represents the unwinding of the discount on the finance lease asset.

A £1,072,000 increase in interest payable which represents the accretion on the contract based provision recognised at 31 December 2013.

b) The Company has deferred tax balances. FRS 19 follows a 'timing difference' approach, whereas IAS 12 follows a 'temporary difference' approach which led to differences.

23. Ultimate holding company

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

E.ON SE
Brüsseler Platz 1
45131
Essen
Germany