E.ON UK CHP LIMITED

STRATEGIC REPORT, DIRECTORS' REPORT AND FINANCIAL STATEMENTS

for the Year Ended 31 December 2016

Registered No: 02684288

E.ON UK CHP LIMITED
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

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.

At 31 December 2016, a review of the appropriateness of the carrying value of the Company's plant portfolio was undertaken. This resulted in an impairment charge of £11,132,000 (2015: £352,000) being recognised during the year. A review of the appropriateness of the carrying value of the Company's investments was also undertaken. This resulted in a write down of £6,360,000 (2015: £nil).

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 £1,500,000 relating to contract novation compensation and a release of £192,000 relating to legal fees.

The Company continues to review its contractual obligations and there are no plans at present to initiate any new CHP development projects. Instead, during 2016, work began on installing a 10 mega-watt lithium-ion battery at the biomass CHP plant at Blackburn Meadows near Sheffield. As well as helping to make more efficient use of renewable energy sources, the batteries will also be able to provide extra power to the network at times of peak demand as part of the Capacity Market. The system is planned to be fully operational by late 2017. At 31 December 2016, the amount capitalised relating to the battery development was £836,000 (2015: £nil).

At 31 December 2016, the Company had net assets of £6,622,000 (2015: net assets of £21,412,000). Further information regarding the financial position of the Company at the year end is provided in the Directors' Report.

Principal risks and uncertainties

The key business risks and uncertainties affecting the Company are considered to relate to asset performance, credit risks and inflation. 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.

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

Key performance indicators ('KPIs')

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 Customer Solutions 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 27 July 2017 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
DIRECTORS' REPORT
for the Year Ended 31 December 2016

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 who held office during the year and up to the date of signing these 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.

Future developments

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

Results and dividends

The Company's loss for the financial year is £14,790,000 (2015: profit of £4,835,000). No interim dividends (2015: £50,000,000) were paid during the year. 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 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.

E.ON SE's central financing strategy

The operational 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 its business. A group-wide cash forecasting and currency exposure reporting process exists which ensures regular reporting into the UK treasury team. Information is submitted to E.ON SE for incorporation into E.ON SE group forecasting processes on a weekly and quarterly basis.

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

Foreign exchange risk management

The Company operates within the framework of E.ON SE's guidelines for foreign exchange risk management. 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 UK plc treasury team.

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 floating rate borrowings.

Credit risk management

The Company is subject to the E.ON SE group finance policy which sets a credit limit for each financial institution with which the Company does a significant amount of business. In addition, other counterparty credit risk is subject to the E.ON SE 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 UK plc.

Political donations

No political donations were made during the year (2015: £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 these financial statements.

Going concern

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

Disclosure of information to auditors

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

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 regulation.

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

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that these financial statements comply with the Companies Act 2006. 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 27 July 2017 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 2016 and of its loss 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 2016;
- 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.

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 Directors' 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.

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 pages 3 and 4, 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. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Simon Evans

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

Date 27 July 2017

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

	Note	**Year ended 31 December 2016 £000**	Year ended 31 December 2015 £000
Turnover	2	**31,846**	35,251
Cost of sales		**(20,605)**	(28,118)
Gross profit		**11,241**	7,133
Administrative expenses		**(13,328)**	(10,295)
Impairment of tangible assets	3	**(11,132)**	(352)
Onerous contract and finance lease termination provision	3	**1,697**	5,090
Other operating income		**1,209**	1,462
Operating (loss)/profit	3	**(10,313)**	3,038
Profit on disposal of tangible assets	5	**-**	1,212
Interest receivable and similar income	7	**950**	1,305
Interest payable and similar charges	8	**(738)**	(939)
Amounts written off investments	9	**(6,360)**	-
(Loss)/profit on ordinary activities before taxation		**(16,461)**	4,616
Tax on (loss)/profit on ordinary activities	10	**1,671**	219
(Loss)/profit for the year		**(14,790)**	4,835

As the Company has no other comprehensive income for the year, a separate statement of comprehensive income has not been presented.

The notes on pages 10 to 23 form part of these financial statements.

E.ON UK CHP LIMITED
BALANCE SHEET
as at 31 December 2016

	Note	2016 £000	2015 £000
Fixed assets			
Tangible assets	11	**5,235**	17,199
Investments	12	**-**	6,360
		5,235	23,559
Current assets			
Stocks	13	**600**	975
Debtors: amounts falling due after more than one year	14	**4,191**	6,816
Debtors: amounts falling due within one year	15	**30,302**	79,548
		35,093	87,339
Creditors: amounts falling due within one year	16	**(18,873)**	(67,548)
Net current assets		**16,220**	19,791
Total assets less current liabilities		**21,455**	43,350
Provisions for liabilities	17	**(14,833)**	(21,938)
Net assets		**6,622**	21,412
Capital and reserves			
Called up share capital	18	**-**	-
Profit and loss account		**6,622**	21,412
Total shareholders' funds		**6,622**	21,412

The financial statements on pages 7 to 23 were approved by the Board of Directors on 27 July 2017 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 10 to 23 form part of these financial statements.

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

	Called up share capital £000	Profit and loss account £000	Total shareholders' funds £000
At 1 January 2015	-	66,577	66,577
Profit for the financial year	-	4,835	4,835
Dividends	-	(50,000)	(50,000)
At 31 December 2015	-	21,412	21,412
Loss for the financial year	-	(14,790)	(14,790)
At 31 December 2016	**-**	**6,622**	**6,622**

The notes on pages 10 to 23 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 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.

Basis of preparation of financial statements

The Company has prepared these financial statements in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' ('FRS 101'). These financial statements have been prepared under the going concern basis, historical cost convention 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 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 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 parent undertaking, and is included, in the publicly available consolidated financial statements of E.ON SE. Consequently, the Company has taken advantage of the exemption from preparing consolidated financial statements under the terms of Section 400 of the Companies Act 2006.

Going concern

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

Critical accounting estimates and judgements

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

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 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 assets and is not recognised directly in the profit and loss account.

Emissions trading scheme

The Company has adopted an accounting policy which recognises a shortfall in emissions rights within provisions. Expenses incurred for the consumption of emission rights are reported in cost of sales. Forward contracts for sales and purchases of allowances are measured at fair value.

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.

Corporation tax

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

Other operating income

Other operating income 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. Other operating income 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.

Accrued income

Income recognised in advance of being billed to the customer 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 assets so as to write off the cost, 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 up to 40 years

Estimated useful lives are reviewed annually. No depreciation is provided on 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.

Investments

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. Stores and fuel stocks are considered to be raw materials under this definition.

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 thousand.

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.

Financial Instruments

Loans and receivables (including trade receivables) are primarily financial assets with fixed or determinable payments that are not traded in an active market. Loans and receivables are reported on the balance sheet under "Debtors: amounts falling due within one year." Initial measurement takes place at fair value plus transaction costs. They are subsequently measured at amortised cost, using the effective interest method. Valuation allowances are provided for identifiable individual risks. If the loss of a certain part of the receivables is probable, valuation allowances are provided to cover the expected loss.

Financial liabilities (including trade payables and borrowings) are measured at amortised cost, using the effective interest method. Initial measurement takes place at fair value net of transaction costs incurred. In subsequent periods, the amortisation and accretion of any premium or discount is included in finance costs/income.

Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities. Where shares are issued, any component that creates a financial liability of the Company is presented as a liability in the balance sheet. The corresponding dividends relating to the liability component are charged as interest expense in the profit and loss account.

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. 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 profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in shareholders' funds. In this case, the tax is also recognised in other comprehensive income or directly in shareholders' funds, respectively.

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

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

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

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

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

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 (loss)/profit

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

	2016 **£000**	2015 £000
Operating lease	**134**	139
Depreciation of tangible assets (note 11)	**2,212**	3,280
Foreign currency losses	**113**	6
Impairment of tangible assets (note 11)	**11,132**	352
Onerous contract and finance lease termination provision	**(1,697)**	(5,090)
Stocks recognised as expense	**640**	1,075
Write down of stocks	**125**	329

At 31 December 2016, 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. As a result of the review, an impairment charge of £11,132,000 (2015: £352,000) has been recorded in these financial statements. A tax credit of £222,000 (2015: credit of £70,000) arose in respect of this item. The discount rate used to

calculate the impairment charge is a post-tax rate of 4.5% (2015: 6.3%).

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: £1,500,000 relating to compensation payments for contract novation and £197,000 relating to legal fees (2015: £5,000,000 relating to CHP asset warranties; £800,000 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).

During 2014, the Company closed the Stoke CHP site. The ongoing review of this position has resulted in a reduction of £67,000 in the onerous contract provision for the remaining contract (2015: £770,000 increase).

4. Auditors' remuneration

Auditors' remuneration for the audit of these financial statements of £15,000 (2015: £15,000) was borne by the immediate parent undertaking, E.ON UK plc, and not recharged.

5. Exceptional items

	2016 £000	2015 £000
Profit on sale of tangible assets	-	(1,212)

Following the closure of the Stoke CHP site in 2014, disposals during the prior year generated a profit on sale of tangible assets of £1,212,000.

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, £194,000 (2015: £163,000) of central salary costs associated with CHP activities in the UK was recharged to the Company and £109,000 (2015: £588,000) was recharged by the Company to other companies within the E.ON UK plc group.

	2016 Number	2015 Number
Administration and support	**22**	21
Other departments	**85**	81
	107	102

The aggregate payroll costs were as follows:

	2016 £000	2015 £000
Wages and salaries	**5,734**	4,295
Social security costs	**694**	532
Other pension costs	**1,794**	1,888
	8,222	6,715

Aggregate payroll costs include amounts recognised in other operating income relating to the operation and maintenance service contracts of £3,354,000 (2015: £3,351,000).

The directors received no emoluments from the Company during the year (2015: £nil) in respect of services to the Company.

7. Interest receivable and similar income

	2016 £000	2015 £000
Interest receivable from group undertakings	**125**	223
Finance lease interest receivable	**825**	1,082
	950	1,305

8. Interest payable and similar charges

	2016 £000	2015 £000
Interest payable to group undertakings	**51**	1
Interest - provision unwind on contract based provision	**655**	887
Interest - provision unwind on decommissioning provision	**32**	51
	738	939

9. Amounts written off investments

	2016 £000	2015 £000
Amounts written off investments	**6,360**	-

The charge for the year of £6,360,000 (2015: £nil) represents the impairment of the investment in E.ON UK Cogeneration Limited to £nil following a review of the underlying assets (note 12).

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

	2016 £000	2015 £000
Current tax:		
UK corporation tax charge/(credit) on (losses)/profits for the year	**261**	(312)
Adjustment in respect of prior years	**(47)**	(232)
Total current tax charge/(credit)	**214**	(544)
Deferred tax:		
Origination and reversal of timing differences	**(1,814)**	1,287
Deferred tax asset not recognised on timing differences	**-**	(2,338)
Adjustment in respect of prior years	**180**	1,331
Impact of change in tax rates	**(251)**	45
Total deferred tax (credit)/charge	**(1,885)**	325
Tax credit on (loss)/profit on ordinary activities	**(1,671)**	(219)

Factors affecting tax credit for the year

The tax credit for the year is lower (2015: higher) 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 £000	2015 £000
(Loss)/profit on ordinary activities before taxation	**(16,461)**	4,616
Tax (credit)/charge on (loss)/profit on ordinary activities before taxation at 20.00% (2015: 20.25%)	**(3,292)**	935
Effects of:		
Impact of changes in tax rates	**48**	4
Expenses not deductible for tax purposes	**1,272**	-
Initial recognition exemption	**507**	93
Deferred tax not recognised	**-**	(2,338)
Income not subject to tax	**(339)**	(12)
Adjustment in respect of prior years - deferred tax	**180**	1,331
Adjustment in respect of prior years - current tax	**(47)**	(232)
Tax credit for the year	**(1,671)**	(219)

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

The corporation tax payable has been reduced by £214,000 because of group relief received from a fellow group undertaking for which a payment will be made (2015: £544,000 group relief surrendered for which a payment was received).

11. Tangible assets

	Plant and machinery £000
Cost	
At 1 January 2016	88,569
Additions	1,380
At 31 December 2016	89,949
Accumulated depreciation and impairment losses	
At 1 January 2016	71,370
Charge for the year	2,212
Impairment	11,132
At 31 December 2016	84,714
Net book value	
At 31 December 2016	**5,235**
At 31 December 2015	17,199

During the year, changes in accounting estimates for the decommissioning provision resulted in an addition of £279,000 (2015: £120,000) being recorded in these financial statements (note 17). The closing net book value includes £279,000 (2015: £237,000) relating to the assets associated with the cost of decommissioning the sites.

Payments in advance and assets in the course of construction of £836,000 (2015: £137,000) are included in plant and machinery.

12. Investments

	2016 £000	2015 £000
Shares in group undertakings and participating interests	-	6,360

	Subsidiary undertakings £000
Cost	
At 1 January 2016	35,506
At 31 December 2016	35,506
Provision for impairment	
At 1 January 2016	29,146
Impairment	6,360
At 31 December 2016	35,506
Net book value	
At 31 December 2016	-
At 31 December 2015	6,360

The charge for the year of £6,360,000 (2015: £nil) represents the impairment of the Company's investment in E.ON UK Cogeneration Limited to £nil following a review of the underlying assets.

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

All of the undertakings disclosed above are incorporated in the United Kingdom and have a registered office address of Westwood Way, Westwood Business Park, Coventry, CV4 8LG.

13. Stocks

	2016 **£000**	2015 £000
Fuel stocks	**121**	122
Stores	**479**	853
	600	975

Stores are stated net of provision for impairment of £1,775,000 (2015: £1,714,000).

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

	2016 **£000**	2015 £000
Finance lease receivables (note 21)	**4,191**	6,816

15. Debtors: amounts falling due within one year

	2016 **£000**	2015 Restated £000
Trade receivables	**3,094**	4,064
Amounts owed by group undertakings	**17,113**	68,006
Finance lease receivables (note 21)	**3,450**	3,914
Deferred tax	**1,560**	-
Other debtors	**141**	331
Prepayments and accrued income	**4,944**	3,233
	30,302	79,548

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

Included in the deferred tax asset of £1,560,000 is an amount of £954,000 due after more than 12 months.

At 31 December 2015, amounts owed by group undertakings included a loan to E.ON UK plc of £67,321,700 which was unsecured, bore interest at a rate of LIBOR minus 5 basis points, rolled forward (in principle and interest) on a daily basis, and was drawn from a credit facility of £35,000,000 which expired in December 2016.

Trade receivables are stated after provision for impairment of £nil (2015: £1,361,000).

The presentation of prepayments and accrued income changed during the year and has increased by £4,487,000 (2015: £3,232,000) with a corresponding reduction in trade debtors of £4,487,000 (2015: £3,232,000). The comparative amounts for 2015 have been restated accordingly to correct the presentation.

Analysis of deferred tax

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

	2016 £000	2015 £000
Accelerated/(decelerated) capital allowances	**480**	(1,235)
Other timing differences	**1,080**	910
	1,560	(325)
Liability at beginning of year	**(325)**	-
Deferred tax credit/(charge) for the year (note 10)	**1,885**	(325)
Asset/(liability) at year end	**1,560**	(325)

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.

Within the deferred tax credit of £1,885,000, the amount that relates to the change in the tax rate is a £251,000 credit.

A deferred tax asset has been recognised on the basis of general tax planning opportunities available within thie Company and other E.ON UK plc group companies.

16. Creditors: amounts falling due within one year

	2016 £000	2015 £000
Bank loans and overdrafts	**2**	-
Trade payables	**2,215**	1,507
Amounts owed to group undertakings	**13,024**	62,706
Other taxation and social security	**1,369**	1,084
Accruals and deferred income	**2,263**	2,251
	18,873	67,548

Amounts owed to group undertakings include loans from E.ON UK plc of £12,390,000 (2015: £nil) €181,000 (2015: €1,965,000) and US$20,000 (2015: US$208,000), all 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 and is drawn from a credit facility of £35,000,000 which expires in December 2018. All other balances are unsecured, interest free and repayable on demand.

17. Provisions for liabilities

	Deferred tax £000	Emissions obligation provisions £000	Dccommis sioning provisions £000	Contract based provisions £000	Other provisions £000	Total £000
At 1 January 2016	325	780	4,188	9,389	7,256	21,938
Debited/(credited) to the profit and loss account	-	156	-	142	(1,697)	(1,399)
Utilised during the year	-	(461)	-	(3,806)	(2,080)	(6,347)
Accretion of discount	-	-	32	655	-	687
Reclassification of deferred tax asset	(325)	-	-	-	-	(325)
Additions to tangible assets	-	-	279	-	-	279
At 31 December 2016	**-**	**475**	**4,499**	**6,380**	**3,479**	**14,833**

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 sites 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 CHP plant and to a change in the discount rate. The provision will be utilised when the CHP 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 March 2017. 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.

18. Called up share capital

	2016 £000	2015 £000
Allotted, called-up and fully paid		
2 ordinary shares of £1.00 each	**-**	-

19. Dividends

	2016 £000	2015 £000
Dividends paid		
Interim dividend paid during 2016: £nil (2015: £25,000,000) 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 the Scheme Actuary who determines the rates of contribution payable. In the intervening years the actuary reviews the appropriateness of the rates. The latest actuarial valuation of the scheme was at 31 March 2015. As part of this process a schedule of contributions has been agreed for the next ten years.

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 £1,794,000 (2015: £1,888,000).

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 £50,000,000 in January 2016 and £240,000,000 in December 2016. The current schedule of contributions sets out a requirement for E.ON UK plc to make a payment of £65,000,000 every year from January 2017 to January 2026. The first of these payments was made in January 2017. 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:

	2016 **£000**	2015 £000
Net investment in finance lease comprises:		
Total amounts receivable	**8,399**	12,313
Less: Interest allocated to future periods	**(758)**	(1,583)
	7,641	10,730
Finance lease – gross receivables due within one year	**3,450**	3,914
Finance lease – gross receivables due after one year	**4,191**	6,816
	7,641	10,730

22. Related party transactions

During the year, the Company made the following related party transactions:

Uniper Technologies Limited

A related party by virtue of being a company in the Uniper Group which is 47% owned by E.ON SE, the ultimate controlling party of the Company.

The related party provided engineering services to the Company amounting to £476,000 during the period 13 September 2016 to 31 December 2016.

The amount owed by the Company at the year end was £287,000.

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