Company number 3407430

E.ON Energy Solutions Limited

Directors' Report and Financial Statements

for the Year Ended 31 December 2012

E.ON Energy Solutions Limited

Directors' Report for the Year Ended 31 December 2012

The directors present their report and the audited financial statements for the year ended 31 December 2012

Directors of the Company

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

Dr A D Cocker

D A Bird

R Matthies (appointed 2 July 2012)

A S Ainsworth (appointed 2 July 2012)

B J Tear (resigned 12 June 2012)

The following director was appointed after the year end

D A Leiper (appointed 16 May 2013)

Principal activity

The Company's principal activity during the year and at the year end was the supply of electricity, the shipping and supply of natural gas and the provision of other energy related services to industrial and commercial ("I&C"), residential and small and medium-sized business customers ("SME")

Business review

Fair review of the business

The Company combines the core energy business which sells gas and power to consumers and businesses, with a number of newer business areas which deliver a comprehensive range of products and services to enable customers to become energy efficient

The Company sells electricity and gas to the residential and business sector, the latter encompassing both SME and I&C customers throughout the United Kingdom As of 31 December 2012, the Company supplied approximately 8,200,000 (2011 8,200,000) customer accounts, of which 7,500,000 (2011 7,600,000) were residential customer accounts and 700,000 (2011 600,000) were SME customer accounts

During the year, the Company realigned its customer strategy stating its intent to become its customers' trusted energy partner, through helpful and honest advice, clearer tariffs and a range of other measures aimed at becoming easier and simpler to deal with This range of initiatives was launched to the public under the name of 'Best Deal for You' The Company continues to concentrate on the reduction of controllable operating costs to ensure an agile and efficient business able to adapt to the financial pressures of a competitive energy market

Residential Customers

The residential business had approximately 7,500,000 customer accounts as of 31 December 2012 (2011 7,600,000) Approximately 60% of the Company's residential customer accounts are electricity customers and 40% are gas customers Individual retail customers who buy more than one product (e g dual fuel customers) are treated as having a separate account for each product, although they may choose to receive a single bill for all E ON provided services In the residential customer sector, the Company sold 19 3 TWh of electricity and 47 3 TWh of gas in 2012, as compared with 20 0 TWh of electricity and 42 5 TWh of gas in 2011 The large increase in gas sales were largely due to the response of customers to the cool and wet weather in 2012

The Company promotes its business to residential customers through national marketing activities such as media advertising (including print, television and radio), direct mail, public relations and online campaigns In addition, 2012 saw the introduction of E ON to the high street with the opening of the 'Open House' in Nottingham city centre The Open House allows current and prospective customers to receive face to face service and advice

Electricity consumption in England, Scotland and Wales during the year was 309 billion kWh in 2012 compared with 307 billion kWh in 2011 Gas consumption (excluding power stations) was 582 billion kWh in 2012 compared with 544 billion kWh in 2011 The increases were largely due to cooler and wetter weather in the last three quarters of 2012 This more than offsets the reductions due to slightly warmer weather in the first quarter and our customers continuing energy efficiency gains and responses to the economic environment and higher prices

The business faced a continuing trend of rising wholesale energy prices in the year but made a 'Price Promise' to customers in May 2012 that it would not increase prices for home energy customers for the remainder of the year, becoming the only supplier from the largest suppliers not to make an increase in 2012

SME and I&C Customers

In this sector, the Company sold 30 1 TWh of electricity and 20 3 TWh of gas in 2012, as compared with 30 8 TWh of electricity and 17 5 TWh of gas in 2011 The main drivers of the decrease in electricity were the response of customers to the economic conditions and energy prices These effects were partially offset by the response to cold and wet weather in 2012 In addition, for SME, the size of churning customers had a negative volume effect

The increase in gas volumes were largely due to the response of customers to the cool and wet weather during the year Gains in customer numbers were broadly offset by energy efficiency effects and the response to the economic conditions and energy prices For SMEs, a portfolio shift towards smaller customers also had a negative volume effect, although for I&C customers, gains to the portfolio have yielded a positive volume effect

Other Services

Aside from the core energy business, the Company provides a range of other energy related services These services were provided during the year under the operating names of Home Energy Solutions ("HES"), Metering Operations and Sustainable Energy

During 2012, the Company successfully met all of its obligations targets for the Government's Carbon Emissions Reduction Target and the Community Energy Savings Programme

In November 2012, a review of the structure of the Sustainable Energy business was initiated This concluded that, of the activities within this stream, the following will happen
- Carbon Consultancy and Microgeneration will become part of a new E ON global business, E ON Connecting Energies, and
- Highways Lighting business will be put up for sale

Connection Services, Sustainable Cities and Community Energy activities will continue but will no longer be structured under the umbrella of Sustainable Energy, an area that will cease to exist as a separate business

On 5 April 2013, the HES business was sold to a third party, better placed to take the business forward in the niche market it occupies The goodwill associated with the HES business was fully impaired to its recoverable amount during 2012

Metering Operations continue to be an important part of UK activities as the Company works with the Government to achieve a national rollout of SMART meters over the next decade

Key performance indicators
The Company's key performance indicators during the year were as follows

	Unit	**2012**	**2011**
Customer numbers	No	8,200,000	8,200,000

Price changes

The average price changes for tariff customers were as follows

Sector	**% decrease**	**Date**
Consumer electricity	6%	Feb 2012
SME gas	13%	Mar 2012
SME electricity	15%	Mar 2012

Subsequent to the above, a price increase was announced in December 2012, to take effect in January 2013

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

Price risk
This is the risk that the Company faces from competitors' ability to amend their selling prices in response to movements in wholesale energy markets This ability is a factor of their purchasing strategies and internal structures The Company's responses are similarly constrained or enabled by the same factors The Company uses long-term and short-term derivative financial instruments to buy its required supply of power and gas from E ON Global Commodities SE, formerly E ON Energy Trading SE These instruments smooth fluctuations in the wholesale cost of power and gas

Credit risk
This risk arises due to the impact of economic conditions on the ability of the Company's customers to pay for the energy they consume There are a number of initiatives underway to mitigate this risk These include credit vetting and systems investment to manage outstanding customer debts

Weather risk
This risk arises due to the impact that weather has on the demand for energy and the impact on the Company's sales The Company uses a demand management system and weather derivatives to manage this risk

Further discussion of these risks and uncertainties, in the context of the E ON SE consolidated ('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

Results and dividends
The Company's profit for the financial year is £50,000,000 (2011 profit of £127,000,000) A preference dividend of £1,500,000 (2011 £1,300,000) was paid during the year The directors do not recommend the payment of a final dividend (2011 £nil)

Policy and practice on payment of creditors
Where appropriate in relation to specific contracts, the Company's practice is to

a) settle the terms of payment with the supplier when agreeing the terms of each transaction,

b) ensure that those suppliers are made aware of the terms of payment by inclusion of other relevant terms in the contracts, and

c) pay in accordance with its contractual and other legal obligations

For all other cases the Company supports the Better Payments Practice Code and has in place well developed arrangements with a view to ensuring that this is observed Trade creditors at the year end represented 65 days (2011 64 days) of purchases

Political donations
No political donations were made during the year (2011 £nil)

Charitable donations
Charitable donations made during the year totalled £5,296 (2011 £200)

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

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

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

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

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

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

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

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

Statement of directors' responsibilities

The directors are responsible for preparing the 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) 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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that 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 on 11 July 2013 and signed on its behalf by

R Matthies
Director

E ON Energy Solutions Limited
Company No 3407430
Westwood Way
Westwood Business Park
Coventry
CV4 8LG

Independent Auditors' Report to the Members of E.ON Energy Solutions Limited

We have audited the financial statements of E ON Energy Solutions Limited for the year ended 31 December 2012, which comprise the Profit and Loss Account, the Balance Sheet and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) 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

Scope of the audit of the financial statements

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 In addition, we read all the financial and non-financial information in the Directors' Report and Financial Statements to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on the financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2012 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

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Independent Auditors' Report to the Members of E.ON Energy Solutions Limited *(continued)*

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- 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, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Andrew Lyon BSc FCA (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

East Midlands

Date 12 July 2013

E.ON Energy Solutions Limited

Profit and Loss Account for the Year Ended 31 December 2012

	Note	2012 £ 000 000	2011 £ 000 000
Turnover	2	**7,744**	7,028
Cost of sales		**(6,842)**	(6,128)
Gross profit		**902**	900
Administrative expenses		**(831)**	(750)
Other operating income		**12**	6
Operating profit	3	**83**	156
Interest receivable and similar income	7	**5**	3
Interest payable and similar charges	8	**(1)**	(2)
Profit on ordinary activities before taxation		**87**	157
Tax on profit on ordinary activities	9	**(37)**	(30)
Profit for the financial year	19	**50**	127

Turnover and operating profit derive wholly from continuing operations in all material respects

There are no material differences between the profit on ordinary activities before taxation and the profit for either of the years stated above and their historical cost equivalents

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

The notes on pages 11 to 30 form an integral part of these financial statements

E.ON Energy Solutions Limited
(Company number: 3407430)
Balance Sheet as at 31 December 2012

	Note	2012 £ 000 000	(As restated) 2011 £ 000 000
Fixed assets			
Intangible assets	10	**765**	870
Tangible assets	11	**209**	155
Investments	12	**22**	22
		996	1,047
Current assets			
Stocks	13	**19**	25
Debtors	14	**2,043**	1,914
Cash at bank and in hand		**141**	-
		2,203	1,939
Creditors: amounts falling due within one year	15	**(1,612)**	(1,463)
Net current assets		**591**	476
Total assets less current liabilities		**1,587**	1,523
Creditors: amounts falling due after more than one year	16	**(44)**	(44)
Provisions for liabilities	17	**(230)**	(216)
Net assets		**1,313**	1,263
Capital and reserves			
Called up share capital	18	**760**	760
Profit and loss account	19	**553**	503
Total shareholders' funds	20	**1,313**	1,263

See note 1 for details of the restatement

Approved by the Board on 11 July 2013 and signed on its behalf by

R Matthies
Director

E ON Energy Solutions Limited

The notes on pages 11 to 30 form an integral part of these financial statements

1 Accounting policies

Basis of preparation
These financial statements are prepared on the going concern basis, under the historical cost convention, in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom The principal accounting policies, which have been applied consistently throughout the year, are set out below

The Company is exempt from preparing a cash flow statement as 90% or more of the voting rights are held within the E ON SE group

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

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

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

Areas of judgement in application of accounting policies 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

Revenue recognition - unread gas and electricity meters
Revenue for energy supply activities includes an assessment of energy supplied to customers between the date of the last meter reading and the year end Unread gas and electricity is estimated using historical consumption patterns taking into account the industry reconciliation process for total gas and total electricity usage by supplier The industry reconciliation process is required as differences arise between the estimated quantity of gas and electricity the Company deems to have supplied and billed customers, and the estimated quantity the industry system operator deems the individual suppliers, including the Company, to have supplied to customers

Impairment of trade debtors
Valuation allowances against trade receivables are provided for identifiable individual risks where the loss is probable The estimates and assumptions used to determine the level of provisions are reviewed periodically Although the provisions recognised are considered appropriate, the use of different assumptions or changes in economic conditions could lead to changes in the provisions and therefore impact profit or loss for the year

Corporation tax

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

Changes in accounting policy

During the year, there has been a change in accounting policy for the treatment of Renewable Obligation Certificates ('ROCs') In previous years, a provision was made for the shortfall in certificates payable to national authorities The provision was equal to the total value payable to national authorities less the value of the ROCs received from other group companies or third parties Under the new accounting policy, the value of ROCs purchased and the amount payable to national authorities are shown separately within intangible assets and provisions respectively, rather than being netted down into a single provisions amount The accounting policy was revised to better reflect the nature of the transactions A prior year adjustment of £93,000,000 has been recognised to reflect the change in accounting policy in relation to ROCs The effect of the prior year adjustment on the Balance Sheet is to increase intangible assets and increase other provisions by £93,000,000 The prior year adjustment has no impact on the Profit and Loss account or net assets

Going concern

The financial statements have been prepared on a going concern basis

Turnover

Turnover comprises revenue from the sale of electricity, gas and energy services to I&C, residential and SME customers Turnover excludes value added tax

Turnover from the sale of electricity and gas to I&C and domestic customers is recognised when earned on the basis of a contractual agreement with the customer It reflects the value of the volume supplied, including an estimated value of the volume supplied to customers between the date of their last meter reading and the year end Both billed and unbilled amounts receivable are included within trade debtors

Turnover from providing other energy related services to customers is recognised as the work is performed and the services provided to the customer

Intangible fixed assets

Positive goodwill is capitalised, classified as an asset on the balance sheet and amortised on a straight line basis over its useful economic life It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable

The value of ROCs purchased from other group companies and third parties is capitalised at their acquisition cost and classified as an asset on the balance sheet The consumption of ROCs is recognised at average cost when settled to national authorities on an annual basis

Other intangibles relate primarily to capitalised development costs and acquired customer lists Other intangibles are stated at cost less accumulated amortisation and impairment losses They are amortised on a straight line basis over their useful economic lives

Amortisation
Amortisation is provided on intangible fixed assets so as to write off the cost, less any estimated residual value, over their expected useful economic life Of the £1,632,600,000 goodwill arising from the acquisition of TXU assets (an energy supply company acquired in October 2002), £1,182,600,000 is being amortised over its expected useful life of 20 years The remaining £450,000,000 that is directly related to the value of the acquired customer base is being amortised over a shorter period of 10 years which represents the directors' view of the expected useful life

The goodwill arising from the acquisition of the Retail energy businesses of the subsidiary companies of Powergen Retail Supply Limited, its wholly owned subsidiary, of £118,200,000 is being amortised over its expected useful life of 20 years

Goodwill of £12,500,000 arose in 2006 from the acquisition of customers beneficially owned by Economy Power Limited, which is being amortised over 7 years which represents the directors' view of these customers' expected useful lives Goodwill of £33,000,000 arose on the acquisition of various Energy Services businesses during 2011 Of this £33,000,000, £19,000,000 related to the HES business which has been fully impaired during the year The remaining £14,000,000 is being amortised over a period of between 10 and 20 years

The remaining goodwill relating to other acquisitions is being amortised over 7 years

Asset class	**Amortisation method and rate**
Goodwill	Straight-line basis over 7 to 20 years
Other intangibles	Straight-line basis over 16 to 25 years

Tangible fixed assets
Tangible fixed 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

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

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

Asset class	**Depreciation method and rate**
Plant and machinery	Straight line basis over 25 years
Fixtures and fittings	Straight line basis over 3 to 5 years
Meter equipment	Straight line basis over 7 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 post-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

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

Stock and work in progress
Stock and work in progress 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 Cost includes all direct costs and an appropriate proportion of fixed and variable overheads

All stocks are goods for resale and are recognised in the profit and loss account on a first in first out basis

Long term contracts
Long term contracts are measured at cost net of amounts transferred to cost of sales after deducting foreseeable losses and payments on account not matched with turnover These contracts are included in stock as work in progress along with all other energy connections contract costs The amount by which payments on account exceed turnover is shown under creditors as deferred income The amount by which recorded turnover is in excess of payments on account is included in debtors as amounts recoverable on contracts The amount by which accruals for foreseeable losses exceeds costs incurred, after transfers to cost of sales, is deducted from the value of work in progress in the balance sheet and recognised as a cost in the profit and loss account

Cash and short-term deposits
Short-term deposits include cash at bank and in hand

Financial instruments
The Company utilises financial instruments to manage risk Gains or losses on settled hedging transactions are recognised in the profit and loss account in line with the underlying transactions Unrealised hedging contracts are not recognised and are deferred until the corresponding hedged transactions are realised in the profit and loss account The fair value of such contracts is not disclosed when contracts have been entered into for the purpose of, and continue to meet, the Company's expected purchase, sale or usage requirements See note 15 for further details of the fair values of the financial instruments

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 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 as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability

Future operating costs are not provided for

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

Present obligations arising under onerous contracts are recognised and measured as provisions within other 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

Purchased ROCs are recognised as costs within intangible assets They are capitalised at their acquisition cost when purchased from other group companies or third parties The consumption of ROCs is recognised at average cost when settled to national authorities on an annual basis The estimated value of certificates payable to national authorities for the Company's activities during the year is recognised within other provisions The intangible asset is surrendered and the liability is utilised at the end of the compliance period to reflect the consumption of the economic benefit The expenses incurred for the provision of ROCs are recognised on an accruals basis and are reported under cost of goods sold

Taxation
The tax charge for the year is based on the profits on ordinary activities for the year

This takes into account full provision for deferred tax in respect of timing differences on a discounted basis, using the approach set out in Financial Reporting Standard 19 'Deferred tax' Timing differences arise primarily from the differing treatment for taxation and accounting purposes of provisions and depreciation of fixed assets Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, or where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date Deferred tax assets are recognised when it is more likely than not that they will be recovered

Deferred tax is measured at the tax rates that are expected to apply in the periods which the timing differences are expected to reverse, based on tax laws that have been enacted or substantively enacted by the balance sheet date

Operating leases
Leases in which a substantial portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term

Pension costs
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

Preference shares
Due to the obligation within the Company's articles of association to pay cumulative dividends, in accordance with Financial Reporting Standard 25 'Financial instruments Disclosure and presentation', the preference shares issued have been classified as debt instruments and included within borrowings The obligation to pay a cumulative dividend is recognised within interest in the profit and loss account Any unpaid dividends are included within creditors

Related party transactions
The Company is exempt under the terms of Financial Reporting Standard 8 'Related Party Disclosures' from disclosing related party transactions with entities that are part of the E ON SE Group or investees of the E ON SE Group

2 Turnover

Turnover, which excludes value added tax, primarily represents the value of electricity and gas supplied to I&C, residential and SME customers Turnover from the delivery and sale of electricity and gas are recognised upon delivery, primarily on the basis of meter readings, and include an estimate of services provided but not yet billed incorporating historical consumption patterns The value of services not yet billed is included within trade debtors Turnover from providing other energy related services to customers is recognised as the work is performed and the services provided to customers The Company's turnover, all of which arises in the course of the Company's principal activity, arises in the UK

During the year turnover has been reduced by £24,000,000 (2011 £10,000,000) to reflect the inherent imbalance between volumes recognised by the settlement system and that equitably capable of being billed to customers

3 Operating profit

Operating profit is stated after charging/(crediting)

	2012 £ 000 000	2011 £ 000 000
Operating leases - other assets	12	10
Foreign currency losses/(gains)	2	(1)
Depreciation of owned assets	28	17
Amortisation	107	116
Impairment of intangible fixed assets	15	-
Impairment of tangible fixed assets	3	-

Operating profit includes restructuring costs of £6,000,000 (2011 £33,000,000)

4 Auditors' remuneration

Auditors' remuneration was £257,000 (2011 £284,000) for the audit of these financial statements The Company also incurred £48,000 (2011 £54,000) in relation to other audit related assurance services and £22,000 (2011 £21,000) in relation to other assurance services

5 Employee information

The monthly average number of persons employed by the Company or recharged by E ON UK plc for the services of employees (including directors) during the year, analysed by category was as follows

	2012 No.	2011 No.
Sales, marketing and distribution	8,647	8,481

At 31 December 2012, the Company had no employees All previous employees are now employed by the Company's immediate parent, E ON UK plc, and their costs are recharged to the Company

The aggregate payroll costs were as follows

	2012 £ 000 000	2011 £ 000 000
Wages and salaries	**218**	198
Social security costs	**20**	19
Other pension costs	**24**	22
	262	239

6 Directors' remuneration

The directors' remuneration for the year was as follows

	2012 £	2011 £
Aggregate emoluments (including benefits in kind)	**1,397,460**	991,335
Compensation for loss of office	**-**	1,678,473

The above amounts relate to four (2011 three) directors whose emoluments were paid by the immediate parent, E ON UK plc, and partially or fully recharged to the Company, based on the proportion of time that the directors spent on the Company's business The remaining one (2011 three) director was paid by E ON UK plc and not recharged

During 2011, a significant reorganisation of the business took place, during which certain directors left the Company Compensation for loss of office relates to the contractual rights of those directors

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

	2012 No.	2011 No.
Received or were entitled to receive shares under long term incentive schemes	**4**	3
Accruing benefits under defined benefit pension scheme	**1**	3

Dunng the year no (2011 three) dırectors exercısed Performance Rıghts over shares ın the ultımate parent company, E ON SE, that they were awarded for servıces to the E ON group

In respect of the hıghest paıd dırector

	2012 £	2011 £
Annual salary	**240,000**	285,825
Annual bonus	**412,380**	246,150
Benefits under long-term ıncentıve schemes (excludıng shares)	**-**	5,661
Other benefits	**16,263**	66,703
Termınatıon benefits	**-**	1,354,386
	668,643	1,958,725
Defined benefit accrued pensıon entıtlement at the year end	**121,024**	196,965

The hıghest paıd dırector shared hıs management tıme between the Company and E ON UK plc As a result, hıs emoluments for the year were splıt between these companıes and the above amounts were recharged to the Company by E ON UK plc The total emoluments and defined benefit accrued pensıon entıtlement receıved by the hıghest paıd dırector from the Company and E ON UK plc durıng the year were £1,114,404 and £201,706 respectıvely

7 Interest receivable and similar income

	2012 £ 000 000	2011 £ 000 000
Interest receıvable from group undertakıngs	**5**	3

8 Interest payable and similar charges

	2012 £ 000 000	2011 £ 000 000
Other ınterest payable	**-**	1
Preference share dıvıdends	**1**	1
	1	2

9 Tax on profit on ordinary activities

	2012 £ 000 000	2011 £ 000 000
Current tax		
Corporation tax charge	**36**	47
Adjustments in respect of prior periods	**10**	(2)
UK corporation tax	**46**	45
Deferred tax		
Origination and reversal of timing differences	**(5)**	(2)
Deferred tax adjustment relating to previous periods	**(7)**	8
Effect of changes in tax rates	**6**	5
Unwinding of discount	**(3)**	(26)
Total deferred tax	**(9)**	(15)
Total tax on profit on ordinary activities	**37**	30

Factors affecting current tax charge for the year

The difference between the tax on the profit on ordinary activities for the year and the tax assessed on the profit on ordinary activities for the year assessed at the effective rate of corporation tax in the UK at 24 5% (2011 26 5%) can be explained as follows

	2012 £ 000 000	2011 £ 000 000
Profit on ordinary activities before taxation	**87**	157
Corporation tax at effective rate	**21**	42
Capital allowances in excess of depreciation	**(1)**	(8)
Expenses not deductible for tax purposes	**9**	3
Adjustment in respect of previous periods	**10**	(2)
Other timing differences	**7**	10
Total current tax	**46**	45

During the year legislation was included in the Finance Act 2012 to reduce the main rate of UK corporation tax from 26% to 24%, effective from 1 April 2012 and from 24% to 23% effective from 1 April 2013 Further reductions in the main rate of UK corporation tax were announced in the Autumn Statement on 5 December 2012 and the March 2013 Budget Statement to reduce the rate to 21% from 1 April 2014 and to 20% from 1 April 2015 These further changes were not substantively enacted at the balance sheet date and, therefore, the impact has not been included in these financial statements

The reductions in the main rate of corporation tax to 21% from 1 April 2014 and to 20% from 1 April 2015 were both substantively enacted on 2 July 2013 as part of the Finance Act 2013 The overall effect of these further changes, if applied to the deferred tax balance at the balance sheet date, would be to reduce the deferred tax asset provided at the balance sheet date by £9,000,000

The corporation tax payable has been reduced by £46,000,000 because of group relief received from a fellow group undertaking for which a payment will be made (2011 £45,000,000)

10 Intangible assets

	Goodwill £ 000 000	ROCs £ 000 000	Other intangibles £ 000 000	Total £ 000 000
Cost				
At 1 January 2012 (as restated)	1,807	93	5	1,905
Additions	-	107	3	110
Surrenders	-	(93)	-	(93)
At 31 December 2012	1,807	107	8	1,922
Accumulated amortisation				
At 1 January 2012	1,035	-	-	1,035
Charge for the year	107	-	-	107
Impairment	15	-	-	15
At 31 December 2012	1,157	-	-	1,157
Net book value				
At 31 December 2012	650	107	8	765
At 31 December 2011 (as restated)	772	93	5	870

The goodwill relating to the HES business was impaired to nil net book value to reflect the recoverable amount of the business The recoverable amount was calculated based on the fair value less costs to sell of the business

See note 1 for details of the restatement in relations to ROCs

11 Tangible assets

	Plant and machinery £ 000 000	Fixtures and fittings £ 000 000	Meter equipment £ 000 000	Total £ 000 000
Cost				
At 1 January 2012	22	13	137	172
Additions	16	22	48	86
Disposals	-	(1)	-	(1)
At 31 December 2012	38	34	185	257
Accumulated depreciation				
At 1 January 2012	-	2	15	17
Charge for the year	1	3	24	28
Impairment	-	3	-	3
At 31 December 2012	1	8	39	48
Net book value				
At 31 December 2012	37	26	146	209
At 31 December 2011	22	11	122	155

Meter equipment includes installation costs

Due to the rollout of SMART meters, an impairment of £2,000,000 has been booked in relation to the meter installation scheduling system used for classic meters In addition to this, assets relating to the HES business were reviewed and an impairment of £1,000,000 has been recorded in these financial statements The assets were impaired to their recoverable amounts

12 Investments

	2012 £ 000 000	2011 £ 000 000
Shares in group undertakings and participating interests	**22**	22

Shares in group undertakings and participating interests

	Subsidiary undertakings £ 000 000
Cost	
At 1 January 2012	33
At 31 December 2012	33
Provision for impairment	
At 1 January 2012	11
At 31 December 2012	11
Net book value	
At 31 December 2012	22
At 31 December 2011	22

Details of undertakings

Details of the principal investments in which the Company holds 20% or more of the nominal value of any class of share capital are as follows

Undertaking	Holding	Proportion of voting rights and shares held	Principal activity
Economy Power Limited	Ordinary shares	100%	Dormant
E ON UK Community Solar Limited	Ordinary shares	100%	Dormant
Powergen Retail Supply Limited	Ordinary shares	100%	Dormant
E ON UK Industrial Shipping Limited	Ordinary shares	100%	Dormant
Energy Collection Services Limited	Ordinary shares	100%	Dormant
E ON Project Earth Limited	Ordinary shares	100%	Leasing of ground source heating systems

During the year, the Company invested £1 in E ON Project Earth Limited, a company incorporated on 25 April 2012 to build, install, lease, operate and maintain innovative Geo-Coupled ground source heating and cooling systems E ON Project Earth Limited is a 100% subsidiary of the Company

On 8 May 2013, the Company transferred its shareholding in E ON UK Community Solar Limited to E ON Connecting Energies GmbH

13 Stocks

	2012 £ 000 000	2011 £ 000 000
Goods for resale	**11**	17
Work in progress	**8**	8
	19	25

14 Debtors

	2012 £ 000 000	2011 £ 000 000
Trade debtors	**836**	775
Amounts owed by group undertakings	**1,069**	1,047
Deferred tax	**64**	55
Other debtors	**33**	4
Prepayments and accrued income	**41**	33
	2,043	1,914

Amounts owed by group undertakings include a £866,000,000 floating rate deposit to E ON UK plc (2011 £841,000,000), which incurs interest at LIBOR minus 5 basis points, was repaid in February 2013 and has been replaced by a new deposit This new deposit was placed with E ON UK plc under the facility which matures in October 2014

The remaining amounts owed by group undertakings relate to the funding of subsidiary companies and utilisation of liquid funds by the parent and are unsecured, interest free and repayable on demand

Debtors includes £64,000,000 (2011 £55,000,000) receivable after more than one year This can be analysed as follows

	2012 £ 000 000	2011 £ 000 000
Deferred tax	**64**	55

Deferred tax

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

	£ 000 000
At 1 January 2012	55
Deferred tax credited to the profit and loss account	9
At 31 December 2012	64

Analysis of deferred tax

	2012 £ 000 000	2011 £ 000 000
Difference between accumulated depreciation and amortisation and capital allowances	**2**	(3)
Other timing differences	**75**	74
	77	71
Discount	**(13)**	(16)
Discounted asset for deferred tax	**64**	55

Other timing differences includes £75,000,000 (2011 £74,000,000) relating to goodwill

The Finance Act 2012 included legislation to reduce the main rate of corporation tax to 23% with effect from 1 April 2013 The deferred tax asset at 31 December 2012 has been re-measured accordingly

Within the deferred tax credit of £9,000,000, the amounts that relate to the change in the tax rate is a £6,000,000 charge

15 Creditors: amounts falling due within one year

	2012 £ 000 000	2011 £ 000 000
Trade creditors	**256**	248
Bank loans and overdrafts	**-**	4
Amounts owed to group undertakings	**1,080**	986
Other taxes and social security	**89**	97
Other creditors	**1**	1
Accruals and deferred income	**186**	127
	1,612	1,463

Amounts owed to group undertakings relate to the provision of services, primarily energy purchases, and are unsecured, interest free and repayable on demand The fair value of commodity forward contracts not recognised at the year end (excluding contracts which have been entered into for the purpose of the Company's expected purchase, sale or usage requirements) was a creditor of £153,000,000 (2011 £507,000,000) The notional principal amounts of these commodity forward contracts was £2,838,000,000 (2011 £5,207,000,000)

16 Creditors: amounts falling due after more than one year

	2012 £ 000 000	2011 £ 000 000
Preference shares	**44**	44

The above preference shares are due after more than five years

	2012 £ 000 000	2011 £ 000 000
Authorised		
60,000,000 irredeemable preference shares of £0 10 each	**6**	6
Allotted, called up and fully paid		
31,625,436 irredeemable preference shares of £0 10 each	**3**	3

The irredeemable preference shares are non-voting and carry the following rights
• the right to receive a cumulative preferential dividend, based on LIBOR, payable annually in arrears from the date of first issue,
• entitlement, in a winding up or return of capital, to repayment of the nominal value paid up on each share, the payment of any cumulative preferential dividend due but unpaid on the date of distribution and a premium of 90 pence per share, and
• the preference shares were issued at a premium of £40,800,000 (£1 29 per share)

17 Provisions for liabilities

	Restructuring £ 000 000	Other provisions £ 000 000	Total £ 000 000
At 1 January 2012 (as restated)	-	216	216
Charged to the profit and loss account	2	292	294
Utilised during the year	(2)	(278)	(280)
At 31 December 2012	-	230	230

Restructuring provisions relate primarily to employee redundancies following a restructure of the business

Other provisions relate primarily to ROCs which represent the estimated value of certificates payable to national authorities for the Company's activities during the year ROCs are settled on an annual basis In line with the change in accounting policy for ROCs, provisions for liabilities and intangible assets at 31 December 2011 have been increased by £93,000,000 to recognise the gross amount payable as a provision along with the recognition of an equal amount as an intangible asset

18 Called up share capital

Allotted and fully paid

	2012		2011	
	No. 000 000	£ 000 000	No. 000 000	£ 000 000
Ordinary shares of £1 each	**760**	**760**	760	760

19 Reserves

	Profit and loss account £ 000 000
At 1 January 2012	503
Profit for the financial year	50
At 31 December 2012	553

20 Reconciliation of movements in shareholders' funds

	2012 £ 000 000	2011 £ 000 000
Profit attributable to the members of the Company	**50**	127
Net addition to shareholders' funds	**50**	127
Shareholders' funds at 1 January	**1,263**	1,136
Shareholders' funds at 31 December	**1,313**	1,263

21 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 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

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 £24,000,000 (2011 £22,000,000)

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 £120,000,000 during January 2012, £50,000,000 during January 2013 and expects to make special contributions £35,000,000 per annum from 2014 until 2016 None of this cost is expected to be recharged to the Company

22 Commitments

Operating lease commitments

As at 31 December 2012 the Company had annual commitments under non-cancellable operating leases as follows

Operating leases which expire

	2012 £ 000 000	2011 £ 000 000
Other		
Within one year	**1**	1
Within two and five years	**7**	7
Over five years	**4**	2
	12	10

Other commitments

The Company is committed to purchase power and gas under various supply contracts put in place to meet customer demand At 31 December 2012, the minimum commitment under these contracts was £4,517,000,000 (2011 £4,692,000,000)

23 Post balance sheet events

On 5 April 2013, the HES business was sold to a third party, better placed to take the business forward in the niche market it occupies

24 Ultimate parent

The Company is controlled by E ON UK plc The ultimate controlling party is E ON SE, a company incorporated in Germany, which is the parent company of the smallest and largest 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
E ON-Platz 1
D-40479
Dusseldorf
Germany