Company number: 3407430

E.ON Energy Solutions Limited

Strategic Report, Directors' Report and Financial Statements

for the Year Ended 31 December 2014

E.ON Energy Solutions Limited

Strategic Report for the Year Ended 31 December 2014

The directors present their strategic report of the Company for the year ended 31 December 2014.

Fair review of the business

At 31 December 2014, the Company had net assets of £1,621,000,000 (2013: net assets of £1,472,000,000). Both the financial position at the year end and the level of business of the Company during the year was as expected. The directors believe that the present level of activity will be sustained in the current year.

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 products and services to enable customers and users to become energy efficient and to deliver the energy mandates from government.

The Company sells electricity and gas to the residential and business sector; the latter encompassing both Small and Medium Enterprises (SME) and Industrial and Commercial (I&C) customers throughout the United Kingdom. As of 31 December 2014, the Company supplied approximately 7,725,000 (2013: 7,974,000) customer accounts, of which 7,080,000 (2013: 7,309,000) were residential customer accounts and 645,000 (2013: 665,000) were SME and I&C accounts.

In the industry as a whole, electricity consumption in England, Scotland and Wales during the year was 290 billion kWh in 2014 compared with 305 billion kWh in 2013, a decrease of 5%. Gas consumption (excluding power stations) was 506 billion kWh in 2014 compared with 588 billion kWh in 2013, a substantial decrease of 14%. For both commodities, the most significant factor was the weather, with 2014 experiencing temperatures warmer than the seasonal norm throughout the year. An additional factor arises from continuing customer energy efficiency gains and cost conscious use of energy.

During the year the strategic journey to become our customers' "trusted energy partner" continued to drive the Company's key goals. Delivering exceptional customer service remains in critical focus and efforts are focused on a number of areas:

• Customer Satisfaction: investment in customer service through IT, training, simpler products and operational excellence has resulted in a uSwitch customer satisfaction award for the third year in a row, although continued efforts to further drive down call demand levels and call answering lengths are required.
• Digitalisation: continued strong investment in digital capabilities, including online customer self-serve which encompasses electronic billing, inputting meter reads and managing direct debits is expected by the customer base and is a key component to delivering the basics well.
• SMART Metering: the Company continued to invest in SMART meter capabilities and is ahead of the majority of competitors in terms of innovation and installations.
• Energy Efficiency - ECO Obligation: significant energy efficiency measures have been delivered during 2014 which support people living in fuel poverty by funding energy efficiency improvements.

The Company's continual customer centric focus is reflected in its Net Promoter Score given by residential customers, which stood at +2 (in a scale of -100 to +100) at the year end. This is a market leading position for the six larger suppliers and a record high.

During 2014, the significant political and regulatory scrutiny seen in prior years intensified and levels of uncertainty in the marketplace was high given the Competition and Markets Authority review which is fully underway.

Residential customers
In the residential sector, the Company sold 16.9 TWh of electricity and 36.2 TWh of gas in 2014, as compared with 18.8 TWh of electricity and 46.2 TWh of gas in 2013. The main drivers of the decrease include a fall in customer numbers, further impacted by a reduction in the average consumption volume per customer; the latter factor influenced by customer energy efficiency measures and embedded generation effects such as the generation from local solar photovoltaic installations. A further effect includes the very cold temperatures in the first quarter of 2013, contrasting with temperatures which have been warmer than the seasonal norm during 2014. The residential business had approximately 7,080,000 customer accounts as of 31 December 2014 (2013: 7,309,000).

SME and I&C customers
In the SME and I&C sectors the Company sold 28.7 TWh of electricity and 16.4TWh of gas in 2014, as compared with 31.0 TWh of electricity and 20.1 TWh of gas in 2013. The decline from 2013 for SME customers is due to those factors described for the residential sector above, but also additionally for I&C customers from changes in the customer portfolio, with the main effects being the relative size of customers and number of sites. The SME and I&C businesses had approximately 645,000 customer accounts as of 31 December 2014 (2013: 665,000).

Other services
Aside from energy supply, the Company is involved in the following activities;
• Community Energy, a UK market leader for the development of decentralised community energy schemes. This business stream is primarily focused on district heating, low carbon heat and hot water solutions.
• SMART Metering, the roll-out of new SMART meters to customers by 2020.
• Obligation Delivery, the Company is committed to delivering the UK government mandated energy saving measures.
• Highways Lighting, offering end to end solutions for highways lighting requirements including design, installation and network connections.
• Field Operations, encompassing metering activity.

Key performance indicators ('KPIs')
The Board of Management of E.ON SE manage the group's operations on a divisional basis. For this reason, the Company's directors believe that analysis using KPIs for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of the Company. The development, performance and position of the Regional Unit UK division of E.ON SE, which includes the Company, is discussed within the financial review section of 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.

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
Aside from the usual competitive pressure on prices, there is a price 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 market based derivative financial instruments to buy its required supply of power and gas from E.ON Global Commodities SE, a fellow group undertaking. These instruments smooth fluctuations in the wholesale cost of power and gas.

Regulatory risk
The political, legal and regulatory environments within which the Company operates are a source of external risk. Changes to these environments can lead to considerable uncertainty. The Company manages these risks by engaging in intensive and constructive dialogue with government agencies and policy makers.

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.

Approved by the Board of Directors on 25 June 2015 and signed on its behalf by:

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R Matthies
Director
E.ON Energy Solutions Limited
Company No: 3407430
Westwood Way
Westwood Business Park
Coventry
CV4 8LG

E.ON Energy Solutions Limited

Directors' Report for the Year Ended 31 December 2014

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2014.

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:

A D Cocker

R Matthies

D A Bird

A S Ainsworth

D A Leiper

Principal activities

The Company's principal activities during the year and at the year end were the supply of electricity, the shipping and supply of natural gas and the provision of other energy related services to residential, SME and I&C customers.

Results and dividends

The Company's profit for the financial year is £149,000,000 (2013: profit of £115,000,000). No interim dividends were paid during the year (2013: £nil). The directors do not recommend the payment of a final dividend (2013: £nil).

Financial instruments

Objectives and policies

The Company, in common with other E.ON SE subsidiaries, must comply with 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 has a central department that is responsible for financing and treasury strategy, policies and procedures throughout the E.ON SE group. Major strategic financing and corporate finance actions are planned and executed by the corporate finance team at E.ON SE. There is also a treasury team which co-ordinates currency and interest risk management as well as cash management for the whole E.ON SE group.

The Company operates its own specific treasury procedures within the overall E.ON SE treasury framework. The E.ON SE treasury team liaise closely with the Company to ensure that liquidity and risk management needs are met within the requirements of the E.ON SE policies and procedures.

E.ON SE's central financing strategy

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

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

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

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

Price risk

Aside from the usual competitive pressure on prices, there is a price 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 market based derivative financial instruments to buy its required supply of power and gas from E.ON Global Commodities SE, a fellow group undertaking. 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.

Liquidity and cashflow risks

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

Political donations

No political donations were made during the year (2013: £nil).

Future developments

Further discussion of future developments is included in the Strategic Report.

Employees

The Company has no employees but it is recharged by E.ON UK plc for the services of certain employees. The Company ensures that E.ON UK plc has employment policies which 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. The employment practices and procedures of E.ON UK plc are regularly reviewed to ensure that they provide equality of opportunity to all employees within the current legislative framework.

Post balance sheet events

In June 2014 the Office of Gas and Electricity Markets referred the entire UK energy market for review by the Competition & Markets Authority ('CMA'). The CMA published its updated issues statement during February 2015 which gave an update on progress of the review. The CMA review is expected to be concluded by the end of 2015.

Directors' indemnities

The Company maintains liability insurance for its directors and officers. This is a qualifying third party indemnity provision for the purposes of the Companies Act 2006.This insurance cover was in force during the year and is still in force at the date of approving the Directors' Report.

Disclosure of information to the auditors

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

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report, 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 of Directors on 25 June 2015 and signed on its behalf by:

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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

Report on the financial statements

Our Opinion
In our opinion, E.ON Energy Solutions 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 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited
E.ON Energy Solutions Limited's financial statements comprise:

- the balance sheet as at 31 December 2014;
- the profit and loss account 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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Opinion on other matter prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received
Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

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

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors
As explained more fully in the Statement of directors' responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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

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

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

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

In addition, we read all the financial and non-financial information in the Strategic Report, Directors' Report and Financial Statements 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.

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

East Midlands

Date: 29 June 2015

E.ON Energy Solutions Limited

Profit and Loss Account for the Year Ended 31 December 2014

	Note	2014 £ 000 000	2013 £ 000 000
Turnover	2	**7,489**	8,133
Cost of sales		**(6,584)**	(7,234)
Gross profit		**905**	899
Administrative expenses		**(745)**	(793)
Other operating income		**22**	55
Operating profit	3	**182**	161
Income from shares in group undertakings		**-**	2
Interest receivable and similar income	7	**6**	5
Profit on ordinary activities before taxation		**188**	168
Tax on profit on ordinary activities	8	**(39)**	(53)
Profit for the financial year	18	**149**	115

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 2014

	Note	2014 £ 000 000	2013 £ 000 000
Fixed assets			
Intangible assets	9	**759**	794
Tangible assets	10	**234**	215
Investments	11	**22**	22
		1,015	1,031
Current assets			
Stocks	12	**33**	34
Debtors	13	**2,353**	2,453
		2,386	2,487
Creditors: amounts falling due within one year	14	**(1,409)**	(1,702)
Net current assets		**977**	785
Total assets less current liabilities		**1,992**	1,816
Creditors: amounts falling due after more than one year	15	**(5)**	(3)
Provisions for liabilities	16	**(366)**	(341)
Net assets		**1,621**	1,472
Capital and reserves			
Called up share capital	17	**763**	763
Share premium account	18	**41**	41
Profit and loss account	18	**817**	668
Total shareholders' funds	19	**1,621**	1,472

The financial statements on pages 9 to 30 were approved by the Board of Directors on 25 June 2015 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:

<u>Revenue recognition - unread gas and electricity meters</u>
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.

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

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.

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 rsidential, SME and I&C customers. Turnover excludes value added tax.

Revenue 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.

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

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 Renewables Obligation Certificates ('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 fully amortised.

The goodwill arising from the acquisition of the retail energy businesses for certain subsidiary companies, 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 fully amortised. Goodwill of £14,000,000 arose on the acquisition of various Energy Services businesses during 2011. This 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 a 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

Meter equipment includes installation costs.

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 to 10 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.

Stocks and work in progress

Stocks 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.

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

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 14 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 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.

Energy Company Obligation
The Energy Company Obligation order requires UK-licenced energy suppliers to improve the energy efficiency of domestic households from 1 January 2013. Targets are set in proportion to the size of historic customer bases, subject to a minimum of 250,000 customers, and must be delivered by 31 March 2015. The Company continues to judge that it is not legally obligated by this order until 31 March 2015. Accordingly, the costs of delivery are recognised as incurred, when cash is spent or unilateral commitments made resulting in obligations that cannot be avoided.

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.

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 residential, SME and I&C 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 also 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.

3 Operating profit

Operating profit is stated after charging/(crediting):

	2014 £ 000 000	2013 £ 000 000
Operating leases - other assets	**13**	13
Foreign currency (gains)/losses	**(1)**	2
Depreciation of owned assets	**53**	47
Amortisation	**66**	66

Operating profit includes restructuring costs of £21,000,000 (2013: £22,000,000).

Other operating income relates mainly to prepayment infrastructure usage and other sundry income.

4 Auditors' remuneration

Auditors' remuneration was £296,000 (2013: £267,000) for the audit of these financial statements. The Company also incurred £141,000 (2013: £82,000) in relation to other assurance services.

5 Employee information

The Company had no employees during the year (2013: none). The monthly average number of persons recharged by E.ON UK plc for the services of the employees (including directors) during the year was as follows:

	2014 No.	2013 No.
Sales, marketing and distribution	**7,473**	7,740

The aggregate payroll costs recharged were as follows:

	2014 £ 000 000	2013 £ 000 000
Wages and salaries	**180**	187
Social security costs	**16**	16
Other pension costs	**29**	24
	225	227
Less: capitalised in fixed assets	**(15)**	(6)
	210	221

In addition, recharged employee costs of £11,000,000 (2013: £9,000,000) are included within restructuring costs (note 3).

6 Directors' remuneration

The directors' remuneration for the year was as follows:

	2014 £	2013 £
Aggregate emoluments (including benefits in kind)	**1,940,221**	1,865,995

The above amounts relate to five (2013: five) directors whose emoluments were paid by the immediate parent, E.ON UK plc. Of the emoluments disclosed above £1,128,971 (2013: £1,865,995) was recharged to the Company and £811,250 (2013: £nil) was borne by E.ON UK plc and not recharged, based on the proportion of time that the directors spent on the Company's business.

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

	2014 No.	2013 No.
Received or were entitled to receive shares under long term incentive schemes	**5**	5
Accruing benefits under defined benefit pension scheme	**2**	2
Accruing benefits under money purchase pension scheme	**2**	2

During the year, the Company paid or treated as paid contributions to a pension scheme in respect of money purchase benefits in respect of the above directors totalling £116,403 (2013: £139,937).

During the year, no (2013: none) directors exercised Performance Rights over shares in the ultimate parent company, E.ON SE, that they were awarded for services to the E.ON group.

In respect of the highest paid director:

	2014 £	2013 £
Annual salary	**249,696**	244,800
Annual bonus	**278,374**	306,139
Other benefits	**16,611**	16,232
	544,681	567,171
Defined benefit accrued pension entitlement at the year end	**140,685**	131,614

The highest paid director shared his management time between the Company and E.ON UK plc. All of his emoluments for the year were paid and borne by E.ON UK plc and not recharged. The amounts disclosed above represent the Company's share of his emoluments based on the proportion of time that the director spent on the Company's business. In the prior year the amounts disclosed were recharged to the Company. The total emoluments and defined benefit accrued pension entitlement received by the highest paid director from the Company and E.ON UK plc during the year were £907,465 (2013: £945,286) and £234,475 (2013: £219,357) respectively.

7 Interest receivable and similar income

	2014 £ 000 000	2013 £ 000 000
Interest receivable from group undertakings	**6**	5

8 Tax on profit on ordinary activities

	2014 £ 000 000	2013 £ 000 000
Current tax		
Corporation tax charge	**42**	43
Adjustments in respect of prior periods	**3**	(1)
UK corporation tax	**45**	42
Deferred tax		
Origination and reversal of timing differences	**1**	(2)
Deferred tax adjustment relating to prior periods	**1**	-
Effect of changes in tax rates	**-**	10
Unwinding of discount	**(8)**	3
Total deferred tax	**(6)**	11
Total tax on profit on ordinary activities	**39**	53

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 standard rate of corporation tax in the UK at 21.50% (2013: 23.25%) can be explained as follows:

	2014 £ 000 000	2013 £ 000 000
Profit on ordinary activities before taxation	**188**	168
Corporation tax at standard rate	**40**	39
Capital allowances in excess of depreciation	**-**	2
Non-qualifying amortisation not deductible for tax	**1**	-
Expenses not deductible for tax purposes	**2**	2
Adjustments in respect of prior periods	**3**	(1)
Other timing differences	**(1)**	-
Total current tax	**45**	42

During the year the main rate of UK corporation tax was reduced to 21% effective from 1 April 2014. Legislation was included in the Finance Act 2013 to reduce the corporation tax rate from 21% to 20% effective from 1 April 2015.

The corporation tax payable has been reduced by £45,000,000 because of group relief received from a fellow group undertaking for which a payment will be made (2013: payment of£42,000,000).

9 Intangible assets

	Goodwill £ 000 000	ROCs £ 000 000	Other intangibles £ 000 000	Total £ 000 000
Cost				
At 1 January 2014	1,788	199	11	1,998
Additions	-	422	13	435
Surrenders	-	(404)	-	(404)
At 31 December 2014	1,788	217	24	2,029
Accumulated amortisation				
At 1 January 2014	1,204	-	-	1,204
Charge for the year	66	-	-	66
At 31 December 2014	1,270	-	-	1,270
Net book value				
At 31 December 2014	518	217	24	759
At 31 December 2013	584	199	11	794

Surrenders relate to ROCs settled to national authorities on an annual basis.

10 Tangible assets

	Plant and machinery £ 000 000	Fixtures and fittings £ 000 000	Meter equipment £ 000 000	Total £ 000 000
Cost				
At 1 January 2014	44	39	225	308
Additions	25	5	42	72
At 31 December 2014	69	44	267	380
Accumulated depreciation				
At 1 January 2014	1	18	74	93
Charge for the year	1	11	41	53
At 31 December 2014	2	29	115	146
Net book value				
At 31 December 2014	67	15	152	234
At 31 December 2013	43	21	151	215

11 Investments

	2014 £ 000 000	2013 £ 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 2014	33
At 31 December 2014	33
Provision for impairment	
At 1 January 2014	11
At 31 December 2014	11
Net book value	
At 31 December 2014	22
At 31 December 2013	22

The directors believe that the carrying value of the investments is supported by their underlying net assets.

Details of undertakings

Details of the undertakings whose results or financial position principally affected the figures shown in these financial statements 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 Project Earth Limited	Ordinary shares	100%	Leasing of ground source heating systems

All of the undertakings disclosed above are incorporated in the United Kingdom. In accordance with section 410 of the Companies Act 2006, a full list of the Company's investments will be annexed to the Company's next filed annual return.

12 Stocks

	2014 £ 000 000	2013 £ 000 000
Goods for resale	**25**	26
Work in progress	**8**	8
	33	34

13 Debtors

	2014 £ 000 000	2013 £ 000 000
Trade debtors	**647**	792
Amounts owed by group undertakings	**1,584**	1,551
Deferred tax	**59**	53
Other debtors	**50**	32
Prepayments and accrued income	**13**	25
	2,353	2,453

Amounts owed by group undertakings include a £1,581,000,000 floating rate deposit to E.ON UK plc (2013: £1,532,000,000), which incurs interest at LIBOR minus 5 basis points. 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 £68,000,000 (2013: £61,000,000) receivable after more than one year. This can be analysed as follows:

	2014 £ 000 000	2013 £ 000 000
Deferred tax	**59**	53
Other debtors	**9**	8
	68	61

Deferred tax

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

	£ 000 000
At 1 January 2014	53
Deferred tax credited to the profit and loss account	6
At 31 December 2014	59

Analysis of deferred tax

	2014 £ 000 000	2013 £ 000 000
Difference between accumulated depreciation and amortisation and capital allowances	**3**	3
Other timing differences	**64**	66
	67	69
Discount	**(8)**	(16)
Discounted asset for deferred tax	**59**	53

Other timing differences includes £64,000,000 (2013: £65,000,000) relating to goodwill.

The Finance Act 2013 included legislation to reduce the main rate of corporation tax to 20% with effect from 1 April 2015. The deferred tax asset at 31 December 2014 has been measured accordingly.

14 Creditors: amounts falling due within one year

	2014 £ 000 000	2013 £ 000 000
Bank loans and overdrafts	**61**	8
Trade creditors	**255**	250
Amounts owed to group undertakings	**876**	1,191
Other taxation and social security	**76**	98
Other creditors	**1**	2
Accruals and deferred income	**140**	153
	1,409	1,702

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 £205,000,000 (2013: £64,000,000). The notional principal amounts of these commodity forward contracts was £939,000,000 (2013: £1,692,000,000).

15 Creditors: amounts falling due after more than one year

	2014 £ 000 000	2013 £ 000 000
Accruals and deferred income	**5**	3

16 Provisions for liabilities

	Restructuring £ 000 000	Other provisions £ 000 000	Total £ 000 000
At 1 January 2014	1	340	341
Charged to the profit and loss account	6	454	460
Utilised during the year	(7)	(428)	(435)
At 31 December 2014	-	366	366

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.

17 Called up share capital

Allotted and fully paid

	2014		2013	
	No. 000 000	**£ 000 000**	**No. 000 000**	**£ 000 000**
Ordinary shares of £1 each	**760**	**760**	760	760
Ordinary shares of £0.10 each	**32**	**3**	32	3
	792	**763**	792	763

18 Reserves

	Share premium account £ 000 000	Profit and loss account £ 000 000	Total £ 000 000
At 1 January 2014	41	668	709
Profit for the financial year	-	149	149
At 31 December 2014	41	817	858

19 Reconciliation of movements in shareholders' funds

	2014 £ 000 000	2013 £ 000 000
Profit for the financial year	**149**	115
Other ordinary share capital movements	-	3
Other share premium reserve movements	-	41
Net addition to shareholders' funds	**149**	159
Shareholders' funds at 1 January	**1,472**	1,313
Shareholders' funds at 31 December	**1,621**	1,472

20 Commitments

Operating lease commitments

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

Operating leases which expire:

	2014 £ 000 000	2013 £ 000 000
Other		
Within two and five years	**10**	7
Over five years	**5**	-
	15	7

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 2014, the minimum commitment under these contracts was £4,295,000,000 (2013: £5,290,000,000).

21 Post balance sheet events

In June 2014 the Office of Gas and Electricity Markets referred the entire UK energy market for review by the Competition & Markets Authority ('CMA'). The CMA published its updated issues statement during February 2015 which gave an update on progress of the review. The CMA review is expected to be concluded by the end of 2015.

22 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:

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E.ON-Platz 1
D-40479
Düsseldorf
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