E.ON ENERGY SOLUTIONS LIMITED

STRATEGIC REPORT, DIRECTORS' REPORT AND FINANCIAL STATEMENTS

for the Year Ended 31 December 2018

Registered No: 03407430

E.ON ENERGY SOLUTIONS LIMITED
STRATEGIC REPORT
for the Year Ended 31 December 2018

The directors present their strategic report of the Company for the year ended 31 December 2018.

Fair review of the business

The Company's turnover during the year was £6,072 million (2017: £5,930 million), an increase of £142 million compared to the prior year, primarily due to the impact of price increases in response to increased wholesale and third-party costs, combined with the higher gas sales volumes due to the colder weather early in 2018.

Operating profit before derivative gains and losses and impairment for the year was £1 million compared to an operating profit of £167 million in the prior year primarily due to challenging market conditions, a weather-driven decline in power sales volumes, regulatory impacts and higher restructuring costs. The Company's operating loss for the year, including the impact of impairment and derivative losses and gains, was £9 million (2017: operating loss of £141 million).

During the year, the Company made a loss after tax of £7 million (2017: loss after tax of £116 million). The reduction in losses for the year was primarily attributable to lower impairments and derivative mark-to-market losses recognised during the year offset by lower operating profitability compared to the prior year.

The directors believe that the present level of activity will be significantly impacted by the introduction of the Residential Standard Variable Tariff price cap, which is expected to reduce revenue in the current year.

At 31 December 2018, the Company had net assets of £1,001 million (2017: net assets of £1,036 million).

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 2018, the Company supplied approximately 6,577,000 (2017: 6,794,000) customer accounts, of which 6,077,000 (2017: 6,255,000) were residential customer accounts and 500,000 (2017: 539,000) were SME and I&C accounts.

In addition to the sale of power and gas to consumers and businesses, the Company offers a wide range of innovative services to enhance its customers' energy efficiency, self-sufficiency and comfort, including solar panels, e-mobility propositions, lighting solutions, energy management and heating systems. The Company's strategy will remain focussed on developing new solutions and improving people's lives by ensuring each customer is offered a tailored sustainable energy solution that is right for them.

The Company continues to focus on its Net Promoter Score ('NPS') given by residential customers as a key measure of satisfaction. NPS stood at -13 (2017: -8) (in a scale of -100 to +100) at the year end. This reflects the competitive nature of the market with most larger suppliers experiencing a decline in score during the year.

In the industry as a whole, electricity consumption in England, Scotland and Wales during the year was 301 billion kWh which is in line with 2017. Gas consumption (excluding power stations) was 511 billion kWh in 2018 compared with 496 billion kWh in 2017, an increase of 3%.

2018 continued to be marked by considerable political and regulatory scrutiny which will continue into 2019 and beyond, as the Residential Standard Variable Tariff price cap came into effect from 1 January 2019.

In November 2018, the General Court of the European Court of Justice ruled the European Commission's approval of the introduction of a capacity market in the UK invalid. This ruling has led to the capacity market being suspended whilst an investigation is performed by the European Commission. Until state aid approval is obtained, no capacity auctions can be held, and no capacity payments can be made to market participants holding contracts from previous auctions. The UK government is working with the European Commission to support its investigation and ensure a timely relaunch of the capacity market. It is also unclear at this stage what impact Brexit could have on the European Commission's jurisdiction over the UK capacity market. The Company continues to provide for supplier related capacity market payments over the period in which they arise since, based on currently available information, the Company considers it is more likely than not that the scheme will be relaunched and that it will be required to settle amounts in relation to the period between the date of the market being suspended and being reinstated.

Residential customers

In the residential sector, the Company sold 13.6 TWh of electricity and 32.7 TWh of gas in 2018, compared with 14.0 TWh of electricity and 31.4 TWh of gas in 2017. The decrease in electricity consumption was driven by the lower number of customer accounts and continued reduction in average consumption volume per customer, which is influenced by continued customer energy efficiency measures. Gas consumption increased, largely due to the adverse weather conditions in the first quarter of 2018.

SME and I&C customers

In the SME and I&C sectors, the Company sold 17.8 TWh of electricity and 11.4 TWh of gas in 2018, compared with 19.7 TWh of electricity and 11.1 TWh of gas in 2017. The decrease in electricity consumption is due to the factors outlined above for the residential sector but also additionally for I&C customers, from changes in the customer portfolio (including relative size and number of sites supplied). Gas consumption increased, largely due to the adverse weather conditions in the first quarter of 2018.

Other energy services

Aside from energy supply, the Company is involved in the following activities:

- New Customer Solutions - delivering new, innovative energy solutions to residential and business customers.
- City Energy Solutions - designing, building and operating local, lower carbon energy centres; producing power, heat and hot water for residential and business customers.
- Smart Metering - the roll-out of the next generation of intelligent gas and electricity meters to customers.
- Obligation and Installation Services - designing and installing home energy efficiency and heating measures for customers as part of the government mandated Energy Company Obligation scheme, as well as for 'able to pay' customers.
- Infrastructure Services - offering end to end infrastructure solutions for housing developers, towns and cities.
- Field Operations - encompassing metering activity.

Key performance indicators ('KPIs')

The Board of Management of E.ON SE manages the group's operations on a divisional basis. For this reason, the Company's directors believe that analysis using financial KPIs for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of the Company. The development, performance and position of the Customer Solutions UK division of E.ON SE, which includes the Company, are discussed within the group's annual report which does not form part of this report. The directors do not believe there are any further relevant KPIs that are not already disclosed within these financial statements.

The Company's non-financial KPIs during the year were as below. The directors do not believe there are any further relevant financial KPIs that are not already disclosed within these financial statements. The financial KPIs are discussed at the start of the fair review of the business on page 2.

KPIs	2018	2017	Comment
Volumes of electricity sold (TWh)	31.4	33.7	Electricity sales decreased due to lower average consumption and customer numbers in 2018.
Volumes of gas sold (TWh)	44.1	42.5	Gas sales increased due to the adverse weather conditions in the first quarter of 2018.
Residential customer NPS (range of -100 to +100)	-13	-8	NPS has declined during 2018 and is also behind the benchmarked competitor basket average.
Customer account numbers (million)	6.58	6.79	Competitive pressures in the Residential market drove the reduction in accounts from the prior year as small suppliers continue to price aggressively.
Compliant SMART meters fitted (thousands)	782	540	The volume of SMART meter installations has increased from 2017 as the roll out phase has ramped up.

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 and the variability of costs in meeting other non-energy commitments such as supporting social and environmental programmes. 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 UK Energy Markets Limited, a related undertaking, with effect from May 2017 and previously from Uniper Global Commodities SE ('UGC'), a then related undertaking. These instruments smooth fluctuations in the wholesale cost of power and gas. The Company also strives to meet its social and environmental targets in a timely and cost-effective manner.

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

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.

Market risk
The markets within which the Company operates are subject to strong competition from new market entrants and existing participants. In connection with the ongoing economic uncertainty, the Company faces risks from declining demand, primarily from residential and SME customers who are reducing their energy use. The Company uses a comprehensive sales management system and intensive customer management techniques to minimise these risks.

Brexit
On 23 June 2016, Britain voted to leave the European Union (EU). Article 50 was triggered on 29 March 2017, which started the exit process from the EU. If no agreement is reached as part of this process Britain will leave the EU without a deal which brings with it a number of consequences. A representative of the Company attends the E.ON UK plc led cross functional working group, which meets regularly to consider the impact of Brexit legislative changes on existing and new contracts, as well as other potential implications of Brexit, and to monitor further Brexit developments and their potential impact on the Company's business. Until such time as the final agreement and/or the transitional arrangements are agreed, the actual impact of Brexit on the Company's business remains uncertain.

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 17 June 2019 and signed on its behalf on 25 June 2019 by:

C Barr
Director

E.ON Energy Solutions Limited
Company No: 03407430
Westwood Way
Westwood Business Park
Coventry
CV4 8LG

E.ON ENERGY SOLUTIONS LIMITED
DIRECTORS' REPORT
for the Year Ended 31 December 2018

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2018.

Directors of the Company

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

M D Lewis
C J Lovatt
S L Vaughan
C Barr (appointed 16 July 2018)
M R French (appointed 1 November 2018)
A Groth (resigned 30 May 2018)
B Wagner (resigned 31 October 2018)

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 loss for the financial year is £7 million (2017: loss of £116 million). No interim dividend was paid during the year (2017: £600 million of 75.8 pence per share). The directors do not recommend the payment of a final dividend (2017: £nil).

Financial risk management

Objectives and policies

The Company, in common with other E.ON SE subsidiaries, must comply with the E.ON SE group's 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 UK plc treasury team liaise closely with the Company to ensure that liquidity and risk management needs are met within the requirement of the E.ON SE group's 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.

The E.ON UK plc 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 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 the E.ON SE group's 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 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

Further discussion of price risk is included in the Strategic Report.

Credit risk management

Further discussion of credit risk is included in the Strategic Report.

Liquidity and cash flow 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 (2017: £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.

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 auditors

As far as each director is aware, there is no relevant audit information of which the Company's auditors are unaware and each director has taken all the 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.

Statement of directors' responsibilities in respect of these financial statements

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

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

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

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

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

Approved by the Board of Directors on 17 June 2019 and signed on its behalf on 25 June 2019 by:

C Barr
Director

E.ON Energy Solutions Limited
Company No: 03407430
Westwood Way
Westwood Business Park
Coventry
CV4 8LG

Independent Auditors' Report to the Members of E.ON ENERGY SOLUTIONS LIMITED

Report on the audit of the financial statements

Opinion

In our opinion, E.ON Energy Solutions Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Strategic Report, Directors' Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2018; the profit and loss account, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Independent Auditors' Report to the Members of E.ON ENERGY SOLUTIONS LIMITED (continued)

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of these financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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.

Other required reporting

Companies Act 2006 exception reporting

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 by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

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

Date 25 June 2019

E.ON ENERGY SOLUTIONS LIMITED
PROFIT AND LOSS ACCOUNT
for the Year Ended 31 December 2018

	Note	2018 £000 000	2017 £000 000
Turnover	2	**6,072**	5,930
Cost of sales		**(5,233)**	(5,006)
Gross profit		**839**	924
Administrative expenses		**(906)**	(810)
Other operating income	3	**68**	53
Operating profit before derivative gains and losses and impairment		**1**	167
Impairment of fixed assets	3	**(10)**	(102)
Other operating expense - derivatives	3	**-**	(206)
Operating loss	3	**(9)**	**(141)**
Interest receivable and similar income	7	**2**	1
Loss before taxation		**(7)**	(140)
Tax on loss	8	**-**	24
Loss for the financial year		**(7)**	(116)

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

The notes on pages 14 to 34 form part of these financial statements.

E.ON ENERGY SOLUTIONS LIMITED
BALANCE SHEET
as at 31 December 2018

	Note	**2018** **£000 000**	2017 £000 000
Fixed assets			
Intangible assets	9	**1,038**	1,022
Tangible assets	10	**246**	196
Investments	11	**22**	22
Other assets	12	**39**	-
		1,345	1,240
Current assets			
Stocks	13	**38**	39
Debtors: amounts falling due after more than one year	14	**29**	-
Debtors: amounts falling due within one year	15	**1,187**	1,341
Cash at bank and in hand		**98**	97
		1,352	1,477
Creditors: amounts falling due within one year	16	**(1,049)**	(1,134)
Net current assets		**303**	343
Total assets less current liabilities		**1,648**	1,583
Creditors: amounts falling due after more than one year	17	**(4)**	(4)
Provisions for liabilities	18	**(643)**	(543)
Net assets		**1,001**	1,036
Capital and reserves			
Called up share capital	19	**763**	763
Share premium account		**41**	41
Profit and loss account		**197**	232
Total equity		**1,001**	1,036

The financial statements on pages 11 to 34 were approved by the Board of Directors on 17 June 2019 and signed on its behalf on 25 June 2019 by:

C Barr
Director
E.ON Energy Solutions Limited
Company No: 03407430

The notes on pages 14 to 34 form part of these financial statements.

E.ON ENERGY SOLUTIONS LIMITED
STATEMENT OF CHANGES IN EQUITY
for the Year Ended 31 December 2018

	Called up share capital £000 000	Share premium account £000 000	Profit and loss account £000 000	Total equity £000 000
At 1 January 2017	763	41	948	1,752
Loss for the financial year and total comprehensive expense	-	-	(116)	(116)
Dividends and total transactions with owners recognised directly in equity	-	-	(600)	(600)
At 31 December 2017	763	41	232	1,036
Change in accounting policy (note 22)	-	-	(28)	(28)
Restated balance as at 1 January 2018	763	41	204	1,008
Loss for the financial year and total comprehensive expense	-	-	(7)	(7)
At 31 December 2018	**763**	**41**	**197**	**1,001**

The notes on pages 14 to 34 form part of these financial statements.

1. Accounting policies

General information

The Company supplies electricity, ships and supplies natural gas and provides other energy related services to residential, SME and I&C customers in the UK.

The Company is a private company limited by shares and is incorporated and domiciled in the UK. The address of the Company's registered office is Westwood Way, Westwood Business Park, Coventry, England, CV4 8LG.

Basis of preparation of financial statements

The Company has prepared these financial statements in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' ('FRS 101'). These financial statements have been prepared under the going concern basis, historical cost convention, as modified by the revaluation of derivative financial assets and financial liabilities measured at fair value, and in accordance with the Companies Act 2006 as applicable to companies using FRS 101. The principal accounting policies, which have been applied consistently throughout the year, are set out below.

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

- The requirements of paragraphs 10(d) (statement of cash flows), 16 (statement of compliance with all IFRS), 111 (cash flow statement information) and 134-136 (capital management disclosures) of IAS 1 Presentation of Financial Statements
- The comparative information requirements of paragraph 38 of IAS 1 Presentation of Financial Statements in respect of paragraph 79(a)(iv) of IAS 1, paragraph 73(e) of IAS 16 Property, Plant and Equipment and paragraph 118(e) of IAS 38 Intangible Assets (reconciliations between the carrying amount at the beginning and the end of the year)
- The requirements of IAS 7 Statement of Cash Flows
- The requirements of Paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- The requirements of Paragraph 17 of IAS 24 Related Party Disclosures (key management compensation)
- The requirements of IAS 24 Related party disclosures to disclose related party transactions entered into between two or more wholly owned members of a group
- The requirements of IFRS 7 Financial Instruments: Disclosures
- The requirements of paragraphs 91 to 99 of IFRS 13 Fair value measurement (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
- The requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119 (a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers

New standards effective in the year

IFRS 15 Revenue from Contracts with Customers (which replaces IAS 18 Revenue) and IFRS 9 Financial Instruments (which replaces IAS 39 Financial Instruments) are new accounting standards effective for the year ended 31 December 2018. The impact of these standards has been disclosed within note 22. There are no other amendments to accounting standards or IFRIC interpretations that are effective for the year ended 31 December 2018 and which have had a material impact on the Company.

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 entity 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 these 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 these financial statements.

Areas of significant 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:

Commodity derivatives

Forward power and gas contracts entered into to meet the Company's physical energy requirements meet the definition of derivatives under IFRS 9. Previously, until May 2017, the Company accounted for approximately 50% of its forward power and gas trades at fair value through the profit and loss ('FVTPL'), with the remaining 50% being accounted for as own use. The 50% election was deemed appropriate given the individual nature of the trades. The fair value of forward contracts was recognised as an asset or liability on the balance sheet from the date the contract was entered into. Movements were recorded at FVTPL. The own use forward contracts were accounted for on an accruals basis.

As of May 2017, following a change in counterparty to its power and gas purchase arrangements, the Company now accounts for 100% of its forward power and gas contracts required for physical delivery as own use on an accruals basis. The Company also enters into a small volume of forward power and gas contracts which are not required for physical delivery, but act as a partial price hedge, in addition to entering into weather derivatives to hedge against the effects of weather on prices and value. These proxy and weather hedges also meet the definition of derivatives under IFRS 9 but are accounted for at FVTPL. Fair values of the proxy and weather hedges are estimated by reference in part to published price quotations in active markets and in part by using valuation techniques and are recognised as an asset or liability on the balance sheet from the date the contract is entered into. Movements are recorded at FVTPL.

Forward contracts are not designated in hedge accounting relationships, and thus fair value movements are recognised in the profit and loss account. The hedged items (such as forecast sales and firm commitments) are not fair valued.

Capacity market payments

In November 2018, the General Court of the European Court of Justice ruled the European Commission's approval of the introduction of a capacity market in the UK invalid. This ruling has led to the capacity market being suspended whilst an investigation is performed by the European Commission. Until state aid approval is obtained, no capacity auctions can be held, and no capacity payments can be made to market participants holding contracts from previous auctions. The UK government is working with the European Commission to support its investigation and ensure a timely relaunch of the capacity market. It is also unclear at this stage what impact Brexit could have on the European Commission's jurisdiction over the UK capacity market. The Company continues to provide for supplier related market capacity payments over the period in which they arise since, based on currently available information, the Company considers it is more likely than not that the scheme will be relaunched and that it will be required to settle amounts in relation to the period between the date of the market being suspended and being reinstated.

Critical accounting estimates that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Taxation

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

Impairment of financial assets

The Company has two types of financial assets that are subject to the expected credit loss model:

- trade receivables from the sale of electricity, gas and energy related services; and
- amounts owed by group undertakings.

The expected future credit loss is calculated by multiplying the probability of default by the carrying amount of the financial asset (exposure at default) and the expected loss ratio (loss given default). The probability of default describes the probability that a debtor will not meet their payment obligations and the receivable will therefore default. Exposure at default is the amount of the financial asset allocated to the Company at the time of default. Loss given default is the expectation of what portion of a financial asset is no longer recoverable in the event of default and is determined taking into account guarantees, other loan collateral and, if appropriate, insolvency ratios.

Trade receivables

The Company applies the IFRS 9 simplified approach to measuring expected credit losses for trade receivables, which uses a lifetime expected credit loss allowance. The expected loss rates are based on available external and internal rating information as well as historical default ratios. The estimates and assumptions used to determine the level of expected credit losses are reviewed periodically.

In the prior year under IAS 39, the impairment of trade receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off and valuation allowances against trade receivables were provided for identifiable individual risks where the loss was probable.

Amounts owed by group undertakings

For amounts owed by group undertakings, the Company first determines the 12 month expected credit loss, with the lifetime expected credit loss being recognised in the event of a significant increase in default risk. This is assumed if the internally determined counterparty risk has been downgraded at least three levels since initial recognition. If external or internal rating information is available, the expected credit loss is determined on the basis of this data. If no rating information is available, the Company determines default ratios on the basis of historical default rates, taking into account forward-looking information on economic developments. The estimates and assumptions used to determine the level of expected credit losses are reviewed periodically to determine if there is a significant increase in default risk.

In the prior year under IAS 39, amounts owed by group undertakings were assessed to determine whether there was objective evidence that an impairment was required. Impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event had an impact on the estimated future cash flows of the financial asset that could be reliably estimated.

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 are estimated using historical consumption patterns taking into account the industry reconciliation process for total gas and total electricity usage by supplier. Unbilled amounts are included in trade receivables. 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 goodwill

Positive goodwill is capitalised and classified as an asset on the balance sheet. It is reviewed for impairment at the end of the first full financial year following the acquisition and annually in other periods. Goodwill is impaired if events or changes in circumstances indicate that the carrying value may not be recoverable.

Impairment of fixed assets

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 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.

Going concern

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

Turnover

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

Revenues are generally recognised when the Company fulfils its performance obligation by transferring a promised good or service to a customer. An asset is deemed to be transferred when the customer obtains control of the asset. The vast majority of the Company's performance obligations are fulfilled over time. The relatively subordinate point-in-time revenue recognition occurs primarily where the Company builds and sells energy related solutions. Revenue is recognised when control is transferred to the customer, which means that no significant discretionary decisions are required.

For all such revenues, progress is measured using output-based methods. The methods used appropriately reflect the pattern of transfer of goods to customers or provision of services for customers. Revenues from the sale of goods and services are measured using the transaction prices allocated to these goods and services. They reflect the value of the volume supplied, including an estimated value of the volume supplied to customers between the date of the last invoice or meter reading and the end of the period. Both billed and unbilled amounts receivable are included within trade debtors.

Monthly advance payments for Residential customer customers are generally determined on the basis of historical consumption data. In SME and I&C, a bottom-up approach is used to calculate individual rates. The Company's sales transactions generally are not based on any material finance components. The average target payment period is between 14 and 30 days. Refunds to customers are an exception and are only granted if the customer is disconnected from the power supply for an extended period of time. Similarly, as a rule, no warranties are granted in relation to the supply of electricity and gas. Warranties are only granted for certain other energy related services.

Accrued income

Income recognised in advance of billing, excluding electricity and gas related income, is debited to an accrued income account and recognised in the profit and loss account in the period to which it relates.

Intangible fixed assets

Goodwill is capitalised and classified as an asset on the balance sheet. It is reviewed for impairment annually and impaired 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.

Software costs are stated at cost less accumulated amortisation and impairment losses. They are amortised on a straight-line basis over their useful economic lives. Software includes assets in the course of construction which are amortised when the software becomes operational.

Prior to IFRS 15 implementation, third party intermediaries ('TPI') commissions representing the cost of non-residential customer acquisition are stated at cost and amortised over the average customer contract life. Following the implementation of IFRS 15, these are now recorded with other assets.

Other intangibles relate primarily to capitalised development costs and acquired customer lists. Other intangibles are stated at cost less accumulated amortisation and impairment losses. These are amortised on a straight-line basis over their useful economic lives. Capitalised development costs include costs relating to assets under construction and these costs are amortised when the contract becomes operational.

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.

ROCs are surrendered to national authorities on an annual basis and are not amortised. No amortisation is provided on goodwill.

Asset class	Amortisation method and rate
Software	Straight-line basis over 3 to 5 years
Other intangibles	Straight-line basis over 17 to 52 years
TPI commissions (prior to IFRS 15 implementation)	Straight-line basis over 1 to 3 years

Tangible assets

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

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

Asset class	Depreciation method and rate
Plant and machinery	Straight-line basis over 25 to 76 years
Fixtures and fittings	Straight-line basis over 3 to 5 years
Meter equipment*	Straight-line basis over 7 to 10 years

*Meter equipment includes installation costs.

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

Fixed asset investments

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

Other assets

Following the adoption of IFRS 15, other assets relate to TPI commissions representing the cost of non-residential customer acquisition. These are stated initially at cost and are subsequently amortised on a straight-line basis over the length of the respective customer contract, which can be between 1 to 4 years.

Stocks

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

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 exceed 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

These financial statements are presented in Great British Pounds ("GBP") which is the Company's functional currency. All financial information is presented in GBP has been rounded to the nearest million.

Transactions in foreign currencies are recorded at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the closing rates at the balance sheet date. All exchange differences are included in the profit and loss account.

Financial instruments

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

Derivative instruments accounted for as FVTPL are recorded as either assets or liabilities in the balance sheet and measured at fair value. Changes in the fair value of derivatives that do not qualify for hedge accounting are recognised in the profit and loss account as they arise. Own use forward contracts are accounted for on an accruals basis.

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

See the directors' report and notes 14, 15 and 16 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 recognised initially at fair value and subsequently measured at amortised cost. These balances are consolidated at each period end into a single balance with each group company. These transactions are net settled. As a result the directors consider it appropriate to present inter-company balances within these financial statements on a net basis. Formal loan balances are settled and presented gross.

Inter-company receivable balances are provided for in line with the impairment policy set out on page 16.

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.

A provision for TPI commission costs is recognised when the non-residential customer has signed a contract with the Company. This provision is utilised as payments are made to the TPIs. A corresponding other asset or, prior to IFRS 15 implementation, a corresponding intangible asset is also recognised and amortised over the average customer contract life.

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.

Operating leases

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

Current and deferred income tax

The tax credit for the year comprises current and deferred tax.

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

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

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

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

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

Pensions costs

The Company has no employees but is recharged by E.ON UK plc for the services of certain of its employees. E.ON UK plc contributes to both defined contribution and defined benefit pension schemes on behalf of its employees. The recharges to the Company from E.ON UK plc for services from certain of its employees include the current pension service cost but no recharges are made for any pension deficit repair payments. It is not possible to identify the share of the underlying assets and liabilities of the E.ON UK plc group defined benefit pension scheme that relate to existing and previous employees recharged to the Company. Further details of these schemes are available in E.ON UK plc's financial statements.

2. Turnover

Turnover, which excludes value added tax, primarily represents the value of electricity and gas supplied to residential, SME and I&C customers. The Company's turnover, all of which arises in the course of the Company's principal activity, arises in the UK.

3. Operating loss

Operating loss is stated after charging/(crediting):

	2018 £000 000	2017 £000 000
Operating lease	**13**	9
Depreciation of owned assets (note 10)	**38**	53
Foreign currency gains	**(3)**	(8)
Derivative losses	**-**	206
Impairment of financial assets (note 22)	**20**	-
Loss on disposal of intangible fixed assets	**1**	-
Impairment of tangible fixed assets (note 10)	**8**	92
Amortisation of intangible assets (note 9)	**25**	54
Impairment of intangible fixed assets (note 9)	**2**	10

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

No inventories were recognised as an expense during the year (2017: £nil).

In addition to expected credit losses of £20 million (2017: £nil) , other impairments of trade receivables and amounts owed to group undertakings were recognised as an expense during the year amounting to £80 million (2017: £86 million).

4. Auditors' remuneration

Auditors' remuneration was £257,000 (2017: £233,000) for the audit of these financial statements. The Company also incurred £197,000 (2017: £204,000) in relation to other assurance services.

5. Employee information

The Company had no employees during the year (2017: none). The monthly average number of persons recharged by E.ON UK plc for the services of employees (including directors) during the year was as follows:

	2018 Number	2017 Number
Sales, marketing and distribution	**7,709**	7,673

The aggregate payroll costs recharged were as follows:

	2018 £000 000	2017 £000 000
Wages and salaries	**231**	207
Social security costs	**22**	19
Other pension costs	**42**	40
	295	266
Less: capitalised in fixed assets	**(39)**	(38)
Restructuring costs	**23**	3
	279	231

6. Directors' remuneration

The directors' remuneration for the year was as follows:

	2018 £	2017 £
Aggregate emoluments (including benefits in kind)	**3,574,615**	3,446,026

The above amounts relate to seven (2017: eight) directors whose emoluments were paid by other E.ON group companies. Of the emoluments disclosed above, £3,574,615 (2017: £3,446,026) was recharged by other E.ON group companies to the Company 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:

	2018 No.	2017 No.
Received or were entitled to receive shares under long term incentive schemes	**7**	8
Accruing benefits under a defined contribution pension scheme	**4**	2
Accruing benefits under a defined benefit pension scheme	**3**	6

During the year, five directors (2017: five) exercised Performance Rights over shares in the ultimate parent company, E.ON SE, that they were awarded for services to the E.ON SE group under Long Term Incentive ('LTI') schemes. Total payments under the LTI arrangements were £688,134 (2017: £478,744).

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 £6,667 (2017: £10,569).

In respect of the highest paid director:

	2018 £	2017 £
Aggregate emoluments (including benefits in kind)	**1,126,960**	930,171

The above amounts relate to amounts recharged to the Company by other E.ON group companies that employ the director. Of the emoluments disclosed above, £1,126,960 (2017: £930,171) was recharged to the Company based on the proportion of time that the highest paid director spent on the Company's business.

During both years, the highest paid director accrued benefits under defined benefit pension schemes with the E.ON group company that employed them, which was not the Company.

7. Interest receivable and similar income

	2018 £000 000	2017 £000 000
Interest receivable from group undertakings	**2**	1

8. Tax on loss

	2018 £000 000	2017 £000 000
Current tax:		
UK corporation tax (credit)/charge	**(10)**	14
Adjustment in respect of prior years	**(2)**	(1)
Total current tax (credit)/charge	**(12)**	13
Deferred tax:		
Origination and reversal of timing differences	**8**	(36)
Adjustment in respect of prior years	**1**	1
Movement due to changes in tax rates	**3**	(2)
Total deferred tax charge/(credit)	**12**	(37)
Tax credit on loss	**-**	(24)

Factors affecting current tax credit for the year

The tax credit for the year is lower (2017: higher) than the standard rate of corporation tax in the UK for the year ended 31 December 2018 of 19% (2017: 19.25%). The differences are explained below:

	2018 £000 000	2017 £000 000
Loss on ordinary activities before taxation	**(7)**	(140)
Tax credit on loss on ordinary activities before taxation at 19% (2017: 19.25%)	**(1)**	(27)
Effects of:		
Initial recognition exemption	**-**	1
Impact of rate change between corporation tax and deferred tax	**2**	2
Adjustment in respect of prior years - current tax	**(2)**	(1)
Adjustments in respect of prior years - deferred tax	**1**	1
Tax credit for the year	**-**	(24)

The tax rate for the current year is lower than the prior year, due to changes in the UK corporation tax rate, which decreased from 20% to 19% from 1 April 2017. Further changes to the UK corporation tax rates were substantively enacted as part of the Finance Bill 2017 (on 6 September 2017). These include a reduction to the UK corporation tax rate, to reduce the rate to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and are reflected in these financial statements.

The corporation tax receivable has been reduced by £12 million because of group relief surrendered to a fellow group undertaking for which a payment will be received (2017: payment made of £13 million). Accordingly, no tax losses are available to carry forward.

9. Intangible assets

	Goodwill £000 000	ROCs £000 000	Software £000 000	TPI commissions £000 000	Other intangibles £000 000	Total £000 000
Cost						
At 1 January 2018	584	257	161	124	17	1,143
Additions	-	615	37	-	5	657
Disposals	-	-	-	-	(1)	(1)
Reclass re IFRS 15	-	-	-	(124)	5	(119)
Surrenders	-	(574)	-	-	-	(574)
At 31 December 2018	**584**	**298**	**198**	**-**	**26**	**1,106**
Accumulated amortisation						
At 1 January 2018	-	-	39	80	2	121
Charge for the year	-	-	24	-	1	25
Impairments	-	-	1	-	1	2
Reclass re IFRS 15	-	-	-	(80)	-	(80)
At 31 December 2018	**-**	**-**	**64**	**-**	**4**	**68**
Net book value						
At 31 December 2018	**584**	**298**	**134**	**-**	**22**	**1,038**
At 31 December 2017	584	257	122	44	15	1,022

Surrenders relate to ROCs settled to national authorities on an annual basis. Disposals are made up of contract setup costs associated with contracts which are not proceeding.

Following the implementation of IFRS 15, TPI commissions relating to costs to fulfil a contract have been re-presented as other assets and continue to be amortised on a straight-line basis and other intangibles includes £5 million of additions in relation to district heating schemes (note 22).

Software impairment of £1 million (2017: £10 million) relates to a software project that will no longer be taken forward by the Company following a review and which has been impaired to £nil as no value is expected to be recovered from the project (note 3).

As a result of the annual review of fixed assets, impairment of other intangibles of £1 million relates to a district heating site where connection related issues in the year have changed the assessment of the net present value of the project (note 3).

Software includes the net book value of assets in the course of construction of £59 million (2017: £55 million).

Other intangibles include the net book value of assets in the course of construction of £7 million (2017: £4 million).

10. Tangible assets

	Plant and machinery £000 000	Fixtures and fittings £000 000	Meter equipment £000 000	Total £000 000
Cost or valuation				
At 1 January 2018	88	1	397	486
Additions	10	-	100	110
Disposals	(1)	-	(19)	(20)
Reclass re IFRS 15	(13)	-	-	(13)
At 31 December 2018	84	1	478	563
Accumulated depreciation				
At 1 January 2018	60	-	230	290
Charge for the year	1	-	37	38
Disposals	-	-	(19)	(19)
Impairments	5	-	3	8
At 31 December 2018	66	-	251	317
Net book value				
At 31 December 2018	**18**	**1**	**227**	**246**
At 31 December 2017	28	1	167	196

As a result of the annual review of fixed assets, an impairment charge of £5 million (2017: £55 million) based on a value-in-use calculation has been recognised for plant and machinery associated with a district heating site where connection related issues in the year have changed the assessment of the net present value of the project. A further £3 million (2017: £37 million) impairment for meter equipment, including analogue meters, based on a value-in-use calculation has been recorded in relation to the smart metering rollout (note 3).

Plant and machinery includes the net book value of assets in the course of construction of £nil (2017: £1 million).

The Company has voluntarily changed the presentation of district heating schemes in Plant and machinery of £13 million to reflect the requirements of IFRS 15 (note 22).

11. Investments

	2018 £000 000	2017 £000 000
Shares in group undertakings and participating interests	**22**	22

Shares in group undertakings and participating interests

	Subsidiary undertakings £000 000
Cost or valuation	
At 1 January 2018	33
At 31 December 2018	33
Provision for impairment	
At 1 January 2018	11
At 31 December 2018	11
Net book value	
At 31 December 2018	22
At 31 December 2017	22

The directors believe that the carrying value of the investments is supported by their recoverable amount.

Details of undertakings

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

Undertaking	Holding	Proportion of voting rights and shares held	Principal Activity
Subsidiary undertakings			
E.ON Energy Gas (Eastern) Limited	Ordinary shares	100%	Dormant
E.ON Energy Gas (Northwest) Limited	Ordinary shares	100%	Dormant
E.ON Project Earth Limited	Ordinary shares	100%	Leasing of ground source heating systems
E.ON UK Industrial Shipping Limited	Ordinary shares	100%	Dormant
Economy Power Limited	Ordinary shares	100%	Dormant
Energy Collection Services Limited	Ordinary shares	100%	Dormant
Utility Debt Services Limited	Ordinary shares	100%	Dormant

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

12. Other assets

The Company has recognised an asset in relation to costs to fulfil customer contracts, of which the balance was as follows:

	2018 £000 000	2017 £000 000
Assets recognised from costs incurred to fulfil a contract at 31 December	**39**	-

Other assets are stated after amortisation charges of £35 million (2017: £nil).

Following the implementation of IFRS 15, TPI commissions relating to costs to fulfil a contract have been re-presented as other assets and continue to be amortised on a straight-line basis (note 22).

13. Stocks

	2018 £000 000	2017 £000 000
Stores	**35**	35
Work in progress	**3**	4
	38	39

There are no provisions for impairment of stocks (2017: £nil).

14. Debtors: amounts falling due after one year

	2018 £000 000	2017 £000 000
Prepayments and accrued income	**15**	-
Deferred tax asset (note 15)	**14**	-
	29	-

15. Debtors: amounts falling due within one year

	2018 £000 000	2017 £000 000
Trade receivables	**547**	586
Amounts owed by group undertakings	**552**	647
Commodity and other derivative financial instruments	**1**	2
Deferred tax	**12**	33
Other debtors	**10**	43
Prepayments and accrued income	**65**	30
	1,187	1,341

Amounts owed by group undertakings include a £525 million floating rate deposit to E.ON UK plc (2017: £639 million), which is unsecured, repayable on demand and 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 Company's parent, E.ON UK plc, and are unsecured, interest free and repayable on demand.

Derivative financial instruments consist of foreign currency swaps that have been entered into with E.ON SE to mitigate the impact of foreign exchange on the Company.

Included within trade and other receivables is £843 million (2017: £881 million) of unbilled debt.

Trade receivables and amounts owed by group undertakings are stated after loss allowances of £208 million and £2 million respectively (2017: £160 million and £nil).

The closing loss allowances for trade receivables and amounts owed by group undertakings as at 31 December 2018 have been reconciled to the opening loss allowances within note 22.

The deferred tax asset/(provision) comprises:

	2018 £000 000	2017 £000 000
Decelerated capital allowances	19	16
Intangible fixed assets	(1)	12
Other timing differences	8	5
	26	33

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

	2018 £000 000
Deferred tax asset at 1 January 2018	33
Deferred tax debited to the profit and loss account	(12)
Deferred tax credit to reserves (note 22)	5
At 31 December 2018	26

The Finance Act (No. 2) 2015 included legislation to reduce the main rate of corporation tax to 19% with effect from 1 April 2017. The Finance Act 2016 further reduced the main rate to 17% from 1 April 2020. The deferred tax asset at 31 December 2018 has been measured accordingly.

Within the deferred tax charge of £12 million, the amount that relates to the change in the tax rate is a £3 million charge.

16. Creditors: amounts falling due within one year

	2018 £000 000	2017 £000 000
Trade payables	**206**	253
Amounts owed to group undertakings	**646**	683
Other taxation and social security	**62**	64
Accruals and deferred income	**128**	127
Commodity and other derivative financial instruments	**4**	5
Other creditors	**3**	2
	1,049	1,134

Amounts owed to group undertakings relate to the provision of services, primarily energy purchases, and are unsecured, interest free and repayable on demand.

Commodity and other derivative financial instruments primarily include contracts that have been entered into to mitigate the impact of the weather on the Company and other certain derivatives.

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

	2018 £000 000	2017 £000 000
Accruals and deferred income	**4**	4

18. Provisions for liabilities

	Capacity market payments £000 000	ROCs £000 000	TPI commissions £000 000	Other provisions £000 000	Total £000 000
At 1 January 2018	-	440	39	64	543
Charged to the profit and loss account	59	602	37	31	729
Utilised during the year	-	(574)	(39)	(16)	(629)
At 31 December 2018	**59**	**468**	**37**	**79**	**643**

Capacity market payments represent the estimated value payable once the capacity market is reinstated.

ROCs represent the estimated value of certificates payable to national authorities for the Company's activities during the year and are settled on an annual basis.

TPI commissions represent the cost of non-residential customer acquisitions payable to third parties and which are expected to be settled over a period of 1 to 4 years.

Other provisions relate primarily to amounts payable for onerous contracts, restructuring severance costs, meter related costs and customer reward points. These obligations are expected to be settled over a period of 2 to 17 years.

19. Called up share capital

	2018 £000 000	2017 £000 000
Allotted, called-up and fully paid		
760,000,000 ordinary shares of £1.00 each	**760**	760
31,625,436 ordinary shares of £0.10 each	**3**	3
	763	763

20. Dividends

	2018 £000 000	2017 £000 000
Dividends paid		
Interim dividend paid: nil (2017: 75.8 pence) per ordinary share	**-**	600

21. Commitments

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 2018, the minimum commitment under these contracts was £1,877 million (2017: £1,663 million).

The Company is recharged for certain operating leases from E.ON UK plc. Further information on these lease commitments is available in the financial statements of E.ON UK plc.

22. Changes in accounting policies

Transition to IFRS 15

The Company has adopted IFRS 15 Revenue from Contracts with Customers (which replaces IAS 18 Revenue) from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in these financial statements. In accordance with the transitional provisions in IFRS 15, comparative figures have not been restated.

The Company has elected to apply IFRS 15 only to contracts that are not completed as at the date of initial application, being 1 January 2018. The Company has also elected to apply the practical expedient for contract modifications.

The total impact on the Company's retained earnings as at 1 January 2018 is as follows:

	Notes	2018 £000 000
Closing retained earnings 31 December 2017		232
Adjustment to retained earnings from adoption of IFRS 15 on 1 January 2018		(3)
Opening retained earnings 1 January 2018		229

The requirements of IFRS 15 have resulted in changes in accounting for some district heating schemes. The identified performance obligation within these contracts is to provide construction services to the customer, for which the Company receives the contractual right to use the constructed asset over its useful life. Under IFRS 15 construction costs previously treated as plant and machinery are deemed to be a cost of sale. The Company receives revenue under the contract made up in part of cash and in part the future contractual right to use the assets, which results in the recognition of an intangible asset.

The Company has voluntarily changed the presentation of certain amounts in the balance sheet to reflect the requirements of IFRS 15. TPI commissions were previously classified as intangible assets, however, under IFRS 15, these have been reclassified as costs to fulfil a contract and are being amortised on a straight-line basis over the length of the respective customer contract. The following adjustments were made to the amounts recognised in the balance sheet at the date of initial application:

	IAS 18 carrying amount 31 December 2017 £000 000	Reclassification £000 000	**IFRS 15 carrying amount** **1 January 2018** **£000 000**
Intangible assets	1,022	(39)	983
Tangible assets	196	(13)	183
Other assets	-	44	44
Prepayments and accrued income	30	5	35

Transition to IFRS 9

IFRS 9 Financial Instruments replaces the provisions of IAS 39 Financial Instruments that relate to the recognition, classification and measurement of financial assets and liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments recognised in these financial statements. The new accounting policies are set out in note 1. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated.

The total impact on the Company's retained earnings as at 1 January 2018 is as follows:

	Note	2018 £000 000
Opening retained earnings at 1 January 2018 (after IFRS 15 restatement)		229
Increase in provisions for trade receivables	(i)	(27)
Increase in provisions for amounts owed to group undertakings	(i)	(3)
Increase in deferred tax assets relating to provisions	(i)	5
Adjustment to retained earnings from adoption of IFRS 9 on 1 January 2018		(25)
Opening retained earnings at 1 January 2018		204

(i) Impairment of financial assets

The Company was required to revise its impairment methodology under IFRS 9 for each of the classes of assets identified in the table above.

The Company applied the IFRS 9 simplified approach to measuring expected credit losses on trade receivables, using a lifetime expected credit loss allowance. The full expected credit loss model was used for calculating expected credit losses on amounts owed by group undertakings. See note 1 for details about the calculation of the allowance.

The loss allowance increased by £21 million to £208 million for trade receivables and reduced by £1 million to £2 million for amounts owed by group undertakings for the year.

The closing loss allowances for trade receivables and amounts owed by group undertakings as at 31 December 2018 reconcile to the opening loss allowances as follows:

	Trade receivables 2018 £000 000	Amounts owed by group undertakings 2018 £000 000
At 1 January 2018 - calculated under IAS 39	160	-
Amounts restated through opening retained earnings	27	3
Opening loss allowance as at 1 January 2018 - calculated under IFRS 9	187	3
Increase/(decrease) in loss allowance recognised in profit or loss during the year	21	(1)
At 31 December 2018	208	2

(ii) Reclassifications of financial instruments on adoption of IFRS 9

On the date of initial application, there were no reclassifications of financial instruments within the Company which resulted in any subsequent remeasurement of the underlying financial asset or liability.

23. Related party transactions

During part of the year (2017: full year) the Company had related party transactions with companies in the Uniper group, by virtue of it being 47% then owned by E.ON SE, the ultimate controlling party of the Company. On 26 June 2018, E.ON SE sold its remaining shares in the Uniper group and it ceased to be a related party.

The following are the related party transactions up to 26 June 2018:

Uniper Global Commodities SE ('UGC')

During part of the year, the Company had costs of £9 million (2017: £992 million) relating to the supply of power and gas under a transfer pricing mechanism and weather derivative. The agreement with UGC terminated on 31 May 2017. There were no liabilities outstanding at the year end in relation to the weather derivative (2017: £2 million).

In 2017, there was a derivative mark-to-market loss of £198 million relating to the reversal of the prior year mark-to-market position. There were no balances outstanding at the year end for commodity derivative assets or liabilities.

Uniper Technologies Limited

During part of the year, Uniper Technologies Limited provided training services to the Company amounting to £748,000 (2017: £396,000). There were no balances outstanding at the year end (2017: £11,000).

24. Ultimate holding company

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

E.ON SE
Brüsseler Platz 1
45131 Essen
Germany