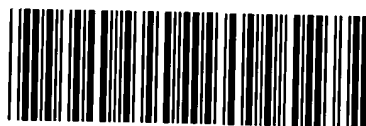


E.ON CONNECTING ENERGIES LIMITED
STRATEGIC REPORT, DIRECTORS' REPORT AND FINANCIAL STATEMENTS
for the Year Ended 31 December 2016

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Registered No: 07592412

E.ON CONNECTING ENERGIES LIMITED
STRATEGIC REPORT
for the Year Ended 31 December 2016

The directors present their strategic report of the Company for the year ended 31 December 2016.

Fair review of the business

During the year, the Company continued to develop several new Business Units and to enter new markets, offering a broader selection of technologies and energy solutions. In total, eleven new contracts were awarded with five of these being either fully or partially implemented within the year. One of these contracts was an energy generation plant along with several demand side response solutions. Preferred bidder status was achieved on another five projects during the year.

A strong sales pipeline has been strengthened across all Business Units during the year, which the Company expects to convert into contracts during 2017 and beyond. The Company also embarked on an asset acquisition programme, in order to accelerate Earnings Before Interest, Tax, Depreciation and Amortisation generation. This programme will complement the Company's organic sales growth plan, which has a longer lead time, with the first contract agreed in the year.

At 31 December 2016, the Company had net liabilities of £11,681,000 (2015: net liabilities of £8,486,000). The financial position of the Company at the year end was as expected. Further information regarding the financial position of the Company at the year end is provided in the Directors' Report.

The level of business activity is expected to increase during 2017, in line with the Company's strategy.

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

Key performance indicators ('KPIs')

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

Approved by the Board of Directors on 27 July 2017 and signed on its behalf by:



M C Brown
Director

E.ON Connecting Energies Limited
Company No: 07592412
Westwood Way
Westwood Business Park
Coventry
CV4 8LG

E.ON CONNECTING ENERGIES LIMITED
DIRECTORS' REPORT
for the Year Ended 31 December 2016

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2016.

Directors of the Company

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

M C Brown

G E Howells (appointed 10 January 2017)

A D Caven (resigned 24 December 2016)

Principal activity

The Company's principal activity during the year and at the year end was to provide energy efficiency and renewable energy technology solutions to its customers in the UK.

Results and dividends

The Company's loss for the financial year is £3,195,000 (2015: loss of £3,074,000). No interim dividends were paid during the year (2015: £nil). The directors do not recommend the payment of a final dividend (2015: £nil).

The level of business activity is expected to increase during 2017, in line with the Company's strategy.

Financial risk management

Objectives and policies

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

E.ON SE's central financing strategy

The operational treasury team employs a continuous forecasting and monitoring process to ensure that the Company complies with all its banking and other covenants that apply to the financing of its business. A group-wide cash forecasting and currency exposure reporting process exists which ensures regular reporting into the UK treasury team. Information is submitted to E.ON SE for incorporation into E.ON SE group forecasting processes on a weekly and quarterly basis.

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

Foreign exchange risk management

The Company operates within the framework of E.ON SE's guidelines for foreign exchange risk management. The Company's policy is to hedge all contractually committed operational exposures, as soon as the commitment arises. The Company will also partly hedge less certain cash flows when appropriate. The Company determines the hedging of translation exposures (the value of foreign currency liabilities and assets in the balance sheet) on a case by case basis in consultation with the E.ON UK plc treasury team.

Interest rate risk management

The Company has a number of funding arrangements and is exposed to movements in interest rates. These interest rate exposures are managed primarily through the use of floating rate borrowings.

Credit risk management

The Company is subject to the E.ON SE group finance policy which sets a credit limit for each financial institution with which the Company does a significant amount of business. In addition, other counterparty credit risk is subject to the E.ON SE group credit risk management policy supported by individual business unit policies to establish internal ratings for limit setting. Credit risk assessment involves quantitative and qualitative criteria including ratings by independent rating agencies where these are available.

Liquidity planning, trends and risks

The Company has sufficient committed borrowing facilities to meet planned liquidity needs with headroom, through facilities provided by E.ON UK Holding Company Limited.

Political donations

No political donations were made during the year (2015: £nil).

E.ON CONNECTING ENERGIES LIMITED
DIRECTORS' REPORT
for the Year Ended 31 December 2016 (continued)

Future developments

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

Directors' indemnities

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

Going concern

Notwithstanding the fact that the Company is loss making and has net current liabilities and net liabilities, the directors have prepared these financial statements on the going concern basis. The directors have received confirmation from E.ON Connecting Energies GmbH, the Company's immediate parent undertaking, of its intention to financially support the Company such that the Company can meet its obligations as they fall due for a period of at least twelve months from the date of approval of these financial statements.

Disclosure of information to auditors

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

Statement of directors' responsibilities

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

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

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

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

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

**E.ON CONNECTING ENERGIES LIMITED
DIRECTORS' REPORT
for the Year Ended 31 December 2016 (continued)**

Approved by the Board of Directors on 27 July 2017 and signed on its behalf by:

A handwritten signature in black ink, appearing to read 'M C Brown', with a stylized flourish at the end.

M C Brown
Director

E.ON Connecting Energies Limited
Company No: 07592412
Westwood Way
Westwood Business Park
Coventry
CV4 8LG

Independent Auditors' Report to the Members of E.ON CONNECTING ENERGIES LIMITED

Report on the financial statements

Our opinion

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

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Strategic Report, Directors' Report and Financial Statements (the "Annual Report"), comprise:

- the balance sheet as at 31 December 2016;
- the profit and loss account for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

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

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

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

**Independent Auditors' Report to the Members of
E.ON CONNECTING ENERGIES LIMITED (continued)**

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the statement of directors' responsibilities set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

What an audit of financial statements involves

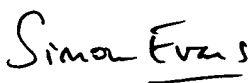
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.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

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

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

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

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.



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

Date27 July 2017

E.ON CONNECTING ENERGIES LIMITED
PROFIT AND LOSS ACCOUNT
for the Year Ended 31 December 2016

	<i>Note</i>	2016 £000	2015 £000
Turnover	2	4,546	9,703
Cost of sales		(1,992)	(8,168)
Gross profit		2,554	1,535
<i>Administrative expenses excluding impairments</i>		(6,153)	(5,350)
<i>Impairment of fixed assets</i>		(255)	-
Administrative expenses		(6,408)	(5,350)
Other operating income		87	246
Operating loss	3	(3,767)	(3,569)
Interest receivable and similar income	6	75	88
Interest payable and similar charges	7	(324)	(346)
Loss on ordinary activities before taxation		(4,016)	(3,827)
Tax on loss on ordinary activities	8	821	753
Loss for the financial year		(3,195)	(3,074)

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

The notes on pages 10 to 22 form part of these financial statements.

E.ON CONNECTING ENERGIES LIMITED
BALANCE SHEET
as at 31 December 2016

	<i>Note</i>	2016 £000	2015 £000
Fixed assets			
Tangible assets	9	18,714	17,850
Investments	10	5,005	5,005
		23,719	22,855
Current assets			
Debtors: amounts falling due after more than one year	11	778	803
Debtors: amounts falling due within one year	12	5,912	4,345
		6,690	5,148
Creditors: amounts falling due within one year	13	(40,596)	(34,628)
Net current liabilities		(33,906)	(29,480)
Total assets less current liabilities		(10,187)	(6,625)
Provisions for liabilities	15	(1,494)	(1,861)
Net liabilities		(11,681)	(8,486)
Capital and reserves			
Called up share capital	16	-	-
Profit and loss account		(11,681)	(8,486)
Total shareholders' deficit		(11,681)	(8,486)

The financial statements on pages 7 to 22 were approved by the Board of Directors on 27 July 2017 and signed on its behalf by:



M C Brown
Director
E.ON Connecting Energies Limited
Company No: 07592412

The notes on pages 10 to 22 form part of these financial statements.

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

	Called up share capital £000	Profit and loss account £000	Total shareholders' deficit £000
At 1 January 2015	-	(5,412)	(5,412)
Loss for the financial year	-	(3,074)	(3,074)
At 31 December 2015	-	(8,486)	(8,486)
Loss for the financial year	-	(3,195)	(3,195)
At 31 December 2016	-	(11,681)	(11,681)

The notes on pages 10 to 22 form part of these financial statements.

E.ON CONNECTING ENERGIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the Year Ended 31 December 2016

1. Accounting policies

General information

The Company's principal activity during the year and at the year end was to provide energy efficiency and renewable energy technology solutions to its 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, CV4 8LG.

Basis of preparation of financial statements

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

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

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

Exemption from preparing group financial statements

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

Going concern

Notwithstanding the fact that the Company is loss making and has net current liabilities and net liabilities, the directors have prepared these financial statements on the going concern basis. The directors have received confirmation from E.ON Connecting Energies GmbH, the Company's immediate parent undertaking, of its intention to financially support the Company such that the Company can meet its obligations as they fall due for a period of at least twelve months from the date of approval of these financial statements.

E.ON CONNECTING ENERGIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the Year Ended 31 December 2016 (continued)

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

Finance leases

Significant judgement is required in determining the fair value of finance lease receivables. Minimum lease payments are calculated based on the initial capital cost of the asset, spread across the lease term, and discounted at the group's cost of capital.

Taxation

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

Impairments

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

Contract based provisions

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

Turnover

All turnover generated by the Company during the year arose from its principal activities. The turnover is recognised when services are completed, assets are operational, or milestone valuations have been agreed with the customer. Turnover from the rendering of services is recognised by reference to the stage of completion of the transaction once all factors can be measured reliably. Turnover excludes value added tax.

Accrued income

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

Current and deferred income tax

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

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

E.ON CONNECTING ENERGIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the Year Ended 31 December 2016 (continued)

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

Finance leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the asset to the lessee. All other leases are classified as operating leases.

Assets leased under finance leases where the Company is the lessor are derecognised at the date that asset is operational. A finance lease receivable is recognised within debtors at the present value of minimum lease payments. Minimum lease payments are calculated based on the initial capital cost of the asset, spread across the lease term, and discounted at the group's cost of capital. Lease payments are variable dependent upon the volume of energy used. Minimum lease payment receipts are apportioned between finance income and reduction of the lease receivable so as to achieve a constant rate of return on the lease receivable. Receipts in excess of the minimum lease payments are recognised as contingent-based rents within turnover.

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.

When assets are leased out under an operating lease, the asset is included in the balance sheet based on the nature of the asset. Lease income on operating leases is recognised over the term of the lease on a straight-line basis.

Pensions

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

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

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 and has been rounded to the nearest thousand.

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.

Tangible assets

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

E.ON CONNECTING ENERGIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the Year Ended 31 December 2016 (continued)

Major assets in the course of construction are included in tangible 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 group, not exceeding the actual expenditure incurred during the relevant period of construction.

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

Asset class	Depreciation method and rate
Plant and machinery	Straight line basis over 10 to 25 years

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

Investment in associated undertakings

Investments in associated undertakings are held at cost less accumulated impairment losses.

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.

Financial instruments

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

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

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

Inter-company balances

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

Offsetting

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

E.ON CONNECTING ENERGIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the Year Ended 31 December 2016 (continued)

Provisions

Provisions are recognised in the balance sheet when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised in the balance sheet as a provision is the best estimate of the expenditure required to settle a present obligation at the balance sheet date. A provision for restructuring is recognised when the Company has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced to those affected by it. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risk specific to the liability.

Future operating costs are not provided for.

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Company has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

2. Turnover

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

3. Operating loss

Operating loss is stated after charging/(crediting):

	2016 £000	2015 £000
Operating lease	101	116
Depreciation of owned assets (note 9)	988	973
Foreign currency losses/(gains)	26	(9)
Impairment of tangible assets (note 9)	255	-
Contract based provision (note 15)	(298)	1,178
Auditors' remuneration - audit of financial statements	30	35
	<u>30</u>	<u>35</u>

4. Employee information

The average monthly number of persons (including executive directors) employed by the Company during the year was:

	2016 Number	2015 Number
Production	32	30
Administration	1	1
	<u>33</u>	<u>31</u>

E.ON CONNECTING ENERGIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the Year Ended 31 December 2016 (continued)

The following salaries and related costs of employees, including directors and key management, incurred during the year were:

	2016 £000	2015 £000
Wages and salaries	2,061	1,959
Social security costs	202	197
Other pension costs	311	327
	<u>2,574</u>	<u>2,483</u>
Less: capitalised in fixed assets	(118)	(11)
	<u><u>2,456</u></u>	<u><u>2,472</u></u>

5. Directors' remuneration

The directors' remuneration for the year was as follows:

	2016 £	2015 £
Aggregate emoluments (including benefits in kind)	<u><u>239,311</u></u>	<u><u>158,715</u></u>

The above amounts relate to two directors (2015: two) who were remunerated by the Company.

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

	2016 Number	2015 Number
Accruing benefits under a defined contribution pension scheme	<u><u>-</u></u>	<u><u>1</u></u>

During the year, no directors (2015: none) 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 arrangements.

During the year, the Company has not paid, or treated as paid, contributions to a pension scheme in respect of money purchase benefits in respect of the above directors (2015: £nil).

6. Interest receivable and similar income

	2016 £000	2015 £000
Interest income from finance leases	<u><u>75</u></u>	<u><u>88</u></u>

7. Interest payable and similar charges

	2016 £000	2015 £000
Interest payable to group undertakings	<u><u>324</u></u>	<u><u>346</u></u>

E.ON CONNECTING ENERGIES LIMITED
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for the Year Ended 31 December 2016 (continued)

8. Tax on loss on ordinary activities

	2016 £000	2015 £000
Current tax:		
UK corporation tax credit on losses for the year	(804)	(859)
Adjustment in respect of prior years	32	119
Total current tax credit	(772)	(740)
Deferred tax:		
Origination and reversal of timing differences	(11)	78
Adjustment in respect of prior years	(3)	(21)
Impact of change in tax rates	(35)	(70)
Total deferred tax credit	(49)	(13)
Tax credit on loss on ordinary activities	(821)	(753)

Factors affecting tax credit for the year

The tax credit for the year is higher (2015: lower) than the standard rate of corporation tax in the UK for the year ended 31 December 2016 of 20.00% (2015: 20.25%). The differences are explained below.

	2016 £000	2015 £000
Loss on ordinary activities before taxation	(4,016)	(3,827)
Tax credit on loss on ordinary activities before taxation at 20.00% (2015: 20.25%)	(803)	(775)
<i>Effects of:</i>		
Income not subject to tax	(15)	-
Impact of change in tax rates	(32)	(76)
Adjustment in respect of prior years - deferred tax	(3)	(21)
Adjustment in respect of prior years - current tax	32	119
Tax credit for the year	(821)	(753)

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

The corporation tax receivable has been reduced by £772,000 because of group relief surrendered to a fellow group undertaking for which a payment will be received (2014: receivable of £740,000). Accordingly, no current year tax losses are available for carry forward.

E.ON CONNECTING ENERGIES LIMITED
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for the Year Ended 31 December 2016 (continued)

9. Tangible assets

	Plant and machinery £000	Assets in the course of construction £000	Total £000
Cost			
At 1 January 2016	20,048	-	20,048
Additions	-	2,107	2,107
At 31 December 2016	20,048	2,107	22,155
Accumulated depreciation			
At 1 January 2016	2,198	-	2,198
Charge for the year	988	-	988
Impairment	-	255	255
At 31 December 2016	3,186	255	3,441
Net book value			
At 31 December 2016	<u>16,862</u>	<u>1,852</u>	<u>18,714</u>
At 31 December 2015	<u>17,850</u>	<u>-</u>	<u>17,850</u>

Additions during the year include £2,107,000 of capitalised costs relating to customer contracts (2015: £1,405,000). Upon completion of construction, the assets are either de-recognised and held as a finance lease receivable at the present value of the minimum lease payments, or recognised as depreciable tangible assets.

An impairment of £255,000 was also recognised during the year. The cashflows used in the impairment review were based on approved forecasts and discounted at the E.ON SE group's cost of capital appropriate for this Company. The discount rate used to calculate this impairment is a pre-tax rate of 5.2% (2015: n/a).

10. Investments

	2016 £000	2015 £000
Shares in group undertakings and participating interests	<u>5,005</u>	<u>5,005</u>

Shares in group undertakings and participating interests

	Associates £000
Cost	
At 1 January 2016	5,005
At 31 December 2016	5,005
Net book value	
At 31 December 2016	<u>5,005</u>
At 31 December 2015	<u>5,005</u>

E.ON CONNECTING ENERGIES LIMITED
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The directors believe that the carrying value of the investments is supported by their underlying net assets and future anticipated cash flows.

Details of undertakings

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

Associates	Holding	Proportion of voting rights and shares held	Principal Activity
Intelligent Maintenance Systems Limited ('IMS')	Ordinary £1 shares	25%	Data monitoring solutions

IMS is incorporated in the United Kingdom, has a year end of 31 December and its registered office is 1st Floor, Matrix House, North Fourth Street, Milton Keynes, MK9 1NJ.

The loss for the last audited statutory financial statements for 10 months to the year ended 31 December 2015 of IMS was £191,000 (February 2015: £1,078,000 profit restated) and the aggregate amount of capital and reserves at the year end was £5,696,000 (February 2015: £6,187,000 restated).

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

	2016 £000	2015 £000
Finance lease receivables (note 14)	778	803

12. Debtors: amounts falling due within one year

	2016 £000	2015 £000
Trade receivables	1,185	370
Amounts owed by group undertakings	3,257	2,044
Finance lease receivables (note 14)	77	65
Other debtors	37	118
Prepayments and accrued income	1,356	1,748
	5,912	4,345

Amounts owed by group undertakings include a loan of €41,000 (2015: €nil) which is unsecured, bears interest at a rate of LIBOR minus 5 basis points and rolls forward on a daily basis (principal and interest). All other amounts are unsecured, interest free and repayable on demand.

Prepayments and accrued income include £662,000 (2015: £935,000) of accrued income.

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for the Year Ended 31 December 2016 (continued)

13. Creditors: amounts falling due within one year

	2016 £000	2015 £000
Bank loans and overdrafts	-	104
Trade payables	1,070	551
Amounts owed to group undertakings	37,652	31,088
Other taxation and social security	81	151
Accruals and deferred income	1,793	2,734
	<u>40,596</u>	<u>34,628</u>

The bank overdraft, which is not a loan, is secured with an unlimited inter-company guarantee provided by E.ON UK Holding Company Limited.

Included within amounts owed to group undertakings is a loan of £36,512,000 (2015: £30,831,000) which is unsecured, bears interest at a rate of LIBOR plus 50 basis points, rolls forward (principal and interest) on a daily basis, is a drawdown from a credit facility of £50,000,000 and expires in December 2018. There was also a loan of €18,000 as at 31 December 2015 which was unsecured and bore interest at a rate of LIBOR plus 50 basis points. All other amounts are unsecured, interest free and repayable on demand.

14. Additional disclosures on financial instruments

The carrying amounts of cash and cash equivalents, borrowings under short-term credit facilities, trade receivables, other operating assets, trade payables and other operating liabilities are considered reasonable estimates of their fair values because of their short maturity.

Finance lease receivables

The finance leases granted by the Company arise on the provision of renewable energy generation assets. The duration of the leases are between 10 and 15 years and the lessees do not have the option to purchase the assets at the end of the lease. Further information regarding finance lease receivables at 31 December 2016 is shown below:

	2016 £000	2015 £000
Debtors: amounts falling due after one year		
Finance leases – gross receivables	1,099	1,180
Unearned finance income	(321)	(377)
	<u>778</u>	<u>803</u>
Debtors: amounts falling due within one year		
Finance leases – gross receivables	151	139
Unearned finance income	(74)	(74)
	<u>77</u>	<u>65</u>

E.ON CONNECTING ENERGIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the Year Ended 31 December 2016 (continued)

	2016 £000	2015 £000
Gross receivables from finance leases:		
- No later than one year	151	139
- Later than one year and no later than five years	602	555
- Later than five years	497	625
	1,250	1,319
Unearned finance income	(395)	(451)
Net investment in finance leases	855	868

The net investment in finance leases is analysed as follows:

	2016 £000	2015 £000
Within one year	77	65
Within two and five years	380	319
Over five years	398	484
	855	868

Contingent based rents recognised in the profit and loss account were £240,000 (2015: £318,000).

Operating leases rental receivables - Company as lessor

The future minimum lease payments receivable under non-cancellable operating leases are as follows:

	2016 £000	2015 £000
Within one year	30	30
Within two and five years	120	120
Over five years	420	450
	570	600

Contingent based rents recognised in the income statement were £18,000 (2015: £nil).

The Company leases a solar PV installation for a term of 20 years, with the lease terminating in 2035. The agreement does not include an extension option.

E.ON CONNECTING ENERGIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the Year Ended 31 December 2016 (continued)

15. Provisions for liabilities

	Deferred tax £000	Restructuring /severance provisions £000	Contract based provisions £000	Total £000
At 1 January 2016	663	20	1,178	1,861
Credited to the profit and loss account	(49)	(20)	(298)	(367)
At 31 December 2016	614	-	880	1,494

Contract based provisions comprise amounts set aside for expected savings shortfall costs on certain energy performance contracts.

Analysis of deferred tax

The following are the deferred tax liabilities recognised by the Company and movements during the year:

	2016 £000	2015 £000
Accelerated capital allowances	619	677
Other timing differences	(5)	(14)
	614	663
Liability at beginning of year	663	676
Deferred tax credit for the year (note 8)	(49)	(13)
Liability at year end	614	663

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 2017 further reduced the main rate to 17% from 1 April 2017. The deferred tax liability at 31 December 2016 has been measured accordingly.

Within the deferred tax credit of £49,000, the amount that relates to the change in the tax rate is a £35,000 credit.

There are no unused tax losses or tax credits.

16. Called up share capital

	2016 £000	2015 £000
Allotted, called-up and fully paid		
One ordinary share of £1	-	-

E.ON CONNECTING ENERGIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the Year Ended 31 December 2016 (continued)

17. Pension schemes

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

The fund is valued every three years by the Scheme Actuary who determines the rates of contribution payable. In the intervening years the actuary reviews the appropriateness of the rates. The latest actuarial valuation of the scheme was at 31 March 2015.

Due to the complexity of actuarial calculations and the number of different companies contributing to the scheme, the Company is unable to identify its share of the underlying assets and liabilities in the scheme. Consequently, the Company accounts for the scheme as a defined contribution scheme. The cost of contributions to the scheme in the year amounts to £311,000 (2015: £327,000).

The amount outstanding at 31 December 2016 included within other creditors, which relate to pension contributions to the scheme was £26,000 (2015: £22,000). This related to contributions for December 2016 which were paid in January 2017.

Further details of the scheme are available in E.ON UK plc's financial statements. Due to a deficit in the scheme, E.ON UK plc paid £50 million into the scheme during January 2016 and, in accordance with the deficit repair plan, E.ON UK plc paid an additional £240 million into the scheme in December 2016 to be followed by £65 million per annum payable in January each year for the next 10 years. None of this cost is expected to be recharged to the Company.

18. Commitments

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.

19. Related party transactions

In the period from 13 September 2016 to 31 December, the Company had the following related party transactions with companies in the Uniper Group, by virtue of it being 47% owned by E.ON SE, the ultimate controlling party of the Company:

Uniper Technologies Limited

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

This related party provided engineering support & consultancy services and apprentice training to the Company amounting to £8,000 during the period and construction services which were capitalised of £8,000. The balance outstanding at the year end was £1,000.

20. Ultimate holding company

The Company is controlled by E.ON Connecting Energies GmbH. 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