

E.ON CLIMATE & RENEWABLES UK BIOMASS LIMITED
STRATEGIC REPORT, DIRECTORS' REPORT AND FINANCIAL STATEMENTS
for the Year Ended 31 December 2017



Registered No: 07537806

E.ON CLIMATE & RENEWABLES UK BIOMASS LIMITED
STRATEGIC REPORT
for the Year Ended 31 December 2017

The directors present their strategic report of the Company for the year ended 31 December 2017.

Fair review of the business

Both the level of business during the year and the financial position of the Company at the year end were as expected. The primary activity of the Company during the year was the operation of the biomass renewable energy power station at Blackburn Meadows.

The directors believe that the present level of activity will be sustained during 2018.

At 31 December 2017, the Company had net assets of £10,459,000 (2016: net assets of £799,000). Further information regarding the financial position of the Company at the year end is provided in the directors' report.

Principal risks and uncertainties

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

Key performance indicators ('KPIs')

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

Approved by the Board of Directors on 24 July 2018 and signed on its behalf by:



B Wagner
Director

E.ON Climate & Renewables UK Biomass Limited
Company No: 07537806
Westwood Way
Westwood Business Park
Coventry
CV4 8LG

E.ON CLIMATE & RENEWABLES UK BIOMASS LIMITED
DIRECTORS' REPORT
for the Year Ended 31 December 2017

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2017.

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 G Wake
B Wagner (appointed 8 December 2017)
M R Day (appointed 4 April 2018)
J T Lightfoot (resigned 8 December 2017)
J A Ireton (resigned 23 March 2018)

Principal activity

The Company's principal activity during the year, was the operation of the biomass renewable energy power station at Blackburn Meadows.

Results and dividends

The Company's profit for the financial year is £9,660,000 (2016: profit of £8,274,000). No interim dividends were paid during the year (2016: £nil). The directors do not recommend the payment of a final dividend (2016: £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 its business. Further information on the E.ON SE group's policies and procedures is available in the financial statements of the E.ON SE group.

E.ON SE's central financing strategy

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

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

Foreign exchange risk management

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

Interest rate risk management

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

Credit risk management

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

Liquidity planning, trends and risks

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

Political donations

No political donations were made during the year (2016: £nil).

E.ON CLIMATE & RENEWABLES UK BIOMASS LIMITED
DIRECTORS' REPORT
for the Year Ended 31 December 2017 (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 the financial statements.

Going concern

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

The directors 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 24 July 2018 and signed on its behalf by:



B Wagner
Director

E.ON Climate & Renewables UK Biomass Limited
Company No: 07537806
Westwood Way
Westwood Business Park
Coventry
CV4 8LG

Independent Auditors' Report to the Members of E.ON CLIMATE & RENEWABLES UK BIOMASS LIMITED

Report on the audit of the financial statements

Opinion

In our opinion, E.ON Climate & Renewables UK Biomass Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of its profit 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 2017; 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 summary of 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

We have nothing to report in respect of the following matters in relation to which 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.

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.

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 CLIMATE & RENEWABLES UK BIOMASS 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 2017 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 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. 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.

Simon Evans

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

Date 24 July 2018

E.ON CLIMATE & RENEWABLES UK BIOMASS LIMITED
PROFIT AND LOSS ACCOUNT
for the Year Ended 31 December 2017

| | <i>Note</i> | 2017 £000 | 2016 £000 |
|--|-------------|----------------------------|--------------|
| Turnover | 2 | 32,827 | 31,995 |
| Cost of sales | | (5,946) | (6,093) |
| Gross profit | | 26,881 | 25,902 |
| Administrative expenses | | (14,246) | (14,347) |
| Other operating income | | 27 | 92 |
| Operating profit | 3 | 12,662 | 11,647 |
| Interest payable and similar charges | 6 | (1,030) | (1,244) |
| Profit on ordinary activities before taxation | | 11,632 | 10,403 |
| Tax on profit on ordinary activities | 7 | (1,972) | (2,129) |
| Profit for the financial year | | 9,660 | 8,274 |

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 9 to 19 form part of these financial statements.

E.ON CLIMATE & RENEWABLES UK BIOMASS LIMITED
BALANCE SHEET
as at 31 December 2017

| | Note | 2017 £000 | 2016 £000 |
|---|------|------------------|------------------|
| Fixed assets | | | |
| Intangible assets | 8 | 3,094 | 3,229 |
| Tangible assets | 9 | 121,551 | 124,196 |
| | | <u>124,645</u> | <u>127,425</u> |
| Current assets | | | |
| Stocks | 10 | 7 | - |
| Debtors: amounts falling due within one year | 11 | 6,759 | 16,160 |
| | | <u>6,766</u> | <u>16,160</u> |
| Creditors: amounts falling due within one year | 12 | (107,430) | (131,285) |
| Net current liabilities | | (100,664) | (115,125) |
| Total assets less current liabilities | | 23,981 | 12,300 |
| Provisions for liabilities | 13 | (13,522) | (11,501) |
| Net assets | | 10,459 | 799 |
| Capital and reserves | | | |
| Called up share capital | 14 | - | - |
| Profit and loss account | | 10,459 | 799 |
| Total shareholders' funds | | 10,459 | 799 |

The financial statements on pages 6 to 19 were approved by the Board of Directors on 24 July 2018 and signed on its behalf by:



B Wagner
Director
E.ON Climate & Renewables UK Biomass Limited
Company No: 07537806

The notes on pages 9 to 19 form part of these financial statements.

E.ON CLIMATE & RENEWABLES UK BIOMASS LIMITED
STATEMENT OF CHANGES IN EQUITY
for the Year Ended 31 December 2017

| | Called up share capital £000 | Profit and shareholders' loss account (deficit)/funds £000 | Total £000 |
|-------------------------------|------------------------------------|--|---------------|
| At 1 January 2016 | - | (7,475) | (7,475) |
| Profit for the financial year | - | 8,274 | 8,274 |
| At 31 December 2016 | - | 799 | 799 |
| Profit for the financial year | - | 9,660 | 9,660 |
| At 31 December 2017 | - | 10,459 | 10,459 |

The notes on pages 9 to 19 form part of these financial statements.

E.ON CLIMATE & RENEWABLES UK BIOMASS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the Year Ended 31 December 2017

1. Accounting policies

General information

The Company operates a biomass renewable energy power station at Blackburn Meadows.

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 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)

Going concern

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

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.

E.ON CLIMATE & RENEWABLES UK BIOMASS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the Year Ended 31 December 2017 (continued)

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

Decommissioning costs

Significant judgements and estimates are made about the costs of decommissioning the Company's power station at the end of its useful life. The estimated costs of decommissioning and subsequent site restoration are reviewed periodically and a provision is made for the estimated decommissioning cost at the balance sheet date. The payment dates of total expected future decommissioning costs are uncertain and dependent on the life of the power station.

Emissions trading scheme

The Company has been subject to the European Emissions Trading Scheme since it became operational. The Company has adopted an accounting policy which recognises a shortfall in emissions rights within provisions. Expenses incurred for the consumption of emission rights are reported in cost of sales. Forward contracts for sales and purchases of allowances are measured at fair value.

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.

Impairment

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

Impairments are recognised in the profit and loss account and, where material, are disclosed separately.

Turnover

Turnover comprises revenue from the wholesale of electricity and Renewable Obligation Certificates. Turnover excludes value added tax. Turnover from the wholesale of electricity to external customers is recognised when the commodity is delivered on the basis of the agreed volumes and rates within the sales contracts.

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 the biomass renewable energy power station.

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

| Asset class | Depreciation method and rate |
|-----------------------|-------------------------------------|
| Plant and machinery | Straight-line basis over 30 years |
| Fixtures and fittings | Straight-line basis over 30 years |

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

Intangible assets

Intangible assets include the benefits of land options and developments contracts, and capitalised development costs, which will be amortised over the useful economic life of the schemes to which they relate.

Directly attributable costs relating to a development are capitalised from the quarter during which the investment is approved by the appropriate level of investment committee.

E.ON CLIMATE & RENEWABLES UK BIOMASS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the Year Ended 31 December 2017 (continued)

Amortisation

Amortisation is provided on intangible assets so as to write off the cost, less any estimated residual value, over their expected useful economic life.

| Asset class | Amortisation method and rate |
|----------------------------|-------------------------------------|
| Other intangibles | Straight-line basis over 3 years |
| Contract based intangibles | Straight-line basis over 30 years |

Overhaul of generation plant

Major periodic overhaul costs on generation plant are capitalised as part of generating assets and depreciated on a straight-line basis over their useful economic life, typically the period until the next major overhaul.

Decommissioning costs

The fair value of a liability arising from the decommissioning of an asset is recognised in the period in which it is incurred and a reasonable estimate of the fair value can be made. When the provision is recorded, the Company capitalises the costs of the provision by increasing the carrying amount of the tangible assets. In subsequent periods, the provision is accreted to its present value and the carrying amount of the asset is depreciated over its useful life. Changes to estimates arise, particularly when there are deviations from original cost estimates or changes to the payment schedule or the level of relevant obligation. The provision must be adjusted in the case of both negative and positive changes to estimates. Such an adjustment is usually effected through a corresponding adjustment to tangible assets and is not recognised directly in the profit and loss account.

Research and development

Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. Any expenditure carried forward is amortised in line with the expected future sales from the related project. Research costs, and any development costs where recoverability is not reasonably assured, is written off the profit and loss account as incurred.

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.

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.

E.ON CLIMATE & RENEWABLES UK BIOMASS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the Year Ended 31 December 2017 (continued)

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.

Provisions

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

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

Future operating costs are not provided for.

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.

Current and deferred income tax

The tax charge for the year comprises current and deferred tax. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in shareholders' funds. In this case, the tax is recognised in other comprehensive income or directly in shareholders' funds, respectively.

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

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; or arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

E.ON CLIMATE & RENEWABLES UK BIOMASS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the Year Ended 31 December 2017 (continued)

Pensions

Pension costs represent amounts recharged by the intermediate parent company, E.ON UK plc, for the cost of contributions to defined benefit and defined contribution schemes. Further details of these schemes are available in E.ON UK plc's financial statements.

2. Turnover

Turnover, which excludes value added tax, represents the value of sale of electricity generated during the year by the Blackburn Meadows power station and associated Renewable Obligation Certificates under contract on an accrual basis. The Company's turnover, all of which arises in the course of the Company's principal activity, arises in the UK.

3. Operating profit

Operating profit is stated after charging/(crediting):

| | 2017 | 2016 |
|--|--------------|-------------|
| | £000 | £000 |
| Operating lease | 1,168 | 21 |
| Depreciation of tangible assets (note 9) | 4,489 | 6,835 |
| Foreign currency losses/(gains) | 11 | (32) |
| Amortisation of intangible assets (note 8) | 144 | 239 |

Operating lease relates to rent paid by the Company to E.ON UK plc for the lease of the land where the power station is situated.

4. Auditors' remuneration

Auditors' remuneration for the audit of these financial statements of £20,000 (2016: £20,000) was borne by the intermediate parent undertaking, E.ON UK plc, and not recharged.

5. Employee information

The Company had no employees during the year (2016: 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:

| | 2017 | 2016 |
|------------|---------------|---------------|
| | Number | Number |
| Operations | 25 | 24 |

The aggregate payroll costs recharged were as follows:

| | 2017 | 2016 |
|-----------------------|--------------|-------------|
| | £000 | £000 |
| Wages and salaries | 1,389 | 1,285 |
| Social security costs | 164 | 161 |
| Other pension costs | 283 | 227 |
| | 1,836 | 1,673 |

The directors received no emoluments from the Company during the year (2016: £nil) in respect of services to the Company, as they are deemed to be provided as part of their services to the E.ON UK plc group.

E.ON CLIMATE & RENEWABLES UK BIOMASS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the Year Ended 31 December 2017 (continued)

6. Interest payable and similar charges

| | 2017 £000 | 2016 £000 |
|--|--------------|--------------|
| Interest payable to group undertakings | 918 | 1,142 |
| Interest - provision unwind (note 13) | 112 | 102 |
| | 1,030 | 1,244 |

7. Tax on profit on ordinary activities

| | 2017 £000 | 2016 £000 |
|---|--------------|--------------|
| Current tax: | | |
| UK corporation tax charge on profits for the year | 785 | 617 |
| Adjustment in respect of prior years | (29) | 421 |
| Total current tax charge | 756 | 1,038 |
| Deferred tax: | | |
| Origination and reversal of timing differences | 1,423 | 1,428 |
| Adjustment in respect of prior years | (207) | (64) |
| Impact of change in tax rates | - | (273) |
| Total deferred tax charge | 1,216 | 1,091 |
| Tax charge on profit on ordinary activities | 1,972 | 2,129 |

Factors affecting tax charge for the year

The tax charge for the year is lower (2016: higher) than the standard rate of corporation tax in the UK for the year ended 31 December 2017 of 19.25% (2016: 20.00%). The differences are explained below:

| | 2017 £000 | 2016 £000 |
|--|--------------|--------------|
| Profit on ordinary activities before taxation | 11,632 | 10,403 |
| Tax charge on profit on ordinary activities before taxation at 19.25% (2016: 20.00%) | 2,239 | 2,080 |
| <i>Effects of:</i> | | |
| Impact of rate change between corporation tax and deferred tax | (172) | (528) |
| Expenses not deductible for tax purposes | 22 | 20 |
| Initial recognition exemption | 119 | 200 |
| Adjustment in respect of prior years - deferred tax | (207) | (64) |
| Adjustment in respect of prior years - current tax | (29) | 421 |
| Tax charge for the year | 1,972 | 2,129 |

E.ON CLIMATE & RENEWABLES UK BIOMASS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the Year Ended 31 December 2017 (continued)

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

The corporation tax payable has been reduced by £756,000 because of group relief received from a fellow group undertaking for which a payment will be made (2016: £1,038,000 group relief received).

8. Intangible assets

| | Other intangibles £000 | Contract based intangibles £000 | Total £000 |
|---------------------------------|------------------------------|--|---------------|
| Cost | | | |
| At 1 January 2017 | 93 | 8,589 | 8,682 |
| Additions | 4 | - | 4 |
| Disposals | (93) | (4,915) | (5,008) |
| At 31 December 2017 | 4 | 3,674 | 3,678 |
| Accumulated amortisation | | | |
| At 1 January 2017 | 70 | 5,383 | 5,453 |
| Charge for the year | 28 | 116 | 144 |
| Disposals | (98) | (4,915) | (5,013) |
| At 31 December 2017 | - | 584 | 584 |
| Net book value | | | |
| At 31 December 2017 | 4 | 3,090 | 3,094 |
| At 31 December 2016 | 23 | 3,206 | 3,229 |

Other intangibles relate to emissions rights held under national and international emissions rights systems. They are surrendered annually and are not amortised.

The disposals of contract based intangibles relate to several development projects which the Company is not going to pursue. The projects had been fully impaired in prior years.

E.ON CLIMATE & RENEWABLES UK BIOMASS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the Year Ended 31 December 2017 (continued)

9. Tangible assets

| | Plant and machinery £000 | Fixtures and fittings £000 | Total £000 |
|---------------------------------|--------------------------------|----------------------------------|----------------|
| Cost | | | |
| At 1 January 2017 | 138,311 | 540 | 138,851 |
| Additions | 1,600 | 244 | 1,844 |
| At 31 December 2017 | 139,911 | 784 | 140,695 |
| Accumulated depreciation | | | |
| At 1 January 2017 | 14,616 | 39 | 14,655 |
| Charge for the year | 4,462 | 27 | 4,489 |
| At 31 December 2017 | 19,078 | 66 | 19,144 |
| Net book value | | | |
| At 31 December 2017 | 120,833 | 718 | 121,551 |
| At 31 December 2016 | 123,695 | 501 | 124,196 |

Plant and machinery includes the net book value of assets in the course of construction of £1,150,000 (2016: £1,945,000). No depreciation is charged on assets in the course of construction.

Additions include £680,000 (2016: £314,000) for decommissioning provisions recognised during the year.

Following a review of the life of the plant, its estimated useful economic life was extended from 20 years to 30 years. This has resulted in a lower depreciation charge in 2017 of £4,489,000 compared to the prior year (2016: charge of £6,835,000). The effect of this extension is to reduce the annual depreciation charge for 2017 by £2,346,000.

10. Stocks

| | 2017 £000 | 2016 £000 |
|-------------|--------------|--------------|
| Fuel stocks | 7 | - |

Fuel stocks are stated with no provision for impairment (2016: £nil).

11. Debtors: amounts falling due within one year

| | 2017 £000 | 2016 £000 |
|------------------------------------|--------------|---------------|
| Trade receivables | - | 61 |
| Amounts owed by group undertakings | 5,719 | 14,770 |
| Other debtors | 4 | 18 |
| Other taxation and social security | 594 | 593 |
| Prepayments and accrued income | 442 | 718 |
| | 6,759 | 16,160 |

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

E.ON CLIMATE & RENEWABLES UK BIOMASS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the Year Ended 31 December 2017 (continued)

12. Creditors: amounts falling due within one year

| | 2017 £000 | 2016 £000 |
|------------------------------------|----------------|----------------|
| Trade payables | 1,896 | 1,447 |
| Amounts owed to group undertakings | 104,568 | 128,407 |
| Accruals and deferred income | 966 | 1,431 |
| | 107,430 | 131,285 |

Amounts owed to group undertakings include a loan from E.ON UK plc of £102,262,000 (2016: £127,256,000) which is unsecured, bears interest payable at a rate of LIBOR plus 55 basis points, is a drawdown from a credit facility of £150,000,000 which has a maturity date of 31 December 2018 and which rolls daily for both capital and interest. Amounts owed to group undertakings also include a loan of €554,100 (2016: €20,372) which is unsecured, bears interest at a rate of LIBOR plus 55 basis points and rolls daily for both capital and interest.

All other amounts are unsecured, interest free and repayable on demand.

13. Provisions for liabilities

| | Deferred tax £000 | Emissions obligations £000 | Decommissioning provision £000 | Total £000 |
|--|----------------------|-------------------------------|--------------------------------------|---------------|
| At 1 January 2017 | 6,138 | 69 | 5,294 | 11,501 |
| Debited to the profit and loss account | 1,216 | 78 | - | 1,294 |
| Utilised during the year | - | (65) | - | (65) |
| Accretion of discount | - | - | 112 | 112 |
| Additions to tangible assets | - | - | 680 | 680 |
| At 31 December 2017 | 7,354 | 82 | 6,086 | 13,522 |

Emissions obligations provisions represent amounts payable to national authorities for emissions made during the year. Emissions obligations are settled on an annual basis.

Decommissioning provision comprises amounts set aside for the estimated costs of terminating power station grid connections, decommissioning and subsequent site restoration costs at Blackburn Meadows. The provision will be utilised when the power station is closed, which is estimated to be in 2044. During the year, changes in the accounting estimates resulted in additions of £680,000 (2016: £314,000) being recorded in these financial statements.

E.ON CLIMATE & RENEWABLES UK BIOMASS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the Year Ended 31 December 2017 (continued)

Analysis of deferred tax

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

| | 2017 £000 | 2016 £000 |
|---|---------------------|---------------------|
| Accelerated capital allowances | 7,354 | 6,132 |
| Other timing differences | - | 6 |
| | <u>7,354</u> | <u>6,138</u> |
| Liability at beginning of year | 6,138 | 5,047 |
| Deferred tax charge for the year (note 7) | 1,216 | 1,091 |
| Liability at year end | <u>7,354</u> | <u>6,138</u> |

The Finance Act 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 liability at 31 December 2017 has been measured accordingly.

Within the deferred tax charge of £1,216,000 (2016: £ 1,091,000), no amount relates to the change in the tax rate (2016: £273,000 credit).

There are no unused tax losses or tax credits.

14. Called up share capital

| | 2017 £000 | 2016 £000 |
|---|--------------|--------------|
| Allotted, called-up and fully paid | | |
| 1 ordinary share of £1 (2016: 1) | - | - |
| | <u>-</u> | <u>-</u> |

15. Commitments

Capital commitments

There are no amounts contracted for but not provided for in these financial statements (2016: £nil).

Operating lease commitments

The Company is recharged for certain operating leases from E.ON UK plc.

As at 31 December 2017, the Company had commitments under non-cancellable operating leases as follows:

Operating leases which expire:

| | 2017 £000 | 2016 £000 |
|---------------------------|--------------|--------------|
| Land and buildings | | |
| Within one year | 300 | - |
| Within two and five years | 1,200 | - |
| Over five years | 6,000 | - |
| | <u>7,500</u> | <u>-</u> |

E.ON CLIMATE & RENEWABLES UK BIOMASS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the Year Ended 31 December 2017 (continued)

16. Related party transactions

During the year, 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

The Company had costs of £334,000 (2016: £228,000) relating primarily to the purchase of engineering services. The balance outstanding at the year end was a liability of £159,000 (2016: £148,000).

Uniper UK Limited

The Company had costs of £4,000 (2016: £5,000) relating to a generator study. The balance outstanding at the year end was a liability of £9,000 (2016: £5,000).

17. Ultimate holding company

The Company is controlled by E.ON Climate & Renewables UK Limited. 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