E.ON’s UK Consolidated Segmental Report for the year ended 31 December 2017

Amended copy published 27 April 2018

This amended copy has been published to correct a mis-allocation of certain indirect costs between Electricity Supply and Gas Supply within the Domestic and Non-domestic columns.
E.ON’s UK Consolidated Segmental Report for the year ended 31 December 2017

In accordance with the Electricity Generation Licence Condition 16B - Financial Information Reporting, and the Electricity Supply and Gas Supply Licence Conditions 19A - Financial Information Reporting (together the “Licence Conditions”), the E.ON companies (the “Relevant Licensees”) listed below on page 4 have prepared this Consolidated Segmental Report for the year ended 31 December 2017. This Consolidated Segmental Report has five sections:

1. **E.ON’s UK generators and suppliers**, which lists E.ON’s Relevant Licensees.

2. **Trading**, which provides an explanation of how any electricity and gas trading associated with licence supply and generation activities in Great Britain is carried out within the E.ON SE Group (the group containing the ultimate parent company, E.ON SE, and its subsidiary companies) and reported in this Consolidated Segmental Report;

3. The **Consolidated Segmental Statement (the “CSS”)** as defined in the Licence Conditions and within which is:

   A. **E.ON’s UK Consolidated Segmental Statement for the year ended 31 December 2017 (Table 1)**, which provides information relating to the revenues, costs and profits of the Relevant Licensees’ activities in the generation of electricity and the supply of electricity and gas to any premises, where Table 1 is one of the two tables that form the CSS;

   B. The **Notes to Table 1 and basis of preparation**, which provide an explanation of how the Relevant Licensees define the terms: revenues, costs and profits used in E.ON’s UK Consolidated Segmental Statement;

   C. **Table 2 Business Function**, which provides an explanation of where individual business functions are captured in E.ON’s UK Consolidated Segmental Statement, as specified by Appendix 2 of the Guidelines, where Table 2 is the second of the two tables that form the CSS;

   D. The **Notes to Table 2 and basis of preparation**, which provide an explanation of how the Relevant Licensees define the terms used in Table 2; and

   E. **Independent Auditors’ report**, which is set out in Annex 1 and is the Independent Auditors’ report to the Directors of E.ON’s Relevant Licensees. This report, from the Relevant Licensees’ Auditor, gives an audit opinion as to whether the Relevant Licensees have prepared this Consolidated Segmental Report and the CSS within it, in accordance with the requirements of the Licence Conditions and the basis of preparation.
4. Reconciliation of Table 1 to the Annual Report of E.ON SE, which comprises of:

   A. **Table 3 Reconciliation**, because none of the UK statutory accounts of E.ON’s eight Relevant Licensees were prepared or published before 30 April 2018, this is a reconciliation of the Revenues and EBITDA contained within Table 1 to the audited data published in the Annual Report of E.ON SE for the year ended 31 December 2017, where the Annual Report of E.ON SE is prepared under International Financial Reporting Standards; and

   B. **Notes to Table 3 and basis of preparation**, which provide an explanation of the definitions used and reconciling items in the Reconciliation.

   This reconciliation of Table 1 to the Annual Report of E.ON SE does not form part of the CSS.

5. Transfer Pricing and basis of preparation, within which is:

   A. **The transfer pricing methodology used by the Relevant Licensees**, which is an explanation of the transfer pricing methodology used by the Relevant Licensees and how this relates to the revenues, costs and profits information in Table 1 of the CSS; and

   B. **Compliance with the Licence Conditions’ requirements in respect of Transfer Pricing**, which is an explanation of how the Relevant Licensees meet the Licence Conditions’ requirements for ensuring that the transfer pricing methodology they operate is appropriate and up to date.

1. **E.ON’s UK generators and suppliers**

   **The Relevant Licensees**

   1. **Relevant Electricity Supply licensees** (electricity supply licensees that supply electricity and are, or have Affiliates that are, holders of an electricity generation licence, as set out in the Licence Conditions):
      - E.ON Energy Solutions Limited
      - E.ON UK plc

   2. **Relevant Gas Supply licensees** (gas supply licensees that supply gas and are, or have Affiliates that are, holders of an electricity generation licence, as set out in the Licence Conditions):
      - E.ON Energy Gas (Eastern) Limited
      - E.ON Energy Gas (North West) Limited
      - E.ON Energy Solutions Limited
      - E.ON UK plc
      - Economy Power Limited

   3. **Relevant Generation licensees** (a generation licensee that supplies electricity and gas, or its Affiliates supply electricity or gas, as set out in the Licence Conditions):
      - Citigen (London) Limited
      - E.ON Climate & Renewables UK Humber Wind Limited
      - E.ON UK plc
      - Rampion Offshore Wind Limited

   All the Relevant Licensees are wholly owned subsidiaries of E.ON SE except for Rampion Offshore Wind Limited. E.ON Climate & Renewables UK Limited has a 50.1% equity interest in Rampion Offshore Wind Limited. All the Relevant Licensees are fully consolidated in E.ON’s UK CSS for the whole of 2017. On 31 December 2016, the E.ON SE Group deconsolidated the Uniper SE Group (Uniper) as it was no longer considered to control Uniper. This was after spinning off 53.35% of the issued share capital to shareholders on 12 September 2016. Accordingly, the activities of Uniper UK Limited are not included in E.ON’s UK CSS for 2017.
E.ON’s UK Consolidated Segmental Report for the year ended 31 December 2017

Major operational generation plant of the Relevant Licensees in 2017

E.ON Plant classed as Conventional in Tables 1 and 2 below:
- Citigen (natural gas fired combined heat and power plant)

E.ON Plant classed as Renewable in Tables 1 and 2 below:
- Humber Gateway (off-shore wind farm)
- Rampion (off-shore wind farm)
- Out Newton (on-shore wind farm)
- Steven's Croft (biomass fired steam plant)
Joint Ventures and Associates

Under the Guidelines to Licence Conditions, in preparing the CSS the Relevant Licensees should account for Joint Ventures and Associates (which hold a generation or electricity/gas supply licence in the UK). E.ON has one UK Associate that holds a generation licence, London Array Limited, which is 30% owned by a subsidiary of E.ON UK plc, the major operating plant covered by this generation licence is the London Array wind farm. Consequently, Table 1 includes:

- The revenues arising from E.ON’s 30% interest in the London Array wind farm;
- The EBITDA arising from E.ON’s 30% interest in the London Array wind farm; and
- 30% of London Array’s generation volume.

London Array Limited’s activities do not form part of the transfer pricing methodology used by the Relevant Licensees and are not covered in Table 2.

The Relevant Licensees also have Affiliates, Associates and Joint Ventures that are not licensees, but carry out generation and supply activities in Great Britain. As these companies are not licensees their activities are not included in the CSS.

Classification of Generation and Supply Activities

For this Consolidated Segmental Report:

- the combined electricity generation activities of the Relevant Licensees are “Generation”, which forms the Generation segment in Table 1, and comprises the Relevant Licensees’ generation activities managed in 2017 by the E.ON Management Units Renewables and Customer Solutions UK; and
- the combined supply (electricity and gas) activities of the Relevant Licensees are “Supply”, which forms the Supply segment in Table 1, and comprises the Relevant Licensees’ supply activities managed by the E.ON Management Unit Customer Solutions UK.
2017 generation volumes of E.ON’s Great Britain generation plant

Relevant Licensees, including 30% of London Array, which is the volume reported in Table 1  2.0TWh

Licence Exempt generation by Affiliates and Associates of the Relevant Licensees  1.9TWh

Total volume of E.ON’s Great Britain generation plant  3.9TWh
2. Trading

During 2017, the Licensed companies within E.ON Group’s UK activities were supported initially by Uniper Global Commodities SE ("UGC") and subsequently by E.ON UK Energy Markets Limited ("EEM"). The use of these companies is to centralise the purchase and sale of commodities and neither is a Relevant Licensee and they are not included in Table 1. The transition from UGC to EEM occurred due to E.ON Group spinning off its fossil generation and trading business in 2017.

UGC’s activities included purchasing generation from the Relevant Licensees and providing electricity and gas for supply activities by the Relevant Licensees. These arrangements were covered by cross border contracts, which were prepared on an arm’s length basis (meaning that although the transactions are between two related or affiliated parties, they are conducted as if the two parties were unrelated) and were subject to examination by the tax authorities in both Germany and the UK.

EEM’s activities include purchasing generation from the Relevant Licensees and providing electricity and gas for supply activities by the Relevant Licensees. These arrangements are covered by legal contracts which ensure that all commodity transactions are on a non-profit basis and as such the costs and income for the Relevant Licensees are fully market reflective.

These arrangements for UGC and EEM are described in the explanation of the transfer pricing methodology used by the Relevant Licensees on pages 20 to 22 of this Consolidated Segmental Report.

The Relevant Licensees’ generation activities do not engage in the trading of electricity or gas, other than in transfer pricing arrangements with UGC to sell electricity and procure gas. These arrangements mean that income related to the production capacity, fuel and emission allowances of conventional plant, for the Generation segment in Table 1 is based on market prices. Any profit or loss from trading, including balancing activities, by UGC does not affect Generation’s income and therefore, if there was an entry for trading in the Generation segment of Table 1, it would be zero. EEM has not entered into any trading activities during the year apart from to meet the supply and demand from/to the Relevant Licensees and as such there is no entry in Table 1 for trading activities through EEM.
Electricity and gas supply activities forming Supply do not actively engage in the trading of electricity or gas, other than in contracting for the necessary volume of electricity and gas for supply to our customers. Nearly all the procurement is from UGC and EEM using transfer pricing arrangements. These arrangements mean that the cost of energy purchased from UGC and EEM by Supply is based on wholesale market prices. Any profit or loss from trading by UGC, or any other companies in the E.ON organisation, does not affect costs for Supply and therefore if there was an entry for trading in the Supply segment of Table 1, it would be zero.

There are differences between the income rate for the Generation segment and the electricity expenditure rate of the Supply segment in Table 1, but none of these are due to trading activities of UGC, EEM or any other E.ON businesses. The differences are because the electricity volumes generated and supplied by activities forming Generation and Supply respectively, are different, as are their respective load profiles and the times at which they contract. These factors, together with the effects of transaction costs and the activities forming Supply that are not purchasing all their volumes from UGC and EEM, mean that although activities of Generation and Supply are contracting at wholesale market prices, Generation’s average income rate per KWh generated will be different to Supply’s average expenditure rate per KWh of electricity supplied. Also, in Table 1, the weighted average input cost of all fuel shown in the Generation segment is different to the weighted average input cost of gas shown in the Supply segment. This is because the generation plants of the Relevant Licensees use a mixture of fuels and use different volumes, load profiles and contracting times to that of the Supply activities.
### 3. The CSS - E.ON’s UK Consolidated Segmental Statement for the year ended 31 December 2017 (Table 1)

<table>
<thead>
<tr>
<th>Table 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Note</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Revenue from sales of electricity and gas</td>
</tr>
<tr>
<td>Other revenue</td>
</tr>
<tr>
<td>Total revenue</td>
</tr>
<tr>
<td>Direct fuel costs</td>
</tr>
<tr>
<td>Transportation costs</td>
</tr>
<tr>
<td>Environmental and social obligations</td>
</tr>
<tr>
<td>Other direct costs</td>
</tr>
<tr>
<td>Indirect costs</td>
</tr>
<tr>
<td>Total operating costs</td>
</tr>
<tr>
<td>EBITDA</td>
</tr>
<tr>
<td>Depreciation and amortisation (DA)</td>
</tr>
<tr>
<td>EBIT</td>
</tr>
<tr>
<td>Volume</td>
</tr>
<tr>
<td>WACO F/E/G</td>
</tr>
<tr>
<td>Customer accounts</td>
</tr>
</tbody>
</table>

DA includes impairments. See note 9 on page 13 for further information of these items.
Notes to Table 1 and basis of preparation

1. Revenue from sales of electricity and gas
   
a. For the Generation segments, this means revenue received from EEM and UGC for sales of the Relevant Licensees’ net generation. The revenue received from EEM and UGC reflects EEM and UGC’s market participation costs, including Elexon/Xoserve administration costs.

   b. For the respective Supply segments, this means electricity and gas sales by the Relevant Licensees. Revenue for domestic supply is less discounts including dual fuel and customer rewards as recorded in the company’s books of account; this includes the customer rebate for the Warm Home Discount (WHD). Where revenues are not recorded as fuel specific, they are allocated on the basis of customer numbers.

2. Other revenue - this means other segmental revenues of the licensees not covered in Revenue from sales of electricity and gas.
   
a. For the Generation segment this includes any ancillary services, Renewables Obligation Certificates (ROCs) and Levy Exemption Certificates (LECs). For Citigen (London) Limited, this also includes heat and cooling.

   b. For the Supply segment, Table 1 only includes licensed supply activity, as all other activities have been adjusted on the reconciliation in Table 3.

3. Direct fuel costs
   
a. For the Generation segment, this is just the cost of fuel (e.g. gas etc.) consumed by the Relevant Licensees during the financial year. As all emissions costs such as EU-ETS allowances are included in Environmental and social obligation costs, they are excluded from Direct fuel costs.

   b. For the Supply segment, this is the cost of electricity and gas used by the Relevant Licensees’ Supply activities. This includes the wholesale energy costs, losses, the energy element of Reconciliation-by-Difference (RBD), the cost of securing derivative hedging instruments and balancing and shaping costs.
4. Transportation costs

   a. For the Generation segment, this includes all network costs and Balancing Services Use of System (BSUoS) charges relating to Generation.

   b. For the Supply segment, this includes use of system charges, transportation costs, BSUoS, the transport element of RBD and other network costs relating to Supply. Costs are as recorded in the company's books of account and supporting documents.

5. Environmental and social obligation costs

   a. For the Generation segment, this includes the cost of EU-ETS allowances and CPF related taxes. The volume of granted free carbon allowances for the Relevant Licensees under the National Allocation Plan, as reported in this Table 1, was 2,977 tonnes.

   b. For the Supply segment the costs directly attributable to it were Electricity Market Reform (EMR), Feed-in Tariffs (FIT), ROCs, the Energy Companies Obligation (ECO) and Assistance for Areas with High Electricity Distribution Costs (AAHEDC). EMR, FIT, ROCs and AAHEDC are included as recorded in the company's books of account and supporting documents for domestic and non-domestic supply. ECO costs are as recorded in the company's books of account and supporting documents for the domestic supply customer group – further split to allocate into electricity and gas using the number of customer accounts. Using an allocation based on the number of customer accounts provides a consistent approach for allocating such costs across all customer accounts.

   A further more detailed analysis of the Environmental and social obligation costs which reconciles to and represents the amounts disclosed in Table 1 has been submitted directly to Ofgem.

6. Other direct costs

   a. For the Generation segment, this includes the cost of electricity imported to the sites, and Generation does not incur market participation costs, including Elexon/Xoserve administration costs.

   b. For the Supply segment, this includes market participation costs, including Elexon/Xoserve administration costs, brokers’ costs, intermediaries’ sales commissions, any ‘wider’ smart metering programme costs (e.g. Data Communications Company (DCC) and Smart Energy GB related costs).
7. **Indirect costs**

a. For the Generation segment, this includes general office costs and repairs and maintenance.

b. For the Supply segment this means the Relevant Licensees’ own internal operating costs including sales and marketing costs, bad debt, costs to serve, IT, staffing costs, head office costs that are attributable to Supply, billing and all meter costs including smart meter costs (e.g. linked to rollout or asset rental, but not DCC or Smart Energy GB). Costs are as recorded in the company’s books of account and are allocated where possible as a direct allocation to a particular customer group, i.e. there is an allocation between domestic and non-domestic, and then, within each of those two customer groups, between electricity and gas. Unless stated otherwise, where a direct allocation cannot be made to a particular customer group, the allocation between domestic and non-domestic and then electricity and gas has been made on a reasonable endeavours basis using the number of customer accounts in each category. Using an allocation based on the number of customer accounts provides a consistent approach for allocating such costs across all customer accounts.

8. **EBITDA** – this means earnings before interest, tax, depreciation, amortisation and impairments. **EBITDA** is **Total Revenue** less **Total operating costs**.

9. **DA** – this means depreciation and amortisation. The Generation segment also includes relevant impairments that relate directly to the operation of the Generation businesses. This includes a £21.5m impairment of Tangible Fixed Assets during the year in respect of the generation portfolio.

10. **EBIT** – this means earnings before interest and tax. **EBIT** is **EBITDA** less **DA**. In accordance with the Guidelines to Licence Conditions, the CSS does not include the mark to market adjustment of derivatives. This is the notional profit/loss incurred through changes in valuation of contracts with future delivery dates, due to changes in market price. As these contracts have not been realised in cash terms, they do not form part of the performance measures used by management to make strategic decisions and have therefore been excluded.
11. Volume

a. For the Electricity Generation segments, this is the volume of electricity that can actually be sold in the wholesale market, i.e. generation volumes after the losses up to the point where power is received under the Balancing and Settlement Code (BSC) but before subsequent losses. This is a different basis for measuring volume to that used for the Supply segment. The Electricity Generation Renewable segment includes generation by the Relevant Licensees that does not have “Direct fuel costs”, e.g. wind generation.

b. For the Supply segment, this is the volume of electricity, measured in TWh to 1 decimal place, and gas, measured in millions of therms to 1 decimal place, as recorded at the meter point (i.e. supplied under BSC net of losses). This is a different basis for measuring volume to that used for the Generation segment.

12. WACO F/E/G

a. For the Generation segment, this is the “Direct fuel costs” (Note 3 above) and “Environmental and social obligation costs” (Note 5 above), added together and divided by the “Volume” (Note 11 above), and means the weighted average input cost of all fuel (e.g. gas) used by the Relevant Licensees and the cost of EU-ETS allowances.

b. For the Supply segment, this is solely the “Direct fuel costs” (Note 3 above) divided by the Volume (Note 11 above) and means the weighted average cost of electricity (shown as £/MWh), or gas (shown as p/therm) used by the Relevant Licensee’s Supply activities.

13. Customer accounts - means the average number of electricity and gas, domestic and non-domestic meter points (Meter Point Administration Numbers and Meter Point Reference Numbers) during the reporting year. The average number has been calculated by summing the month end number of meter points and dividing by 12. The customer numbers are rounded to the nearest 1,000.

14. Electricity Generation Conventional – means generation plant that is eligible to participate in the Capacity Market under EMR.

15. Electricity Generation Renewable – means generation plant that is not eligible to participate in the Capacity Market under EMR.

16. Aggregate Generation business – this column sums the horizontal figures of the Electricity Generation columns.
17. **Domestic** - means supply to Domestic Customers, where Domestic Customers are customers supplied or requiring to be supplied with electricity at Domestic Premises. These are premises at which a supply of electricity is taken wholly or mainly for a domestic purpose except where those premises are Non-domestic Premises, but excluding such customers insofar as they are supplied or require to be supplied at premises other than Domestic Premises, where Non-domestic Premises have the meaning given in and are interpreted as in accordance with the Electricity Supply and Gas Supply Licence Conditions 6 (Classification of premises). These columns of the Table form the Domestic supply business segment.

18. **Non-domestic** - means supply to Non-domestic Customers, being those customers who are not Domestic Customers. These columns of the Table form the Non-domestic supply business segment.

19. **Aggregate Supply business** – this column sums the horizontal figures of the Electricity Supply and Gas Supply columns. Both the Electricity Supply and Gas Supply columns are each further divided into two columns to provide a Domestic and Non-domestic supply market breakdown. Where possible a direct allocation has been made to a particular customer group, i.e. there is an allocation between electricity and gas, and then, within each of those two groups, between domestic and non-domestic sales. Unless stated otherwise, where a direct allocation cannot be made to a particular customer group, the allocation between electricity and gas and then between Domestic and Non-domestic sales has been made on a reasonable endeavours basis using the number of customer accounts in each category. Using an allocation based on the number of customer accounts provides a consistent approach for allocating such costs across all customer accounts.
### Table 2

<table>
<thead>
<tr>
<th>Business Function</th>
<th>Generation</th>
<th>Supply</th>
<th>Another part of the business(^1)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Conventional</td>
<td>Renewable</td>
<td></td>
</tr>
<tr>
<td>Operates and maintains generation assets</td>
<td>√</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>Responsible for scheduling decisions</td>
<td>√</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Responsible for interactions with the Balancing Market</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Responsible for determining hedging policy</td>
<td>P/L(^3)</td>
<td>P/L(^3)</td>
<td>√(^4)</td>
</tr>
<tr>
<td>Responsible for implementing hedging policy/makes decisions to buy/sell energy</td>
<td></td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>Interacts with wider market participants to buy/sell energy(^6)</td>
<td></td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>Holds unhedged positions (either short or long)(^7)</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>Procures fuel for generation</td>
<td></td>
<td>√</td>
<td>√(^2)</td>
</tr>
<tr>
<td>Procures allowances for generation</td>
<td></td>
<td></td>
<td>√(^2)</td>
</tr>
<tr>
<td>Holds volume risk on positions sold (either internal or external)</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>Matches own generation with own supply(^8)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Forecasts total system demand(^9)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Forecasts wholesale price</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Forecasts customer demand</td>
<td></td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>Determines retail pricing and marketing strategies</td>
<td></td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>Bears shape risk after initial hedge until market allows full hedge</td>
<td>√</td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>Bears short term risk for variance between demand and forecast</td>
<td></td>
<td></td>
<td>√</td>
</tr>
</tbody>
</table>

**Key**

- √  Indicates that the business function and the profits or losses reside in the same business.
- F  Indicates where the business function resides in cases where it is not in the same business as where the profit or loss is recorded.
- P/L Indicates where the profit and loss is recorded in cases where the business function does not reside in the same business.
Notes to Table 2 and basis of preparation

1. Excluding generation and supply by E.ON SE group companies that are not licensees.

2. Electricity generation from the Relevant Licensees’ conventional plant that is scheduled by EEM and UGC. Fuel and allowances for conventional generation are procured by EEM and UGC.

3. The Relevant Licensees’ Generation activities are not responsible for determining hedging policy. However, the impact of the E.ON Group’s overall hedging policy on the Relevant Licensees’ Generation activities is reflected in any profit or loss recorded in the Generation segments of Table 1.

4. The impact of the E.ON Group’s overall hedging policy is also reflected in any profit or loss recorded by the Supply segment of Table 1. In addition, the Relevant Licensees’ Supply activities are responsible for determining their hedging policies within the E.ON Group’s overall hedging policy.

5. While the E.ON Group’s overall hedging policy is determined by another part of the business to the Relevant Licensees’ Generation and Supply activities, the impact of the strategy on the Generation and Supply segments in Table 1 is reflected in any profit or loss recorded by them.

6. The Relevant Licensees’ Supply activities do purchase small volumes from embedded generation and industry mechanisms. As this accounts for less than 5% of the total electricity supply volume reported in the Supply segment of Table 1, to avoid overcomplicating this Table 2, it is not shown. If it was included there would be a tick in the Supply column for this business function.

7. The Relevant Licensees’ Generation capacity that is not, or has not yet been, contracted with EEM and UGC. The Relevant Licensees’ Supply activities forecast sales, the energy for which has not yet been contracted and their residual exposure to volume changes.

8. E.ON’s transfer pricing arrangements mean that there is no matching of the Group’s, or Relevant Licensees’, own generation with own supply.

9. The Transmission System Operator forecasts the total system demand.
## 4. Reconciliation of Table 1 to the Annual Report of E.ON SE

### Reconciliation to E.ON SE 2017 Annual Report

<table>
<thead>
<tr>
<th>E.ON SE Group</th>
<th>External Sales in €m</th>
<th>Inter-segment Sales in €m</th>
<th>Revenue £m</th>
<th>Note</th>
<th>Adjusted EBIT £m</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>E.ON SE Group</strong></td>
<td>37,965.0</td>
<td>37,965.0</td>
<td></td>
<td></td>
<td>3,074.0</td>
</tr>
<tr>
<td>less:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Energy Networks - Germany</td>
<td>12,536.0</td>
<td>1,663.0</td>
<td>14,199.0</td>
<td>1</td>
<td>1,050.0</td>
</tr>
<tr>
<td>Energy Networks - Sweden</td>
<td>1,038.0</td>
<td>34.0</td>
<td>1,072.0</td>
<td></td>
<td>474.0</td>
</tr>
<tr>
<td>Energy Networks - ECE/Turkey</td>
<td>742.0</td>
<td>977.0</td>
<td>1,719.0</td>
<td></td>
<td>417.0</td>
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<tr>
<td>Customer Solutions - Germany</td>
<td>7,368.0</td>
<td>84.0</td>
<td>7,452.0</td>
<td></td>
<td>118.0</td>
</tr>
<tr>
<td>Customer Solutions - Other</td>
<td>6,656.0</td>
<td>254.0</td>
<td>6,910.0</td>
<td></td>
<td>158.0</td>
</tr>
<tr>
<td><strong>Renewables (E.ON Climate and Renewables)</strong></td>
<td>767.0</td>
<td>837.0</td>
<td>1,604.0</td>
<td>2</td>
<td>454.0</td>
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<tr>
<td>Non-core business</td>
<td>1,585.0</td>
<td>-</td>
<td>1,585.0</td>
<td></td>
<td>506.0</td>
</tr>
<tr>
<td>Corporate functions/other</td>
<td>125.0</td>
<td>671.0</td>
<td>796.0</td>
<td></td>
<td>(342.0)</td>
</tr>
<tr>
<td>Consolidation</td>
<td>1.0</td>
<td>(4,578.0)</td>
<td>(4,577.0)</td>
<td></td>
<td>(11.0)</td>
</tr>
<tr>
<td><strong>Consolidation</strong></td>
<td>30,818.0</td>
<td>(58.0)</td>
<td>30,760.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Customer Solutions - UK (E.ON Regional Unit UK)</strong></td>
<td>7,147.0</td>
<td>58.0</td>
<td>7,205.0</td>
<td>3</td>
<td>219.2</td>
</tr>
<tr>
<td>Other Regional Unit UK activities</td>
<td></td>
<td></td>
<td></td>
<td>4</td>
<td>250.0</td>
</tr>
<tr>
<td>Reallocation of other Retail business</td>
<td></td>
<td></td>
<td></td>
<td>5</td>
<td>52.7</td>
</tr>
<tr>
<td><strong>CSS Revenue and EBIT (Aggregate Supply business) per Table 1</strong></td>
<td></td>
<td></td>
<td></td>
<td>7</td>
<td>255.6</td>
</tr>
<tr>
<td><strong>Total Renewables above</strong></td>
<td>1,604.0</td>
<td></td>
<td></td>
<td>2</td>
<td>454.0</td>
</tr>
<tr>
<td>Less Non-UK components</td>
<td>(716.6)</td>
<td></td>
<td></td>
<td>8</td>
<td>(210.5)</td>
</tr>
<tr>
<td><strong>UK Renewables</strong></td>
<td>887.4</td>
<td></td>
<td>778.0</td>
<td>9</td>
<td>213.5</td>
</tr>
<tr>
<td>Reallocation of generation activities</td>
<td></td>
<td></td>
<td></td>
<td>10</td>
<td>243.5</td>
</tr>
<tr>
<td>Impairment</td>
<td></td>
<td></td>
<td></td>
<td>6</td>
<td>21.5</td>
</tr>
<tr>
<td><strong>CSS Revenue and EBIT (Aggregate Generation business) per Table 1</strong></td>
<td></td>
<td></td>
<td></td>
<td>11</td>
<td>108.5</td>
</tr>
</tbody>
</table>
E.ON’s UK Consolidated Segmental Report for the year ended 31 December 2017

Notes to Table 3 and basis of preparation

1. *E.ON SE Group* figures are taken from pages 204 and 205 of the *2017 E.ON SE Group Annual Report*, which show the Financial Information by Business Segment disclosed in millions of Euros or €m. Adjusted EBIT means earnings before interest and tax, adjusted for extraordinary effects.

2. *Renewables* segment is also taken from pages 204 and 205 of the *2017 E.ON SE Group Annual Report*, and covers the E.ON SE Group’s worldwide renewables activities, including the generation licensees’ component, in €m.

3. *Customer Solutions UK* is also taken from pages 204 and 205 of the *2017 E.ON SE Group Annual Report*. These have been translated into £m using an average exchange rate of £1 = €1.1407.

4. *Other Regional Unit UK activities* are the other activities carried out by E.ON Regional Unit UK, including the Corporate Centre functions, which do not form part of the Relevant Licensees’ Supply activities.

5. *Reallocation of other Retail business* is E.ON Regional Unit UK’s Supply activities that do not form part of the Supply segment in Table 1, e.g. licence exempt supply by Affiliates of the Relevant Licensees.

6. *Impairment* is the amount of impairments of Tangible Fixed Assets in respect of the generation portfolio during the year following an updated impairment assessment.

7. *CSS Revenue and EBIT (Aggregate Supply business)* figures are the Aggregate Supply business figures presented in Table 1 of this report.

8. *Non-UK components* are E.ON’s other worldwide generation activities.

9. *UK Renewables* represents the activities associated with wind generation plant accounted for within the E.ON UK plc Group. These have been translated into £m using an average exchange rate of £1 = €1.1407.

10. *Reallocation of generation activities* relates to exclusion of unlicensed renewables generation

11. *CSS Revenue and EBIT (Aggregate Generation business)* figures are the Aggregate Generation business figures presented in Table 1 of this report.
5. Transfer Pricing and basis of preparation

The transfer pricing methodology used by the Relevant Licensees

All of the Relevant Licensees operate within E.ON’s transfer pricing methodology as described below.

Arrangements between the Relevant Licensees and UGC and EEM for generation plant

Relevant Licensees’ generation plant that is not eligible to participate in the Capacity Market under EMR is classed as Renewables. E.ON has no UK renewables generation plant scheduled by UGC.

These arrangements mean that the key risks for the Relevant Licensees are the potential for unscheduled power station outages, for which they would incur financial penalties, and in their management of fuel procurement.

Income arrangements

The Relevant Licensees have arm’s length contracts to receive payment from UGC and EEM for the output from the licensees’ renewables generation plant. These arrangements are primarily for delivery of electricity, with neither UGC or EEM scheduling the generation. The prices are market based with imbalances between contracted and outturn covered by a balancing fee. These payments form part of the “Revenue from sales of electricity and gas” for the Electricity Generation Renewable segment within Table 1.

Expenditure arrangements

Any payment for fuel by the generator is direct to the supplier and does not form part of the transfer pricing methodology. For the Relevant Licensee, these payments are the “Direct fuel costs” within Table 1; they only cover the cost of the fuel used in generation and do not cover any fuel delivered to site that has not been used. These costs are included in the “WACO F/E/G” for the Electricity Generation Renewable segment within Table 1.
**E.ON’s transfer pricing methodology for the Relevant Licensees’ Supply activities**

**Income arrangements**

The revenues from Supply sales of electricity and gas do not form part of the contracts between the Relevant Licensees and UGC.

**Expenditure arrangements for energy procurement**

The Relevant Licensees buy nearly all their required supply of electricity and gas from UGC and subsequently EEM on arm’s length contracts using traded market instruments, including derivative financial instruments. The arm’s length arrangements are secured through the instruments using a price that is directly derived from visible wholesale market prices at the time when the transaction takes place. This means that prices paid for the electricity and gas correspond to the current open market price for the particular product. A small volume is also purchased from embedded generation and industry mechanisms. Variations between final contract commitments and outturn customer demand are settled using the corresponding short term prices in the electricity and gas markets. There are no other costs relating to the contracts with UGC. Thus, to the extent that a Relevant Licensee procures energy from other E.ON companies, the transfer pricing methodology reflects how they actually acquire energy. The total price paid by the Relevant Licensees for electricity or gas, used for supply, is the “Direct fuel costs” for the Supply segment in Table 1. This is the cost used for the “WACO F/E/G” for the Supply segment within Table 1.

The required supply is based on forecast demand and the timing of purchases. These are determined by an assessment of competitive market dynamics and represent the key commodity risks for the Relevant Licensees’ Supply activities. As explained above, the full costs of these purchases are included in “Direct fuel costs” in Table 1. However, any notional profit or loss, through changes in valuation due to changes in market price, of contracts with future delivery dates, is excluded. The exclusion of this notional profit or loss reflects the fact that these contracts have not been realised in cash terms and do not form part of the performance measures used by management to make strategic decisions. Excluding such notional profit or loss in Table 1 supports Ofgem’s requirements for consistency in reporting and so supports meaningful comparison of statements.

A number of purchasing strategies are operated to address the various characteristics and requirements of our customers and reflect the competitive market conditions. These strategies range from flexible purchase arrangements for some large corporate customers, to longer term hedges for most tariff customers. This can produce different WACO E/G for the different electricity and gas Supply segments of Table 1.
**Arrangements between the Relevant Licensees and other parts of E.ON**

The treatment of services taken from other parts of E.ON by the Relevant Licensees’ Generation and Supply activities are covered by Service Level Agreements (SLAs). These Generation and Supply costs are included in ”Indirect costs“ within Table 1.

E.ON’s Great Britain supply activities, other than by the Relevant Licensees, are by companies that are licence exempt. These companies supply electricity direct to customers; using electricity they generate themselves or have purchased from a licensed supplier, which can be one of E.ON’s Relevant Licensees. Sales by the Relevant Licensee to the licence exempt supplier are included in “Revenue from sales of electricity and gas” within Table 1.

The Relevant Supply Licensees procure ROCs and LECs from a number of sources, including E.ON companies. Any such procurement from E.ON companies is through an arm’s length agreement.

**Compliance with the Licence Conditions’ requirements in respect of Transfer Pricing**

During 2017 the Relevant Licensees operated in accordance with E.ON's Group Policy KR15 - Transfer Pricing, version 2.0. The policy remained in force on 31 December 2017. There were no material changes to E.ON’s Group Policy KR15.

As described above, all of the Relevant Licensees operate within their Group’s transfer pricing methodology. Where trading is between the Relevant Licensees and other companies within their Group, it is through arm’s length contractual arrangements. These contracts are in the form of SLAs. With the SLAs forming part of the Relevant Licensees’ normal trading activities, they are kept under review to ensure that they are appropriate, up to date, compliant with the requirements of their Group’s Transfer Pricing policy and compliant with the requirements of the tax authorities in both Germany and the UK. This ongoing review process did result in amendments being made to some of the SLAs during 2017. In addition, as part of the Relevant Licensees’ normal trading activities, transactions under the SLAs are subject to normal financial controls, checks, record keeping and audit.

To ensure compliance with paragraph 8 of the Licence Conditions, commencing 13 February 2015 the Relevant Licensees notify the Authority as soon as reasonably practicable of any material changes (new versions coming into force) of E.ON’s Group Policy KR15 - Transfer Pricing.
Annex 1 - Independent auditors’ report to the Directors of E.ON UK plc and their Licensees

Opinion

We have audited the statement (E.ON’s UK Consolidated Segmental Report for the year ended 31 December 2017, the “CSR”, which includes the Consolidated Segmental Statement, the “CSS” as defined in the Licence Conditions) of E.ON UK plc’s Relevant Licensees (as listed in footnote i) for the year ended 31 December 2017 in accordance with the terms of our agreement dated 3 January 2018. E.ON’s UK Consolidated Segmental Report has been prepared by the Directors of E.ON’s Relevant Licensees based on the requirements of Ofgem’s Standard Condition 19A of the Gas and Electricity Supply Licences and Standard Condition 16B of the Electricity Generation Licences (together, the ‘Licences’) and the basis of preparation on pages 11-15, 17, 19 and 20-22.

In our opinion the accompanying CSR of E.ON UK plc’s Relevant Licensees for the year ended 31 December 2017 is prepared, in all material respects, in accordance with:

i) the requirements of Ofgem’s Standard Condition 19A of the Gas and Electricity Supply Licences and Standard Condition 16B of the Electricity Generation Licences established by the regulator; and

ii) the basis of preparation on pages 11-15, 17, 19 and 20-22.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (“ISAs (UK)”), including ISA (UK) 805. Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the CSR section of our report. We are independent of E.ON UK plc’s Relevant Licensees in accordance with the ethical requirements that are relevant to our audit of the CSR in the United Kingdom, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter - Basis of Accounting

In forming our opinion on the CSS, which is not modified, we draw attention to pages 11-15, 17, 19 and 20-22 of the CSR, which describe the basis of preparation. The CSS is prepared in order for E.ON UK plc and its Licensees to meet the Licence requirement of the Regulator, Ofgem, rather than in accordance with a generally accepted accounting framework. The CSS should therefore be read in conjunction with the Licences and the basis of preparation on pages 11-15, 17, 19 and 20-22. This basis of preparation is not the same as segmental reporting under IFRS and/or statutory reporting. As a result, the schedule may not be suitable for another purpose.
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 CSS is not appropriate; or

• the Directors have not disclosed in the CSS 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.

Responsibilities of Management and those charged with governance for the CSS

Management is responsible for the preparation of the CSR in accordance with the Licences and the basis of preparation on pages 11-15, 17, 19 and 20-22 and for maintaining the underlying accounting records and such internal control as management determine is necessary to enable the preparation of the CSR that is free from material misstatement, whether due to fraud or error.

In preparing the CSR, management is responsible for assessing E.ON UK plc’s Relevant Licensees’ ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate E.ON UK plc’s Relevant Licensees or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing E.ON UK plc’s Relevant Licensees’ financial reporting process.

Auditors’ responsibilities for the audit of the CSR

Our objectives are to obtain reasonable assurance about whether the CSR as a whole is 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 this CSS. The materiality level that we used in planning and performing our audit is set at £15 million for each of the segments.

A further description of our responsibilities for the audit of the CSS 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 our opinion, has been prepared solely for the Board of Directors of E.ON UK plc and its Licensees to assist the Directors in reporting on the CSS to the Regulator Ofgem, in accordance with our engagement letter dated 3 January 2018 and for no other purpose.

We permit this report to be disclosed in the Company reporting section of the E.ON UK plc website\(^{ii}\), www.eonenergy.com, to enable the Directors of the E.ON UK plc Relevant Licensees to show how they have addressed their governance responsibilities by obtaining an independent assurance report in connection with the CSS. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Board of Directors of E.ON UK plc’s Relevant Licensees for our work or this report except where terms are expressly agreed between us in writing.

PricewaterhouseCoopers LLP

East Midlands

27 April 2018


\(^{ii)}\) The maintenance and integrity of E.ON UK plc website is the responsibility of the Directors of E.ON UK plc; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the CSS since it was initially presented on the website.