

# **E.ON UK PLC**

## **ANNUAL REPORT AND ACCOUNTS**

**for the year ended 31 December 2009**



**Registered No: 2366970**

6

## E.ON UK PLC

### Directors' report for the year ended 31 December 2009

The directors present their report and the audited accounts of E.ON UK plc ("the Company") and its subsidiaries (together, "the Group" or "E.ON UK") for the year ended 31 December 2009

#### **Principal activities, review of business and future developments**

The Group's principal activities are electricity generation and distribution, retailing of gas and electricity, and energy services. E.ON UK's aim is to maintain its position as a leading player in the UK's electricity and gas markets and provide its customers with a secure, affordable and climate-friendly supply of energy. E.ON UK's strategy in the UK is to build on this position, to sustain and develop its generation and distribution asset businesses and to further build a competitive retail business.

The Group is fully committed to clean, low carbon energy generation. E.ON UK aims to make the energy debate more real, more honest and more urgent through its *Carbon, Cost and Consequences* energy manifesto. The Group faces the necessity of replacing a quarter of its power stations in the next decade in a way that will reduce carbon emissions, ensure the lights stay on and homes stay warm, and keep energy as affordable as possible for E.ON UK's customers.

On 1 January 2009, the Group disposed of its trading business ("E.ON Energy Trading") to a fellow subsidiary of E.ON AG, E.ON Energy Trading SE ("EET SE"). The post-tax profit on disposal of the E.ON Energy Trading business of £903 million recognised in 2009 and the prior year results of this business have been classified within discontinued operations in the income statement. The Group's generation fleet sells all of its output to EET SE, using a transfer pricing mechanism which transfers significantly all of the associated commodity price risk out of the Group. Similarly, the Group's Retail business now buys its required supply of power and gas from EET SE under a market based transfer pricing mechanism.

The underlying level of the business during the year was satisfactory given the difficult economic conditions, with continuing operations being broadly similar to the prior year. The increase in profit before tax from continuing activities to £748 million for the year, compared to a profit for the prior year of £740 million, is largely driven by the improved performance of the Retail business and higher net gains from derivatives, offset by reduced profits from the Generation business due to lower market prices and the transfer of long-term gas contracts to EET SE.

The profit for the year of £1,458 million (2008: loss of £108 million) is primarily driven by the change in the result from discontinued operations, relating to the E.ON Energy Trading business which was sold in January 2009. The post-tax profit from discontinued operations was £903 million in 2009 compared to a post-tax loss of £565 million in 2008.

## **E.ON UK PLC**

### **Directors' report for the year ended 31 December 2009 (continued)**

The Group's funding is substantially through loans from the ultimate parent undertaking, E.ON AG and its other fellow subsidiaries (together, "the E.ON AG Group"). The majority of this funding matures after one year. However, some of these facilities mature within one year and this contributes to the Group continuing to hold net current liabilities at the year end. It is intended that these facilities will be refinanced with further loan facilities or other financing provided directly or indirectly by E.ON AG.

On 14 January 2009, the Group announced its intention to create a joint venture with RWE Npower with plans to build new nuclear power stations in the UK. The Group and RWE Npower each have a 50% stake in the joint venture. Subsequent to this announcement the joint venture, called Horizon Nuclear Power, was successful in securing sites at Oldbury and Wylfa in the Nuclear Decommissioning Authority auction. Development of both sites is being progressed.

During the first half of the year E.ON UK, together with its partners DONG Energy and Masdar, agreed to proceed with building the first 630MW phase of the London Array offshore wind farm in the Thames Estuary. E.ON UK also disposed of its 31% interest in Trakya Electric Uretim ve Ticaret A.Ş. ("Trakya Electric"), which owns and operates a 478 MW CCGT plant in Turkey.

The Group is one of the UK's leading electricity and gas companies with a business built on

- marketing electricity, gas and other services to domestic and business customers,
- asset management in electricity production, including renewables activities,
- network asset management in electricity distribution, and
- providing services to customers to get connected to energy supplies, heat their homes and understand their energy use.

#### **Retail**

E.ON UK sells electricity, gas and other energy-related products to residential, business and industrial customers throughout Great Britain. As of 31 December 2009, E.ON UK supplied approximately 7.9 million (2008: 8.1 million) customer accounts, of which 7.4 million (2008: 7.5 million) were residential customer accounts and 0.5 million (2008: 0.6 million) were small and medium-sized business and industrial customer accounts. During the year, there was a net decrease in the total number of customer accounts of approximately 0.2 million. E.ON UK continues to focus on reducing the costs of its retail business, through efficiency improvements, more economical procurement of services and the utilisation of lower cost sales channels.

#### ***Residential Customers***

The residential business had approximately 7.4 million customer accounts as of 31 December 2009. Approximately 63% of E.ON UK's residential customer accounts are electricity customers and 37% are gas customers. Individual retail customers who buy more than one product (i.e. electricity, gas or other energy-related products) are counted as having a separate account for each product, although they may choose to receive a single bill for all E.ON UK provided services.

## **E.ON UK PLC**

### **Directors' report for the year ended 31 December 2009 (continued)**

In the residential customer sector, E ON UK sold 20.5 TWh of electricity and 46.1 TWh of gas in 2009, as compared with 22.2 TWh of electricity and 48.0 TWh of gas in 2008. The reduced volumes reflect the impact of changes in customer behaviour, energy-efficiency measures, the impact of the recession and the reduction in customer numbers. Prior year volumes have been restated to reflect volumes at customer meter point rather than the initial estimate of volume delivered to the grid, as this gives a more accurate measure.

E ON UK targets residential customers through national marketing activities such as media advertising (including print, television and radio), targeted direct mail, public relations and online campaigns. E ON UK seeks to create significant national brand awareness through high profile sponsorships under its E ON brand. This includes the sponsorship of the FA Cup, England's most historic football competition.

Electricity consumption across the industry in England, Scotland, and Wales was 315 billion kWh for the full year 2009, compared with 332 billion kWh in 2008. Gas consumption (excluding power stations) was 597 billion kWh compared with 645 billion kWh in 2008. The main reasons for the reduction in consumption were the impact of changes in customer behaviour, energy-efficiency measures and the impact of the recession. The overall weather effect in both years is similar.

2009 saw significant falls in wholesale gas and electricity prices, which led to price decreases across all major competitors. In the first quarter all major suppliers, including E ON UK, announced gas and/or electricity decreases. E ON UK also reduced its prices again in the third quarter.

#### *Small and Medium-Sized Business ("SME") and Industrial and Commercial ("I&C") Customers*

In this sector, E ON UK sold 23.1 TWh of electricity and 25.2 TWh of gas in 2009, as compared with 25.2 TWh of electricity and 28.1 TWh of gas in 2008. The lower SME volumes are mainly due to changes in customer behaviour, energy-efficiency measures, the impact of the recession and the reduction in customer numbers. The overall weather effect in both years is similar. Sales to I&C customers decreased significantly largely as a result of the continuing economic slowdown, although this was partially offset by portfolio gains in the autumn. Prior year volumes have been restated to reflect volumes at customer meter point rather than the initial estimate of volume delivered to the grid, as this gives a more accurate measure.

#### **Generation**

E ON UK focuses on maintaining a low cost, efficient and flexible electricity generation business in order to compete effectively in the wholesale electricity market. As of 31 December 2009, E ON UK owned either wholly, or through joint ventures, power stations in the UK with an attributable registered generating capacity of 10,330 MW, including 359 MW of combined heat and power ("CHP") plants which is consistent with the prior year. E ON UK's share of the generation market in Great Britain remained stable in 2009 at approximately 11% (2008: 10%).

## **E.ON UK PLC**

### **Directors' report for the year ended 31 December 2009 (continued)**

E.ON UK generates electricity from a diverse portfolio of fuel sources. In 2009, approximately 38.8% of E.ON UK's electricity output was fuelled by coal and approximately 60.5% by gas, of which approximately 5.8% was from CHP schemes, with the remaining 0.7% being generated from wind and oil-fired plants. This compares with approximately 49.4% fuelled by coal and approximately 49.0% by gas, of which approximately 5.1% was from CHP schemes, with the remaining 1.6% being generated from hydroelectric, wind and oil-fired plants in 2008. E.ON UK is continuing its effort to secure a balanced and diverse portfolio of fuel sources, giving it the flexibility to respond to market conditions and to minimise costs. E.ON UK also regularly monitors the economic status of its plant in order to respond to changes in market conditions.

E.ON UK is progressing with significant investments to improve its generation capacity. This is partly to replace capacity which will be taken out of production in coming years due to applicable environmental regulations. In 2007, E.ON UK started construction of one of the largest gas-fired CHP stations in the UK at the Isle of Grain in Kent. The scheme is expected to generate 1,275 MW of power and export up to 340 MW of heat and is planned to be commissioned in 2010.

#### **E.ON Climate & Renewables ("EC&R UK")**

The EC&R market unit was formed in January 2008, which brought together the climate and renewables activities from across the E.ON AG Group. EC&R UK forms part of this market unit and pulls together the renewables operational assets, development and construction, and renewables trading activities in the UK. The activities of EC&R UK remain legally owned by E.ON UK and, in line with the E.ON AG Group a separate segment is reported with comparatives.

EC&R UK is one of the leading developers and owner/operators of renewable electricity in the UK. It has a portfolio of 20 operational onshore and offshore wind farms and a fully dedicated biomass power station at Steven's Croft in Scotland. Robin Rigg, a 180 MW offshore wind farm located in the Solway Firth, began exporting electricity to the mainland in September 2009 and will be fully commissioned in 2010. This will increase EC&R UK's generating capacity from 245 MW to 425 MW. There are also approximately 3,000 MW of wind and biomass projects in the development phase.

During the first half of the year E.ON UK, together with its partners DONG Energy and Masdar, announced plans to invest £2 billion to build the world's largest offshore wind farm, London Array, located in the outer Thames estuary. The first phase will have a capacity of 630 MW and is scheduled for completion at the end of 2012. When the second phase becomes operational, London Array will have a total capacity of 1 GW. EC&R UK continues to support the delivery of renewables through both wind and biomass and also other emerging technologies. The build of the Pelamis P2 wave energy machine is expected to be completed and installation will follow at the European Marine Energy Centre in Orkney by the middle of 2010.

## **E.ON UK PLC**

### **Directors' report for the year ended 31 December 2009 (continued)**

As a part of its balanced approach, E.ON UK seeks to fulfil its renewables obligation through a combination of its own generation, renewable energy purchased from other generators under tradable Renewable Obligation Certificate contracts ("ROCs"), and direct payment of any residual obligation into the buy-out fund. For the period from 1 April 2008 to 31 March 2009, E.ON UK achieved 69% of its renewables obligation through own generation and purchases, compared with 71% in the period from 1 April 2007 to 31 March 2008.

#### **Central Networks**

The electricity distribution business in the UK is effectively a natural monopoly within the area covered by the existing network, due to the cost of providing an alternative distribution network. Accordingly, it is highly regulated. However, new distribution licences are available for network developments, including for those areas already covered by an existing distribution licence, and electricity distribution could also face indirect competition from alternative energy sources such as gas and micro-generation.

Within the UK there are 14 licensed distribution network operators ("DNOs"), each responsible for a distribution services area. E.ON UK's Central Networks business owns and manages two DNOs licences through Central Networks East plc and Central Networks West plc. The combined service area covers approximately 11,312 square miles, extending from the Welsh border in the West to the Lincolnshire coast in the East and from Chesterfield in the North to the northern outskirts of Bristol in the South and contains a resident population of about 10 million people.

The networks distribute electricity to approximately 5 million homes and businesses in the combined service area and transport virtually all electricity supplied to consumers in the service area (whether by E.ON UK's retail business or by other suppliers). Separate distribution licences are issued for the operation of the two networks but the combined business is managed by a centralised management team and uses the same methodology and staff to operate both networks.

Distribution charges are billed on the basis of published tariffs and adhere to Ofgem's (the UK regulator) price control formulas. Distribution charges across the UK represent on average around 15% of a domestic electricity bill. During the period the Group operated under Distribution Price Control Review 4 ("DPCR4"), which incorporates an allowed rate of return for investing in and operating the network, as well as performance targets.

On 1 January 2009, the New Connections business, which provides in-area connections for all customer types and employs approximately 800 staff, was transferred from Energy Services into Central Networks.

## **E.ON UK PLC**

### **Directors' report for the year ended 31 December 2009 (continued)**

In 2009, Central Networks continued to improve performance in areas such as safety, network performance, customer service, cost efficiency and sustainability. Lost time injuries for staff and contractors reduced by 6%, despite a 34% increase in the workforce from the New Connections transfer. Customer minutes lost, one of the key performance indicators for network performance, reduced by 8% compared with 2008.

In January 2010, Central Networks accepted Ofgem's Final Proposals for the Distribution Price Control Review 5 ("DPCR5"), which runs from April 2010 to March 2015. More details of DPCR5 can be found on Ofgem's website [www.ofgem.gov.uk](http://www.ofgem.gov.uk). The Final Proposals provided Central Networks with a 24% increase in capital investment compared to DPCR4 to replace ageing assets, increased operating cost allowances and significant incentives to improve performance in areas like network performance but allowed only a 4.0% post-tax real return on assets compared to 4.8% in DPCR4. The Final Proposals also included a £500 million Low Carbon Network Fund which aligns with Central Networks' own aims of starting to deliver an electricity grid that can support the move to a low carbon society.

#### **Energy Services**

During 2009, the Energy Services business included the Property Services, Meter Operations and Sustainable Energy activities with the vision of providing customers with all the services they need to get connected to energy supplies, heat their homes and understand their energy use. On 1 January 2009, the regulated New Connections business transferred from Energy Services to Central Networks, with the aim of improving the competitiveness of the remaining Energy Services businesses.

At the same time, the Sustainable Energy business was established within Energy Services to build the decentralised energy systems of the future, and help customers deliver a lower carbon environment. Sustainable Energy includes street lighting, connections, consultancy, community energy and micro-generation activities, selling principally to housing developers, local authorities and other public sector bodies.

Meter Operations, which remains within Energy Services, continues to be an important part of the business as the Group works with the Government to achieve a nationwide rollout of SMART meters over the next decade. Property Services comprises the CHN business acquired on 15 January 2008 and the Home Energy Services business, selling contracting services, especially gas central heating and plumbing, to local authorities, social housing associations and domestic customers. 2009 was principally a year of implementing the strategic direction set in 2008, including a substantial improvement in the financial performance of the various Energy Services businesses.

#### **Other activities**

The UK Services business provides a single shared service function delivering facilities management, HR, procurement, insurance, property and finance support for all of the Group's UK operations.

## **E.ON UK PLC**

### **Directors' report for the year ended 31 December 2009 (continued)**

#### **Discontinued operations**

During 2008, the E ON Energy Trading business engaged in asset-based energy trading in gas and electricity markets to assist E ON UK in commercial risk management and the optimisation of its gross margin

E ON AG has established a new market unit to centralise all of its European trading operations. The performance of the E ON Energy Trading business was included in the results of the Group throughout 2008. The management of the E ON Energy Trading business migrated to Düsseldorf during September 2008 and was legally transferred to EET SE on 1 January 2009.

The legal sale resulted in the financial disposal at fair value of some balance sheet items, contract novations and new back to back arrangements replicating the economic benefit of the original trades or contracts associated with the E ON UK trading business. The profit before tax on disposal of the E ON Energy Trading business of £1,222 million and the prior year results of this business have been classified within discontinued operations in the income statement. An additional £195 million pre-tax gain on disposal relating to the new back to back arrangements has been deferred and will be recognised in the income statement over the next three years as the contracts are settled.

#### **Financial Review**

Principal risks and uncertainties facing the Group are discussed further in the Financial Review on page 11. The Financial Review also includes further analysis of key performance indicators for each of the Group's operating segments, and analysis of the Group's financial position at the year end.

#### **Results and dividends**

The profit attributable to the equity shareholder and balance transferred to reserves for the financial year to 31 December 2009 was £1,453 million (2008: loss of £112 million).

The directors do not recommend the payment of a final dividend (2008: £nil). An interim dividend of £480 million was paid during the year (2008: £nil).

#### **Directors**

The following directors served on the Board during the year and after the year end

---

Dr Paul Golby  
Graham Bartlett  
John Crackett  
Brian Tear  
Maria Antoniou

Information on directors' emoluments is given in Note 3 to the Company's financial statements



## **E.ON UK PLC**

### **Directors' report for the year ended 31 December 2009 (continued)**

#### **Directors' indemnities**

The Group, which includes the Company, maintains liability insurance for directors and officers. This is a qualifying indemnity provision for the purposes of the Companies Act 2006.

#### **Employees**

The Group, which includes the Company, provides an environment in which communication is open and constructive. There are well established arrangements for communication and consultation with employees and their representatives at local and company level which cover a wide range of business and employment issues including those considered by the E.ON AG European Works Council, which provides a forum for consultation on major issues affecting E.ON AG Group companies in Europe.

The Group is committed to offering equal opportunities to both current and prospective employees. The Group continues to review and develop best practices and procedures to ensure that all employees are treated fairly in all aspects of employment. It also strives for a diverse environment that is supportive of all staff. Individual differences which do not relate to job performance such as gender, marital status, sexual orientation, race, colour, ethnic origin, nationality, religion, age or disability are respected.

The Group believes in ensuring that disabled people can compete fairly for job opportunities, training and development, through the promotion and development of best practices. Links and contacts with external disability networks and organisations are maintained to identify best practices in the employment of people with disabilities and to provide work experience placements for disabled people. In the event of existing employees becoming disabled, the Group will seek to maintain their employment through training, redeployment and adjustments to the job role and workplace, where it is reasonable and practicable to do so.

Training and development of staff remains a key priority in achieving the UK growth strategy and ensuring that all employees perform at the highest level.

The Group believes it is important that employees understand the link between their own contribution and the overall performance of the business. Therefore all eligible employees are able to participate in the E.ON UK Share Incentive Plan. This is a share incentive plan that enables employees to develop a greater involvement in E.ON AG, through share ownership. Share schemes of this kind help to reinforce that link and give employees the opportunity to share in the success of the company they work for.

The Group is committed to investing in the communities in which employees live and work. The Group strives to play an active role in the community through supporting employees with volunteering and fundraising opportunities.

## **E.ON UK PLC**

### **Directors' report for the year ended 31 December 2009 (continued)**

#### **Contributions for political and charitable purposes**

Donations to charitable organisations during the financial year by the Group amounted to £169,228 (2008 £141,459). Donations to charitable organisations during the financial year by the Company amounted to £162,061 (2008 £141,459). It is the Group's policy not to make cash donations to any political party. However, the Group and the Company undertake activities, such as event sponsorship, which are not designed to support or influence support for any particular political party, which are covered under *The Political Parties, Elections and Referendums Act 2000* and must be disclosed. During the year, the Group and the Company sponsored an event at the Labour party conference. The total cost required to be disclosed as political donations was £12,000 (2008 £10,000).

#### **Policy on payment of creditors**

Where appropriate in relation to specific contracts, the Group and Company's practice is to

- settle the terms of payment with the supplier when agreeing the terms of each transaction,
- ensure that those suppliers are made aware of the terms of payment by inclusion of relevant terms in the contracts, and
- pay in accordance with its contractual and other legal obligations.

The Group and the Company support the Better Payments Practice Code and have in place well developed arrangements with a view to ensuring that this is observed in all other cases. Group companies operating overseas are encouraged to adopt equivalent arrangements by applying local best practices. The average number of days taken to pay the Group's trade suppliers calculated in accordance with the requirements of the Companies Act 2006 is 21 days (2008 12 days). The average number of days taken to pay the Company's trade suppliers calculated in accordance with the requirements of the Companies Act 2006 is 21 days (2008 15 days).

#### **Going concern**

Notwithstanding the fact that the Group and the Company have net current liabilities, the directors have prepared the financial statements on the going concern basis. The directors have put in place sufficient committed borrowing facilities such that the Group and the Company can meet their obligations as they fall due for a period of at least twelve months from the date of the directors' approval of these financial statements. Borrowing facilities for the Group are shown in Notes 20 and 21.

The directors have reviewed the Group and the Company's budget and cash flow forecasts for the year ended 31 December 2010 and the outline projections for the two subsequent years. The directors confirm that they have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis in preparing these financial statements.

## **E.ON UK PLC**

### **Directors' report for the year ended 31 December 2009 (continued)**

#### **Company report**

The Company is required by the Companies Act 2006 to include a business review in this report. The information that fulfils the requirements of the business review can be found in the following sections which are incorporated in this report by reference:

- review of the business and expected future developments on pages 1 - 7
- financial review, including principal risks and uncertainties, on pages 11 - 25

The development, performance and position of the Company are included within the Group's financial review of the Generation, EC&R UK and Other businesses. The profit of the Company for the financial year to 31 December 2009 was £1,066 million (2008: loss of £241 million). The directors do not recommend the payment of a final dividend (2008: £nil). An interim dividend of £480 million was paid during the year (2008: £nil). The financial statements of the Company are included on pages 116 to 147.

#### **Auditors**

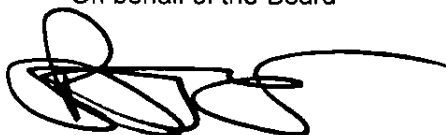
Each of the directors at the date when this report was approved confirms that:

- so far as each of the directors are aware, there is no relevant audit information of which the Group's auditors are unaware, and
- each director has taken all steps that he or she ought to have taken as a director in order to become aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the requirements of s418(2) of the Companies Act 2006.

A resolution to reappoint the auditors, PricewaterhouseCoopers LLP, and to authorise the directors to fix their remuneration will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board



**Brian Tear**  
Chief Financial Officer  
E.ON UK plc  
Registered No. 2366970  
Westwood Way  
Westwood Business Park  
Coventry  
CV4 8LG

26 April 2010

## **E.ON UK PLC**

### **Financial review for the year ended 31 December 2009**

This review is designed to give further financial information concerning the E.ON UK results and financial position for the year

#### **Overview**

E.ON UK and its associated companies are involved in electricity generation and distribution, energy services, and gas and electricity retail. As of 31 December 2009, E.ON UK owned or through joint ventures had an attributable interest in 10,575 MW of generation capacity, including 359 MW of CHP plants and 245 MW of operational wind capacity. E.ON UK served 7.9 million electricity and gas customer accounts at 31 December 2009 and its Central Networks business served 5 million customer connections. Energy Services provided boiler care for 95,000 customers.

#### **Principal risks and uncertainties**

In the normal course of business, the Group is subject to a number of risks that are inseparably linked to the operation of its businesses. To manage these risks, the Group uses a comprehensive risk management system that is embedded within the business and decision making process. The risk management system is designed to enable management to recognise risks early and take the necessary countermeasures. The process is continuously reviewed to ensure it remains effective and efficient. The key business risks affecting the Group are set out below.

#### **Market risks**

Apart from electricity distribution, the markets within which the Group operates are subject to strong competition from new market entrants and existing participants. In connection with the current economic downturn, E.ON UK faces risks from declining demand, primarily from I&C customers who are reducing their energy use and could reduce it further. E.ON UK uses a comprehensive sales management system and intensive customer management to minimise these risks.

#### **Regulatory risk**

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

#### **Commodity prices**

Following the disposal of the E.ON Energy Trading business on 1 January 2009, the Group is no longer exposed to significant commodity price risks on fuel purchased and power sold, which had been managed through the use of commodity derivative financial instruments. All outstanding commodity derivative financial instruments at the date of disposal were novated or matched with equal and opposite contracts with EET SE. This means that the Group bears no commodity price risk in relation to these contracts. From the date of disposal, the Group began to operate under a new transfer pricing mechanism which affects primarily the Generation, EC&R UK and Retail businesses.

## **E.ON UK PLC**

### **Financial review for the year ended 31 December 2009 (continued)**

#### Commodity prices (continued)

The Group's Generation and EC&R UK fleet now sells all of its output to EET SE, using a transfer pricing mechanism which transfers significantly all of the associated commodity price risk out of the Group. Residual commodity price risks are managed through the use of derivative financial instruments. The key risk under the new transfer pricing mechanism for the Group is the potential for unscheduled power station outages, for which the Group would incur financial penalties. This risk is discussed separately under 'Asset performance'.

The Group's Retail business uses long-term and short-term derivative financial instruments to buy its required supply of power and gas from EET SE. These instruments smooth fluctuations in the wholesale cost of power and gas. The required supply is based on forecast demand and as a result the key residual risk for the Retail business relates to fluctuations in demand. These fluctuations in demand fall under two categories: 'Market risks' and 'Weather', which are discussed separately.

#### Credit risk – financial instruments

The Group is at risk if a counterparty is unable to meet its obligations, resulting in potential losses. E.ON UK is subject to the E.ON AG Group finance policy which sets a credit limit for every financial institution with which the Group does a significant amount of business. The creditworthiness of the institutions with which the Group does significant business is established by the ratings they receive from Moody's and Standard & Poor's. In addition, other counterparty credit risk is subject to the E.ON AG 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.

#### Credit risk – trade receivables

E.ON UK is impacted by the current financial environment in addition to normal ongoing credit risk. There is a risk that bad debts will exceed the directors' expectations. There is also an additional risk to the value of unbilled debt which could lead to impairment of financial receivables. There are a number of initiatives underway to mitigate this risk. These include credit vetting, strategic customer targeting and systems investment to manage outstanding customer debts.

#### Weather

Gas and electricity sales volumes are affected by temperature and other weather factors. The demand for gas and electricity is seasonal with the Group generally experiencing higher demand during the colder months of October through to March and lower demand during the warmer months of April through to September. Revenues and results of the Group can therefore be adversely affected by periods of unseasonably warm weather. To manage the risk, the Group has a flexible portfolio making use of natural gas, fuel switching for generation, derivative financial instruments and demand management.

## E.ON UK PLC

### Financial review for the year ended 31 December 2009 (continued)

#### Asset performance

If power outages or shutdowns involving the Group's electricity operations occur, the Group's business and results of operations could be negatively affected

In order to minimise the impact of reduced asset performance, the Group undertakes regular facility and network maintenance and adopts good maintenance practice. The Group also has insurance contracts in place to cover certain losses due to unforeseen power outages or shutdowns.

#### **Key performance indicators ("KPIs")**

Non-financial KPIs for each of the business units are shown below

KPIs	Results		Commentary
	2009	2008	

#### **UK Business**

Safety LTIFR (The Lost Time Injury Frequency Rate is measured by the number of lost time injuries per 1,000,000 hours worked)	3.31	4.08	LTIFR has improved considerably during 2009 with targeted interventions having a positive impact. Annual LTIFR was negatively impacted by the exceptionally bad weather in February 2009 which contributed to a significant number of accidents.
---	------	------	--

#### **Generation**

Available generating capacity at year end (MW)	10,330	10,330	Generating capacity has remained the same as 2008.
Generation production during the year (TWh)	33	40	The decrease in production was primarily due to a reduction in production in coal stations, partially offset by an increase in production in gas stations, driven by lower wholesale power prices and lower demand which made some generating assets less economic to operate.

# E.ON UK PLC

## Financial review for the year ended 31 December 2009 (continued)

KPIs	Results		Commentary
	2009	2008	
EC&R UK			
Available generating capacity at year end (MW)	245	245	Generating capacity has remained the same as 2008
Generation production during the year (GWh)	762	656	The increase in production was due to the full year benefit of 56 MW of extra capacity added during 2008
Central Networks			
Volumes distributed (TWh)	52.4	55.6	The volume of power distributed decreased by 5.7% in the year due to the effects of the recession. This has resulted in reduced demand from all customer types ranging from small domestic to large industrial.
Customer minutes lost (minutes)	132.4	143.1	Customer minutes lost has continued to improve.
Retail			
Customer numbers (million)	7.9	8.1	Customer numbers have not materially moved from 2008 levels.
Volumes of electricity sold (TWh)	43.6	47.4	E.ON UK sold less electricity and gas to residential and SME customers mainly because of changes in customer behaviour, energy-efficiency measures and the impact of the recession. Sales to I&C customers decreased largely as a result of the continuing economic slowdown, although this was partially offset by portfolio gains in the autumn. 2008 numbers have been restated to reflect volumes at customer meter point.
Volumes of gas sold (TWh)	71.3	76.1	

# E ON UK PLC

## Financial review for the year ended 31 December 2009 (continued)

KPIs	Results		Commentary
	2009	2008	

### Energy Services

Home Energy Services - number of boiler service and maintenance customers (thousand)	95	72	The number of customers increased due to sales and marketing efforts
Meter Operations (jobs completed per day)	6.1	6.1	Meter Operations jobs completed have remained consistent with 2008 levels

Key financial KPIs within the Group are considered to be revenue, adjusted EBIT and operating cash flow. These are discussed below within the Group financial results section.

### Group financial results

The profit before tax from continuing operations was £748 million compared with a £740 million profit for the previous twelve months.

### Revenue

Group revenue from continuing operations grew by £188 million during the year to £9,227 million, an increase of 2%. The external increase in turnover has arisen primarily in the Retail, Generation and EC&R UK businesses.

Revenue is further analysed below:

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
<b>UK Operations</b>		
Generation	1,753	150
EC&R UK	210	56
Central Networks	503	488
Retail	6,624	6,524
Energy Services	110	147
All other segments	5	-
External segment revenue	9,205	7,365
Inter-segment revenue to discontinued operations	-	1,674
Statutory reporting adjustment (see Note 2)	22	-
Revenue from continuing operations	<u>9,227</u>	<u>9,039</u>



## E.ON UK PLC

### Financial review for the year ended 31 December 2009 (continued)

#### Revenue (continued)

External sales in the Generation and EC&R UK businesses grew substantially as their main source of revenue was the E ON Energy Trading business, which was disposed of by the Group on 1 January 2009. There is a corresponding decrease in inter-segment revenue to discontinued operations. The increase in the Retail business was due to the full-year impact of retail price increases during 2008.

#### Operating costs

Details of the Group's operating costs are set out in Note 3 to the financial statements. The figures from continuing operations are summarised below:

	<b>Year ended 31 December 2009 £m</b>	<b>Year ended 31 December 2008 £m</b>
Power purchases and other costs of sales	<b>7,122</b>	6,616
Staff costs	<b>544</b>	553
Depreciation, including relevant impairments	<b>295</b>	278
Intangible asset amortisation, including relevant impairments	<b>67</b>	76
Derivative losses	<b>76</b>	108
Other operating charges, including restructuring costs	<b>772</b>	843
	<b>8,876</b>	8,474

Power purchases and other costs of sales have increased from £6,616 million in 2008 to £7,122 million in 2009 due to an increase in fuel burn costs, offset by a reduction in the costs associated with long-term gas contracts that have now been transferred to EET SE. E ON UK generated 33 billion kWh of electricity at its own power plants, about 19% less than in the prior year (40 billion kWh). The reduction is mainly attributable to lower wholesale power prices and lower demand which made some generation assets less economic to operate.

Staff costs, at £544 million, were 2% lower than in the previous year. A reduction in headcount has meant that salary costs have been maintained at an equivalent level compared to last year. A change in work mix in the distribution business has led to higher capitalised salaries compared to 2008, resulting in the overall reduction in staff costs.

The depreciation charge increased from £278 million in 2008 to £295 million in 2009. The increase is primarily due to increases in investment in infrastructure over the last year. The decrease in intangible asset amortisation is primarily due to a £13 million impairment of goodwill in the prior year, relating to the Energy Services business.

Derivative losses were lower in 2009 due to less volatility in forward gas and power prices.

## E.ON UK PLC

### Financial review for the year ended 31 December 2009 (continued)

#### Operating costs (continued)

Other operating charges included the costs of running the UK businesses and supporting corporate infrastructure. Other operating charges have decreased in 2009 compared to 2008, primarily due to one-off costs of restructuring the Energy Services business in the prior year.

#### Operating income

Details of the Group's operating income are set out in Note 3 to the financial statements. The figures from continuing operations are summarised below:

	<b>Year ended 31 December 2009 £m</b>	<b>Year ended 31 December 2008 £m</b>
Derivative gains	<b>273</b>	197
Profit on disposal of investments	<b>56</b>	3
Gains on disposal of property, plant and equipment	<b>8</b>	68
Foreign exchange gains	<b>56</b>	8
Impairment reversal	<b>9</b>	-
Other income	<b>92</b>	57
	<b>494</b>	333

Derivative gains were higher in 2009 compared to 2008 due to higher forward gas and power prices. Profit on disposal of investments is discussed in a separate section under 'Adjusted EBIT' below. The gains on the disposal of property, plant and equipment are £8 million compared to £68 million in 2008. The gain in 2008 is significantly higher than 2009 due to the gain on disposal of the Rheidol hydroelectric plant. An impairment reversal was recognised in respect of CHP property, plant and equipment.

## E.ON UK PLC

### Financial review for the year ended 31 December 2009 (continued)

#### Adjusted EBIT

A more detailed analysis of the Group's adjusted Earnings Before Interest and Tax ("EBIT") and reconciliation to profit before tax from continuing operations is set out below

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m (restated)
<b>UK Operations</b>		
Generation	198	520
EC&R UK	87	60
Central Networks	363	360
Retail	80	(67)
Energy Services	(4)	(12)
All other segments	(57)	(69)
<b>Group adjusted EBIT</b>	<b>667</b>	<b>792</b>
Contract provisions, impairment and restructuring costs	(91)	(95)
Profit on disposal of investments/businesses	56	3
Net derivative gains	197	94
Other adjustments	16	104
<b>Group operating profit</b>	<b>845</b>	<b>898</b>
Net finance costs	(99)	(168)
Share of results of associates and joint ventures after tax	2	10
<b>Profit before tax from continuing operations</b>	<b>748</b>	<b>740</b>

Following the adoption in 2009 of IFRS 8 Operating Segments, the Group has changed the measure of profit reported in these financial statements to align it with the adjusted EBIT profit measure reported internally. The prior year comparatives have been restated.

Adjusted EBIT, E.ON's key figure for purposes of internal management control and as an indicator of a business's long-term earnings power, is derived from the profit/loss from continuing operations before interest and taxes and adjusted to exclude certain exceptional items. The adjustments include derivative gains and losses, profit and losses on investment/business disposals and other income and expenses of a non-recurring or rare nature.

## **E.ON UK PLC**

### **Financial review for the year ended 31 December 2009 (continued)**

Group adjusted EBIT from continuing operations totalled £667 million for the year compared with £792 million in the same period to 31 December 2008. Adjusted EBIT has fallen compared to the prior year as set out below.

Generation adjusted EBIT was £198 million compared to £520 million in 2008, a decrease of £322 million. This primarily reflects lower market prices and the transfer of long-term gas contracts to EET SE.

EC&R UK's adjusted EBIT increased to £87 million in 2009 due to increased income received from renewables obligations certificates and the full year impact of 56 MW extra generating capacity that was added during 2008.

Central Networks' adjusted EBIT increased by 1% to £363 million during 2009 despite the negative impact of 5.7% fewer units distributed through the network. This is due to increased tariffs and cost savings.

Retail's adjusted EBIT was £80 million for 2009 compared to a loss of £67 million for 2008. The improvement was largely driven by the "Clean Utility" program, which is aimed at reducing costs, in addition to a recovery in margins.

Energy Services' losses reduced from £12 million to £4 million, primarily due to cost reductions.

All other segments' losses reduced from £69 million to £57 million primarily due to lower foreign exchange losses. All other segments' losses also include the costs of servicing the Group's operating businesses.

#### **Contract provisions, impairment and restructuring costs**

Included in operating costs in 2009 were contract provisions, impairment and restructuring costs before tax of £91 million (2008: £95 million). During 2009, an impairment reversal of £9 million was recognised by the Generation business in respect of CHP property, plant and equipment. A further onerous contract provision of £75 million was recognised by the Generation business primarily with respect to certain CHP contracts. Restructuring costs of £25 million relating to the Retail business were also recorded. Contract provisions, impairment and restructuring costs are discussed further in Note 4.

During 2008, certain CHP assets were impaired by £4 million and an onerous contract provision of £32 million was recorded on CHP contracts. Following a change in the strategic direction of the Energy Services business, restructuring and onerous contract costs of £34 million were recognised. Goodwill relating to the Energy Services segment was also impaired by £13 million. Restructuring costs of £12 million were also recorded by the Retail business.

## E.ON UK PLC

### **Financial review for the year ended 31 December 2009 (continued)**

#### **Profit on disposal of investments/businesses**

During the year, E ON UK disposed of its 31% investment in Trakya Electric for proceeds of £31 million generating a profit on disposal of £56 million which includes the release of a deferred income balance

During 2008, E ON UK disposed of 100% of its investment in Holford Gas Storage Limited. Proceeds from the disposal and net assets at the date of disposal were nil. In addition, the Group disposed of 100% of the trade and assets of E ON Engineering for £3 million. The net assets disposed of were £0.4 million, resulting in a profit of £2.6 million.

#### **Net derivative gains**

Net derivative gains were £197 million in 2009 compared to £94 million in 2008. The increase is primarily due to higher forward gas and power prices.

#### **Other adjustments**

Other adjustments include statutory reporting adjustments, including the reversal of push-down fair value adjustments and differences in group accounting policies between E ON AG and E ON UK that are only relevant for internal reporting. They also include various other income and expenses of a non-recurring nature. Other adjustments in 2009 are significantly lower than the prior year primarily due to the £65 million profit on disposal of Rheidol, a hydro-electric power station, which was recognised in 2008.

#### **Net finance costs**

E ON UK's net finance costs decreased from £168 million to £99 million primarily due to lower borrowing costs, as a result of the proceeds from the sale of the E ON Energy Trading business, higher capitalised interest amounts offset by an increase in the net pensions interest charge.

#### **Share of results of associates' and joint ventures' profit after tax**

E ON UK's share of results of associates has decreased compared to prior year to a net profit after tax of £2 million, primarily due to losses arising from the start up of the new nuclear joint venture with RWE Npower. Furthermore, E ON UK's investment in Trakya Electric was disposed of during 2009 and therefore the results for the year only contain nine months of E ON UK's share of Trakya Electric's results.

## E.ON UK PLC

### Financial review for the year ended 31 December 2009 (continued)

#### Assets and liabilities

A summary of the Group's balance sheet is shown below

	31 December 2009	31 December 2008 (restated)
	£m	£m
Non-current assets	10,173	10,168
Current assets	4,140	6,294
<b>Total assets</b>	<b>14,313</b>	<b>16,462</b>
Current liabilities	4,842	6,966
Non-current liabilities	5,057	5,185
Equity	4,414	4,311
<b>Total liabilities and equity</b>	<b>14,313</b>	<b>16,462</b>

The disposal of E ON Energy Trading and the subsequent repayment of intercompany loans have reduced the Group's gross assets and liabilities, but this effect is limited as a number of derivative assets and liabilities were matched with equal and opposite contracts, which are presented gross

Other movements in non-current assets include capital expenditure of £867 million on generating assets and distribution networks. This is offset by disposals of intangibles with a net book value of £246 million

Trade receivables have reduced by £741 million primarily attributable to the Retail business from improved cash collection, lower retail prices and lower sales volumes. This is offset by a £258 million increase in other receivables, primarily relating to prepayments

The Group's total borrowings have significantly reduced from £3,832 million in 2008 to £2,825 million in 2009 primarily due to the £813 million cash proceeds received from the disposal of the E ON Energy Trading business

Actuarial losses resulted in a pension liability of £663 million at the end of 2009 compared to an asset of £472 million in 2008

In equity, the Group's profit for the year of £1,458 million was mostly offset by actuarial losses of £872 million and a £480 million dividend that was paid in 2009, resulting in a small increase in net equity for the year

## E.ON UK PLC

### Financial review for the year ended 31 December 2009 (continued)

#### Cash flows

A summary of the Group's cash flow statement is shown below

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Net cash inflow from operating activities	1,473	921
Net cash used in investing activities	(79)	(1,142)
Net cash (outflow)/inflow from financing activities	(1,452)	262
<b>Net movement in cash and cash equivalents</b>	<b>(58)</b>	<b>41</b>

Net cash inflow from operating activities was £1,473 million for 2009 compared to £921 million for the prior year. Operating cash flow performance during the year was particularly strong. Strong working capital inflows have been seen as a result of operational improvements within Retail, alongside a positive impact from declining wholesale prices, resulting from the time lag between payments for commodity purchases and collecting cash from customers. Operating cash inflow also includes £100 million inflow following the close out of a cross currency swap.

E.ON UK invested £927 million in 2009 in property, plant and equipment (2008: £1,223 million). This expenditure is mainly related to the construction of the Grain gas-fired CHP power station, the London Array and Robin Rigg wind farms and the investments in the distribution network. Investing cash flow in 2009 also includes £813 million inflow of sale proceeds following the disposal of the E.ON Energy Trading business and £31 million from the disposal of investments, including Trakya Electric.

Net cash outflow from financing activities were £1,452 million compared to an inflow of £262 million in 2008 primarily due to repayment of borrowings and £480 million dividend payments.

#### **Treasury management**

E.ON UK, in common with other major E.ON AG subsidiaries, must comply with E.ON AG financial management and treasury policies and procedures but must also have its own local operational treasury team which services the treasury requirements of the business.

E.ON AG has a central department that is responsible for financing and treasury strategy, policies and procedure throughout the E.ON AG Group. Major strategic financings and corporate finance actions are planned and executed by the corporate finance team at E.ON AG. There is also a treasury team which co-ordinates currency and interest risk management as well as cash management for the whole E.ON AG Group.

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

## **E.ON UK PLC**

### **Financial review for the year ended 31 December 2009 (continued)**

#### **E ON AG's central financing strategy**

E ON AG's financing policy is to centralise external financing at the E ON AG holding company level and to reduce external debt in subsidiaries wherever possible. E ON AG has the strongest credit rating in the E ON AG Group and this allows more beneficial terms for external finance to be negotiated. E ON AG then funds its subsidiaries with inter-company finance. This finance may be in the form of equity or debt, as appropriate.

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

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

The year end position described in more detail below is representative of the Group's current position in terms of its objectives, policies and strategies.

#### **Foreign exchange risk management**

E ON UK primarily trades in Sterling but its principal currency exposures are to the Euro and Danish Krone. E ON UK operates within the framework of E ON AG's guidelines for foreign exchange risk management. E ON UK has local policies dealing with transaction exposures (typically cash flows arising on construction and maintenance which impact the cash flow and income statement) and translation exposures (the value of foreign currency liabilities and assets in the balance sheet). E ON UK's policy is to hedge all contractually committed transaction exposures, as soon as the commitment arises. E ON UK will also hedge less certain cash flows if this is appropriate.

E ON UK's policy towards translation exposures is to hedge these exposures where practicable, with the intention of protecting the Sterling net asset value. These hedges are normally achieved through a combination of borrowing in local currency, forward currency contracts and foreign currency swaps.

Details of the Group's foreign exchange contracts and swaps are set out in Notes 22 and 23 to the accounts.



## **E.ON UK PLC**

### **Financial review for the year ended 31 December 2009 (continued)**

#### **Interest rate risk management**

E ON UK operates within the E ON AG framework for interest rate risk management. The Group has a significant portfolio of debt and is exposed to movements in interest rates. These interest rate exposures are managed primarily through the use of a mixture of fixed and floating rate borrowings.

#### **Credit risk management**

E ON UK is subject to the E ON AG Group finance policy which sets a credit limit for every financial institution with which the Group does a significant amount of business. The creditworthiness of the institutions with which the Group does significant business is established by the ratings they receive from Moody's and Standard & Poor's. In addition, other counterparty credit risk is subject to the E ON AG 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**

E ON UK has sufficient committed borrowing facilities to meet planned liquidity needs, through facilities provided by its ultimate parent company E ON AG. Movements in energy prices have some impact on operating cash flows but this effect is mitigated by the use of long-term and short-term derivative financial instruments. As electricity generation and distribution is a capital intensive business, planned capital spending remains at significant levels. The level of operating cash is affected by the performance of the business, and market prices and margins amongst other things. Some of these factors are outside the Group's control.

#### **Credit rating**

E ON UK's long-term credit rating has remained the same throughout the year, rated at A by Standard & Poor's and A3 by Moody's.

#### **Borrowings and facilities**

Details of the Group's borrowing facilities are set out in Notes 20 and 21 to the accounts. At 31 December 2009, the Group had total borrowings of £2,825 million (2008: £3,832 million) including £2,397 million of long-term loans and £428 million of short-term loans and overdrafts.

At 31 December 2009, the Group had £29 million of cash and short-term investments (2008: £87 million). E ON UK's policy is to repay debt where possible and otherwise to place any surplus funds on short-term deposit with E ON AG or approved banks and financial institutions. Strict limits governing the maximum exposure to these banks and financial institutions are applied. These limits are co-ordinated across the E ON AG Group.

## **E.ON UK PLC**

### **Financial review for the year ended 31 December 2009 (continued)**

#### **Borrowings and facilities (continued)**

The Group's net borrowing position at 31 December 2009 was £2,796 million, compared to £3,745 million at 31 December 2008. The weighted average interest rate for the year, when compared to average net borrowings, was 4.2% compared with 5.9% in the previous year.

The gearing for the Group was 44% at 31 December 2009 (43% at 31 December 2008). This is calculated as net debt (including the pension scheme asset/liability) as a percentage of net assets excluding net debt and the pension scheme asset/liability.

#### **Taxation**

The tax charge from continuing operations amounted to £193 million for the year compared with a £283 million charge for the same period to 31 December 2008. The effective rate on continuing operations was 26% compared with 38% in the year to 31 December 2008. The main reasons for the effective rate not being 28% (2008: 28.5%) in the period are adjustments to current and deferred tax provisions in respect of prior year items, non deductible expenses and non taxable income. The prior year adjustment relates to a reduction in liabilities as a result of settlements agreed with HMRC.

#### **Discontinued operations**

The E.ON Energy Trading business was sold to a fellow group undertaking on 1 January 2009. The pre-tax profit on disposal of the E.ON Energy Trading business of £1,222 million and the prior year results of this business have been classified within discontinued operations in the income statement. An additional £195 million pre-tax gain on disposal relating to the new back to back transfer pricing arrangements has been deferred and will be recognised in the income statement over the next three years as the contracts are settled.

## **E.ON UK PLC**

### **Statement of directors' responsibilities**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared Group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group and the Company for that period.

In preparing these financial statements the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state that the Group financial statements comply with IFRSs as adopted by the European Union, and with regard to the parent company financial statements, that applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The directors are responsible for the maintenance and integrity of the Group web site, [www.eon-uk.com](http://www.eon-uk.com).

Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

## **E.ON UK PLC**

### **Statement of directors' responsibilities (continued)**

#### **Directors' responsibility statement**

Each of the directors, whose names are listed in the Directors' report confirm that, to the best of each person's knowledge and belief

- the financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group and the Company, and
- the Directors' report and Financial review in the Annual Report include a fair review of the development and performance of the business and position of the Group, together with a description of the principal risks and uncertainties that it faces

On behalf of the Board



**Brian Tear**  
Director

26 April 2010

## **Independent auditors' report to the members of E.ON UK plc**

We have audited the group financial statements of E.ON UK plc for the year ended 31 December 2009 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group Balance Sheet, the Group Statement of Changes in Equity, the Group Cash Flow Statement and the related Notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

### **Respective responsibilities of directors and auditors**

As explained more fully in the statement of directors' responsibilities set out on pages 26 and 27, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

### **Scope of the audit of the group financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the group financial statements sufficient to give reasonable assurance that the group financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the group financial statements.

### **Opinion on group financial statements**

In our opinion the group financial statements

- give a true and fair view of the state of the group's affairs as at 31 December 2009 and of its profit and cash flows for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

### **Opinion on other matters prescribed by the Companies Act 2006**

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

**Independent auditors' report to the member of E.ON UK plc (continued)**

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following

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

- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

**Other matter**

We have reported separately on the parent company financial statements of E.ON UK plc for the year ended 31 December 2009



Charles Joseland (Senior Statutory Auditor)

For and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

**27** April 2010

**E.ON UK PLC**

**GROUP INCOME STATEMENT**  
**for the year ended 31 December 2009**

	Note	Year ended 31 December 2009	Year ended 31 December 2008
		£m	£m
<b>Revenue</b>	2	<b>9,227</b>	<b>9,039</b>
Operating costs excluding contract provisions, impairment and restructuring costs	3	<b>(8,785)</b>	<b>(8,379)</b>
Contract provisions, impairment and restructuring costs	4	<b>(91)</b>	<b>(95)</b>
Total operating costs		<b>(8,876)</b>	<b>(8,474)</b>
Other operating income	3	<b>494</b>	<b>333</b>
<b>Operating profit</b>		<b>845</b>	<b>898</b>
Net finance costs	7	<b>(99)</b>	<b>(168)</b>
Group's share of associates' and joint ventures' profit after tax	12	<b>2</b>	<b>10</b>
<b>Profit before tax from continuing operations</b>		<b>748</b>	<b>740</b>
Taxation	8	<b>(193)</b>	<b>(283)</b>
<b>Profit for the year from continuing operations</b>		<b>555</b>	<b>457</b>
Profit/(loss) for the year from discontinued operations	9	<b>903</b>	<b>(565)</b>
<b>Profit/(loss) for year</b>		<b>1,458</b>	<b>(108)</b>
<b>Profit/(loss) attributable to:</b>			
Minority interest	32	<b>5</b>	<b>4</b>
Equity shareholder	30	<b>1,453</b>	<b>(112)</b>
		<b>1,458</b>	<b>(108)</b>

The accounting policies and the Notes on pages 36 to 115 form part of these financial statements

**E.ON UK PLC**

**GROUP STATEMENT OF COMPREHENSIVE INCOME**  
**for the year ended 31 December 2009**

	Note	Year ended 31 December 2009	Year ended 31 December 2008
		£m	£m
Profit/(loss) for the year		1,458	(108)
Actuarial (losses)/ gains on pension scheme arrangements	30	(1,211)	545
Tax credit/(charge) on actuarial losses/gains	30	339	(152)
Cash flow hedge gains	31	7	11
Tax charge on cash flow hedges	31	(2)	(3)
Available for sale financial assets	31	(2)	1
Transaction with minority shareholder	30	(2)	2
<b>Total comprehensive income for the year</b>		<b>587</b>	<b>296</b>
<b>Total comprehensive income attributable to:</b>			
Minority interest	32	5	4
Equity shareholder		582	292
		<b>587</b>	<b>296</b>

The accounting policies and the Notes on pages 36 to 115 form part of these financial statements



**E.ON UK PLC**

**GROUP BALANCE SHEET**  
**as at 31 December 2009**

	Note	31 December 2009 £m	31 December 2008 (restated) £m
<b>Non-current assets</b>			
Intangible assets	10	2,670	2,964
Property, plant and equipment	11	6,425	5,817
Interests in associates and joint ventures	12	26	3
Available for sale investments	14	17	19
Commodity and other derivative financial instruments	22	906	727
Financial receivables	15	129	166
Pension asset	24	-	472
		<b>10,173</b>	<b>10,168</b>
<b>Current assets</b>			
Inventories	16	279	257
Trade and other receivables	17	1,680	2,163
Commodity and other derivative financial instruments	22	2,152	3,552
Cash and cash equivalents	18	29	87
		<b>4,140</b>	<b>6,059</b>
Assets of disposal group classified as held-for-sale	9	-	235
		<b>4,140</b>	<b>6,294</b>
<b>Total assets</b>		<b>14,313</b>	<b>16,462</b>

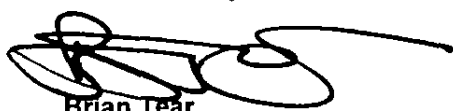
Restatements are explained in the relevant Notes

**E.ON UK PLC**

**GROUP BALANCE SHEET**  
**as at 31 December 2009 (continued)**

	Note	31 December 2009 £m	31 December 2008 (restated) £m
<b>Current liabilities</b>			
Borrowings	20	428	567
Commodity and other derivative financial instruments	22	2,114	3,930
Trade and other payables	19	1,646	1,579
Current tax liabilities		418	396
Provisions	25	236	360
		4,842	6,832
Liabilities of disposal group classified as held-for-sale	9	-	134
		4,842	6,966
<b>Non-current liabilities</b>			
Borrowings	21	2,397	3,265
Commodity and other derivative financial instruments	22	824	980
Trade and other payables	19	88	-
Provisions	25	288	220
Deferred tax liability	26	797	720
Pension liability	24	663	-
		5,057	5,185
<b>Total liabilities</b>		<b>9,899</b>	<b>12,151</b>
<b>Shareholders' equity</b>			
Ordinary shares	28	1,325	1,325
Share premium	29	97	97
Retained earnings	30	2,401	2,302
Other reserves	31	588	585
<b>Total shareholder equity</b>		<b>4,411</b>	<b>4,309</b>
<b>Minority interest in equity</b>	32	<b>3</b>	<b>2</b>
<b>Total equity</b>		<b>4,414</b>	<b>4,311</b>
<b>Total liabilities and equity</b>		<b>14,313</b>	<b>16,462</b>

The financial statements on pages 30 to 115 were approved by the Board on 26 April 2010 and signed on its behalf by

  
Brian Tear  
Director

26 April 2010

The accounting policies and the Notes on pages 36 to 115 form part of these financial statements

**E.ON UK PLC**

**GROUP STATEMENT OF CHANGES IN EQUITY**  
**for the year ended 31 December 2009**

		Attributable to equity shareholder				Minority interest	Total equity	
	Note	Ordinary shares £m	Share premium £m	Retained earnings £m	Other reserves £m	Total £m	£m	£m
<b>Balance at 1 January 2008</b>		<b>1,325</b>	<b>97</b>	<b>2,019</b>	<b>576</b>	<b>4,017</b>	<b>(2)</b>	<b>4,015</b>
<b>Comprehensive income for the year ended 31 December 2008</b>								
(Loss)/profit		-	-	(112)	-	(112)	4	(108)
<b>Other comprehensive income for the year</b>								
Cash flow hedges, net of tax	31	-	-	-	9	9	-	9
Actuarial gains, net of tax	30	-	-	393	-	393	-	393
Transaction with minority shareholder	30	-	-	2	-	2	-	2
Total other comprehensive income		-	-	395	9	404	-	404
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>-</b>	<b>283</b>	<b>9</b>	<b>292</b>	<b>4</b>	<b>296</b>
<b>Transactions with owners during the year ended 31 December 2008</b>								
Dividends to minorities	32	-	-	-	-	-	(2)	(2)
Transaction with minority shareholder	32	-	-	-	-	-	2	2
<b>Total transactions with owners during the year</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Balance at 1 January 2009</b>		<b>1,325</b>	<b>97</b>	<b>2,302</b>	<b>585</b>	<b>4,309</b>	<b>2</b>	<b>4,311</b>
<b>Comprehensive income for the year ended 31 December 2009</b>								
Profit		-	-	1,453	-	1,453	5	1,458
<b>Other comprehensive income for the year</b>								
Cash flow hedges, net of tax	31	-	-	-	5	5	-	5
Disposal of available for sale investment	31	-	-	-	(2)	(2)	-	(2)
Actuarial losses, net of tax	30	-	-	(872)	-	(872)	-	(872)
Transaction with minority shareholder	30	-	-	(2)	-	(2)	-	(2)
Total other comprehensive income		-	-	(874)	3	(871)	-	(871)
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>-</b>	<b>579</b>	<b>3</b>	<b>582</b>	<b>5</b>	<b>587</b>
<b>Transactions with owners during the year ended 31 December 2009</b>								
Dividends to equity shareholder	30	-	-	(480)	-	(480)	-	(480)
Dividends to minorities	32	-	-	-	-	-	(2)	(2)
Transaction with minority shareholder	32	-	-	-	-	-	(2)	(2)
<b>Total transactions with owners during the year</b>		<b>-</b>	<b>-</b>	<b>(480)</b>	<b>-</b>	<b>(480)</b>	<b>(4)</b>	<b>(484)</b>
<b>Balance at 31 December 2009</b>		<b>1,325</b>	<b>97</b>	<b>2,401</b>	<b>588</b>	<b>4,411</b>	<b>3</b>	<b>4,414</b>

The accounting policies and the Notes on pages 36 to 115 form part of these financial statements

**E.ON UK PLC**

**GROUP CASH FLOW STATEMENT**  
**for the year ended 31 December 2009**

	Note	Year ended 31 December 2009	Year ended 31 December 2008
		£m	£m
<b>Cash flows from operating activities</b>			
Cash generated from operations	33	1,622	1,143
Interest received		15	10
Interest paid		(96)	(184)
Tax paid		(76)	(70)
Dividends received from associates	12	8	22
Net cash generated from operating activities		1,473	921
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment and intangible assets		(927)	(1,223)
Acquisitions (net of cash acquired)		-	(50)
Investment in joint venture		(30)	-
Purchase of other financial assets		(34)	(41)
Finance lease principal receipts		37	23
Receipts from other financial assets		18	57
Proceeds from sale of property, plant and equipment and intangible assets		13	83
Proceeds from sale of discontinued operation	9	813	-
Other disposals		-	6
Proceeds from sale of investments	5	31	3
Net cash used in investing activities		(79)	(1,142)
<b>Cash flows from financing activities</b>			
Proceeds from issue of new borrowings		590	2,311
Repayment of borrowings		(1,560)	(2,029)
Finance lease principal payments		-	(18)
Dividends paid to minority interests	32	(2)	(2)
Dividends paid to equity shareholder	30	(480)	-
Net cash (used in)/generated from financing activities		(1,452)	262
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(58)</b>	<b>41</b>
Cash and cash equivalents at 1 January		87	46
<b>Cash and cash equivalents at 31 December</b>	18	<b>29</b>	<b>87</b>

The accounting policies and the Notes on pages 36 to 115 form part of these financial statements

## **E.ON UK PLC**

### **Notes to the financial statements** **for the year ended 31 December 2009**

#### **1 Accounting policies**

##### **Basis of preparation of accounts**

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"), International Financial Reporting Interpretations Committee ("IFRIC") interpretations and the Companies Act 2006 applicable to companies reporting under IFRS, except for the accounting policy for customer contributions (see property, plant and equipment below) where an alternative treatment has been adopted in order to present, in the opinion of the directors, a true and fair view. The financial statements are prepared under the historical cost convention, except for derivative financial instruments, available for sale investments, assets and liabilities held-for-sale, share-based payment provisions and liabilities of the Group's pension schemes that have been measured at fair value.

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed separately below.

The International Accounting Standards Board ("IASB") and the IFRIC have issued standards and interpretations that have been transferred by the EU into European law and whose application is mandatory in the reporting period from 1 January 2009 through 31 December 2009 or which are being voluntarily applied by E.ON.

<b>International Financial Reporting Standards (IFRS/IAS)</b>		<b>Effective for periods beginning on or after</b>
<b>International Financial Reporting Interpretations Committee Interpretations (IFRIC)</b>		
IFRS 7 (amended)	Financial Instruments - Disclosures	1 January 2009
IFRS 8	Operating Segments	1 January 2009
IFRS 1 (amended) and IAS 27 (amended)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	1 January 2009
IFRS 2 (amended)	Share-Based Payment	1 January 2009
IAS 1 (revised)	Presentation of Financial Statements	1 January 2009
IAS 23 (revised)	Borrowing Costs	1 January 2009
IAS 32 (amended) and IAS 1 (amended)	Puttable Financial Instruments and Obligations Arising on Liquidation	1 January 2009
IFRIC 9 (amended) and IAS 39 (amended)	Embedded Derivatives	1 January 2009
Improvements to IFRSs 2008	Various amendments to IFRS	1 January 2009
Improvements to IFRSs 2009	Amendment to IFRS 8 on segment assets	1 January 2010

# E.ON UK PLC

## Notes to the financial statements for the year ended 31 December 2009 (continued)

### 1 Accounting policies (continued)

The adoption of IAS 1 (revised 2007) has led to the inclusion of a Group Statement of Comprehensive Income and a Group Statement of Changes in Equity in place of a Group Statement of Total Recognised Income and Expense

Improvements to IFRSs 2008 amend the classification of derivative assets and liabilities as current or non-current. Derivative financial instruments are now classified as current if they mature in the next 12 months, or if they are held for speculative trading purposes. Otherwise they are classified as non-current. In prior years they were always classified as current unless they formed part of a hedging relationship. Comparative information for 2008 and 2007 has been restated in Note 22.

The adoption of IFRS 8 and the subsequent amendment to IFRS 8 has not changed the operating segments that have previously been reported in these financial statements. However, it has resulted in a different measure of segment assets and results being reported to align it with those measures reported internally to management. Segment liabilities and assets are no longer reported as these are not reported to the chief operating decision maker. Comparative figures have been restated.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet entered into force, either because their effective date is subsequent to the date of the financial statements or because they had not yet been adopted by the EU. The directors anticipate that the adoption of the following Standards and Interpretations in the future will have no material impact on the financial statements.

International Financial Reporting Standards (IFRS/IAS) and International Financial Reporting Interpretations Committee Interpretations (IFRIC)		Effective for periods beginning on or after
IFRS 1 (revised 2008)	Presentation of Financial Statements	1 January 2010
IFRS 1 (revised 2009 & 2010)	*Presentation of Financial Statements	1 January 2010
IFRS 2 (amended 2009)	Share-based Payment	1 January 2010
IAS 24	*Related Party Disclosures	1 January 2011
IAS 32 (amended)	Classification of Rights Issues	1 February 2010
IAS 39	Financial Instruments: Recognition and Measurement	1 July 2009
IFRIC 12	Service Concession Agreements	1 April 2009
IFRIC 14 (amended)	*Prepayments of a Minimum Funding Requirement	1 January 2011
IFRIC 15	Agreements for the Construction of Real Estate	1 January 2010
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	1 July 2009
IFRIC 17	Distributions of Non-cash Assets to Owners	1 November 2009
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments	1 July 2010
Improvements to IFRSs 2009	Various amendments to IFRSs	1 January 2010

\*Not currently adopted into European law by the EU

## **E.ON UK PLC**

### **Notes to the financial statements** **for the year ended 31 December 2009 (continued)**

#### **1 Accounting policies (continued)**

The potential effects to the financial statement arising from the following standards and interpretations are currently being assessed

<b>International Financial Reporting Standards (IFRS/IAS) and International Financial Reporting Interpretations Committee (IFRIC)</b>		<b>Effective for periods beginning or starting after</b>
IFRS 3 (revised)	Business Combinations	1 July 2009
IFRS 9	*Financial Instruments	1 January 2013
IAS 27	Consolidated and Separate Financial Statements	1 July 2009
IFRIC 18	Transfers of Assets from Customers	1 November 2009

\*Not currently adopted into European law by the EU

#### **Going concern**

Notwithstanding the fact that the Group has net current liabilities, the directors have prepared the financial statements on the going concern basis. The directors have put in place sufficient committed borrowing facilities such that the Group and the Company can meet their obligations as they fall due for a period of at least twelve months from the date of the directors' approval of these financial statements. Borrowing facilities are shown in Notes 20 and 21.

#### **Judgement in applying accounting policies and key sources of estimation uncertainty**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting year. These judgements are based on management's best knowledge of the relevant facts and circumstances, having regard to prior experience, but actual results may differ from the amounts included in the financial statements.

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

#### **Impairment of goodwill and indefinite lived intangible assets**

The Group performs impairment tests for goodwill and indefinite lived intangible assets at least on an annual basis, or more frequently if events or changes in circumstances indicate that these assets may be impaired. This requires an estimation of the value-in-use of the cash generating units to which goodwill and indefinite lived intangibles are allocated. When determining the value-in-use, the Group utilises appropriate valuation techniques, for which the input data is in principle based on the Group's medium term plan.

## **E.ON UK PLC**

### **Notes to the financial statements** **for the year ended 31 December 2009 (continued)**

#### **1 Accounting policies (continued)**

Estimating the value-in-use requires the Group to make an estimation of the expected future cash flows from the cash generating unit, discounted by an appropriate weighted average cost of capital. Estimated cash flows are based on the Group's medium term planning data for the next three years and projections for the following years are based on an expected growth rate based on industry and internal projections. Further detail on the assumptions used in determining value-in-use calculations is provided in Note 10.

#### **Revenue recognition – unread gas and electricity meters**

Revenue for energy supply activities includes an assessment of energy supplied to customers between the date of the last meter reading and the year end. Unread gas and electricity is estimated using historical consumption patterns taking into account the industry reconciliation process for total gas and total electricity usage by supplier. The industry reconciliation process is required as differences arise between the estimated quantity of gas and electricity the Group deems to have supplied and billed customers, and the estimated quantity the industry system operator deems the individual suppliers, including the Group, to have supplied to customers.

#### **Determination of fair values of derivatives**

Derivative contracts are carried in the Group Balance Sheet at fair value, with changes in fair value recorded in the Group Income Statement or Group Statement of Comprehensive Income. As quoted market prices for certain derivatives used by the Group are not readily available, the fair values of these derivatives have been calculated using common market valuation methodologies and value influencing market data at the relevant balance sheet date. For certain long-term physical commodity contracts, forward looking market data is unavailable. In this case the Group uses other valuation techniques, incorporating estimated cash flows based on the most relevant market data available.

The use of valuation models requires the Group to make assumptions and estimates regarding the volatility of commodity prices and other indices at the balance sheet date and actual results could differ significantly due to fluctuations in value influencing market data. Further detail is provided in Note 22.

#### **Pensions and other post-retirement benefits**

The Group operates three defined benefit pension schemes, the main scheme being the E.ON UK Group of the Electricity Supply Pension Scheme. The cost of providing benefits under the defined benefit schemes is determined separately for each scheme under the projected unit credit actuarial valuation method. The key assumptions used for the actuarial valuation are based on the Group's best estimate of the variables that will determine the ultimate cost of providing post-employment benefits, on which further detail is provided in Note 24.



## **E.ON UK PLC**

### **Notes to the financial statements** **for the year ended 31 December 2009 (continued)**

#### **1 Accounting policies (continued)**

##### Impairment of the Group's CHP property, plant and equipment and finance lease receivables

Key assumptions used in determining the value-in-use of CHP plants, by reference to expected future operating cash flows, for the purposes of impairment review were

- Revenues are based on the expected price to be received under the various CHP contracts with customers on an individual site by site basis. These prices are based on the signed contracts for the provision of CHP services
- Gas purchase price is based on the Group's year end expectation of forward prices
- Cash flows used in the value-in-use calculation have been discounted at the Group's weighted average cost of capital

##### Impairment of trade receivables

Valuation allowances against trade receivables are provided for identifiable individual risks where the loss is probable. The estimates and assumptions used to determine the level of provisions are reviewed periodically. Although the provisions recognised are considered appropriate, the use of different assumptions or changes in economic conditions could lead to changes in the provisions and therefore impact profit or loss for the year.

##### Income taxes

Significant judgement is required in determining the Group's provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Areas of judgement that have the most significant effect on the amounts recognised in the financial statements are

##### Commodity contracts

Certain commodity contracts that the Group has entered into are not accounted for as derivatives under IAS 39 as they are deemed to be entered into and continue to be held for the purpose or receipt of a non-financial item in accordance with managements' judgement of the entity's expected purchase, sale or usage requirements (the "own use exemption")

## **E.ON UK PLC**

### **Notes to the financial statements** **for the year ended 31 December 2009 (continued)**

#### **1 Accounting policies (continued)**

##### **Emissions trading scheme**

The Group has been subject to the European Emissions Trading Scheme since 1 January 2005. IFRIC 3, Emission Rights was withdrawn by the IASB in June 2005 and has not yet been replaced by definitive guidance. The Group has adopted an accounting policy which recognises a shortfall in emissions rights within provisions. Expenses incurred for the consumption of emission rights and the recognition of a corresponding provision are reported in cost of goods sold. Forward contracts for sales and purchases of allowances are measured at fair value.

##### **Basis of consolidation**

The consolidated accounts include the financial statements of the Company and entities controlled by the Company (its subsidiaries), together with the Group's share of the results and net assets of associated undertakings using the equity method of accounting. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. The results of subsidiaries sold or acquired are included in the Group Income Statement up to, or from, the date on which control passes. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies into line with those used by the Group. Inter-company transactions, balances and unrealised gains on transactions between companies within the Group are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Group Income Statement.

##### **Associates**

An associate is an entity over which the Group has significant influence but which is neither a subsidiary nor an interest in a joint venture. Significant influence is achieved when the Group has the power to participate in the financial and operating policy decisions of the entity but does not control or jointly control these decisions. Significant influence is generally presumed to exist if the Group directly or indirectly holds at least 20%, but less than 50%, of an entity's voting rights.

## **E.ON UK PLC**

### **Notes to the financial statements** **for the year ended 31 December 2009 (continued)**

#### **1 Accounting policies (continued)**

The Group's share of profits and losses of associated undertakings are included in the Group Income Statement using the equity method of accounting. The results of associates sold or acquired are included in the Group Income Statement up to, or from, the date on which significant influence passed. These amounts are taken from the latest audited financial statements of the relevant undertakings, except where the accounting reference date of the undertaking is not coterminous with the parent company, where management accounts are used.

The accounting reference dates of associated undertakings are set out in Note 12. Where the accounting policies of associated undertakings do not conform to those of the Group, adjustments are made on consolidation where the amounts involved are material to the Group.

#### **Joint ventures**

A jointly controlled entity is a joint venture which involves the establishment of an entity to engage in economic activity, which the Group controls jointly with its fellow venturers. The Group's interests in jointly controlled entities are accounted for using the equity method of accounting. Unrealised gains and losses arising from transactions with joint venture companies are eliminated within the consolidation process on a pro-rata basis if and to the extent these are material.

A jointly controlled operation is a joint venture which involves the use of assets and other resources of the venturers to engage in economic activity rather than the establishment of an entity. The Group's interests in jointly controlled operations are accounted for by proportionate consolidation. The Group combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements.

The Group recognises the portion of gains or losses on the sale of assets by the Group to the joint venture that is attributable to the other venturers. The Group does not recognise its share of profits or losses from the joint venture that result from the Group's purchase of assets from the joint venture until it re-sells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment of non-current assets.

#### **Transactions with minority shareholders**

The Group applies a policy of treating transactions with minority interests as transactions with equity owners of the Group. For purchases from minority interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to minority interests are also recorded in equity.

## **E.ON UK PLC**

### **Notes to the financial statements** **for the year ended 31 December 2009 (continued)**

#### **1 Accounting policies (continued)**

##### **Revenue**

Revenue comprises revenue from the distribution of electricity, revenue from the sale of electricity and gas to industrial and commercial and domestic customers, revenue from electricity generation, and revenue from providing energy services to customers. Revenue excludes Value Added Tax.

Revenue from the sale of electricity and gas to I&C and domestic customers is recognised when earned on the basis of a contractual agreement with the customer. It reflects the value of the volume supplied, including an estimated value of the volume supplied to customers, between the date of their last meter reading and the year end.

Revenue relating to the distribution of electricity represents the value of charges for electricity distributed during the year including estimates of the sales value of units distributed to customers between the date of the last meter reading and the year end.

Revenue from the generation of electricity from renewable sources represents the value of the sale of electricity from wind farms and related renewables credits and is recognised when the power is supplied. Revenue from other generation sources represents capacity fees received for making plant available to customers, plus exercise fees received when plant is used to generate power. Capacity fees are recognised over the period for which plant is made available for use. Exercise fees are charged on a cost-plus basis and recognised as costs are incurred.

Revenue from providing energy services to customers is recognised as the work is performed and the services provided to the customer.

##### **Segmental reporting**

For management purposes, the Group is organised into six operating divisions – Generation, EC&R UK, E.ON Energy Trading (disposed of during 2009), Central Networks, Retail and Energy Services all of which are based in the UK. Under IFRS 8 'Operating Segments' these divisions are reported separately in Note 2 as operating segments.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the E.ON UK Executive Board ("EUEB").

## **E ON UK PLC**

### **Notes to the financial statements** **for the year ended 31 December 2009 (continued)**

#### **1 Accounting policies (continued)**

##### **Provisions**

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

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

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced to those affected by it

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 Group capitalises the costs of the provision by increasing the carrying amount of the property, plant and equipment. 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 property, plant and equipment and is not recognised in income

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

Future operating costs are not provided for

## **E.ON UK PLC**

### **Notes to the financial statements** **for the year ended 31 December 2009 (continued)**

#### **1 Accounting policies (continued)**

##### **Foreign exchange**

Items included in the financial information for each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (functional currency) The Group's consolidated financial information is presented in Sterling, which is the Group's presentational currency

Assets and liabilities expressed in foreign currencies, including those of subsidiaries and associated undertakings, are translated to Sterling at rates of exchange ruling at the end of the financial year

The results of foreign subsidiaries and associated undertakings are translated to Sterling using average exchange rates

Transactions denominated in foreign currencies are translated to Sterling at the exchange rate ruling on the transaction date

Differences on exchange arising from the retranslation of the opening net investment in, and results of, subsidiaries and associated undertakings are taken to reserves and, where the net investments are hedged, are matched with differences arising on the translation of related foreign currency borrowings and forward exchange contracts Any differences arising are reported in the Group Statement of Comprehensive Income All other realised foreign exchange differences are taken to the Group Income Statement within operating costs and operating income in the year in which they arise

##### **Deferred income**

Amounts received in advance in respect of the provision of services under warranty arrangements are taken to deferred income and recognised in operating income on a straight line basis over the period to which the warranty cover relates

**Notes to the financial statements**  
**for the year ended 31 December 2009 (continued)**

**1 Accounting policies (continued)**

**Financial instruments**

**Non-derivative financial assets and liabilities**

Non-derivative financial instruments are recognised at fair value on the date when acquired. Unconsolidated equity investments and securities are measured at fair value plus directly attributable transaction costs. E.ON UK classifies financial assets as held for trading, available for sale, or as loans and receivables. Management determines the classification of the financial assets at initial recognition.

Securities classified as available for sale are carried at fair value on a continuing basis, with any resulting unrealised gains and losses, net of related deferred taxes, reported as a separate component within equity until realised. Realised gains and losses are recorded based on the specific identification method. Unrealised losses previously recognised in equity are recognised in financial results in the case of substantial impairment. Reversals of impairment losses relating to equity instruments are recognised exclusively in equity.

Loans and receivables (including trade receivables) are primary financial assets with fixed or determinable payments that are not traded in an active market. Loans and receivables are reported on the Group Balance Sheet under "Trade and other receivables". 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. Reversals of losses are recognised under "Other operating income".

Financial liabilities (including trade payables and borrowings) within the scope of IAS 39 are measured at amortised cost, using the effective interest method. Initial measurement takes place at fair value plus transaction costs. In subsequent periods, the amortisation and accretion of any premium or discount is included in finance costs/income.

**Derivative financial instruments and hedging transactions**

Derivative financial instruments and separated embedded derivatives are measured at fair value as of the trade date at initial recognition and in subsequent periods. IAS 39 requires that they be classified as held for trading as long as they are not a component of a hedge accounting relationship. Gains and losses from changes in fair value are immediately recognised in net income.

Instruments commonly used are foreign currency forwards, interest-rate swaps and cross-currency swaps. In commodities, the instruments used include physically and financially settled forwards and swaps based on the prices of electricity, gas, coal, oil and emission rights.

**Notes to the financial statements**  
**for the year ended 31 December 2009 (continued)**

**1 Accounting policies (continued)**

IAS 39 sets requirements for the designation and documentation of hedging relationships, the hedging strategy, as well as ongoing retrospective and prospective measurement of effectiveness in order to qualify for hedge accounting. The Group does not exclude any component of derivative gains and losses from the measurement of hedge effectiveness. Hedge accounting is considered to be appropriate if the assessment of hedge effectiveness indicates that the change in fair value of the designated hedging instrument is 80% to 125% effective at offsetting the change in fair value due to the hedged risk of the hedged item or transaction.

For qualifying fair value hedges, the change in the fair value of the derivative and the change in the fair value of the hedged item that is due to the hedged risk(s) are recognised in income. If a derivative instrument qualifies as a cash flow hedge, the effective portion of the hedging instrument's gain or loss is recognised in equity (as a component of other reserves) and reclassified into income in the period or periods during which the transaction being hedged affects income. The hedging result is reclassified into income immediately if it becomes probable that the hedged underlying transaction will no longer occur. For hedging instruments used to establish cash flow hedges, the change in fair value of the ineffective portion is recognised immediately in income. To hedge the currency risk arising from the Group's net investment in foreign operations, derivative as well as non-derivative financial instruments are used. Gains or losses due to changes in fair value and from foreign currency translation are recognised separately within equity as currency translation adjustments.

Changes in fair value of derivative instruments that must be recognised in income are classified as other operating income or expenses. Gains and losses from interest-rate derivatives are netted for each contract and included in interest income. Certain realised amounts are, if related to the sale of products or services, included in revenues or cost of materials.

Unrealised gains and losses resulting from the initial measurement of derivative financial instruments at the inception of the contract are not recognised in income. They are instead deferred and recognised in income systematically over the term of the derivative. An exception to the accrual principle applies if unrealised gains and losses from the initial measurement are verified by quoted market prices, observable prices of other current market transactions or other observable data supporting the valuation technique. In this case the gains and losses are recognised in income.

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

See Note 22 for additional information regarding the Group's use of derivative instruments.



## **E.ON UK PLC**

### **Notes to the financial statements** **for the year ended 31 December 2009 (continued)**

#### **1 Accounting policies (continued)**

IFRS 7 requires certain financial instruments to be classified using the following fair value hierarchy that reflects the significance of the inputs used in making fair value measurements

- Quoted prices in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly (level 2)
- Inputs for the asset or liability that are not based on observable market data (level 3)

This analysis is provided in Note 23

#### **Intangible fixed assets**

##### **Goodwill**

Goodwill arising on consolidation represents the excess of the fair value of the consideration given over the Group's share of the fair value of the identifiable assets and liabilities of an acquired subsidiary, associate or joint venture. Purchased goodwill is capitalised in the Group Balance Sheet and allocated to the cash generating unit or group of cash generating units that are expected to benefit from the business combination in which the goodwill arose. Goodwill is reviewed for impairment on at least an annual basis and whenever there is an indicator of impairment. If an indication of impairment exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Goodwill relating to associates is included within 'Investments' in the Group Balance Sheet. Goodwill arising on overseas acquisitions is regarded as a foreign currency asset and is retranslated at each period end at the closing rate of exchange.

##### **Software**

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (three to five years).

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Costs include the software development employee costs and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortised over their estimated useful lives (three to five years).

## **E.ON UK PLC**

### **Notes to the financial statements** **for the year ended 31 December 2009 (continued)**

#### **1 Accounting policies (continued)**

##### **Customer lists**

Customer lists are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the Group Income Statement on a straight line basis over the estimated useful lives of intangible assets from the date they are available for use. The estimated useful life of customer lists depends on the nature of the business and ranges from 7 to 10 years.

##### **Other intangible assets**

Emission rights held under national and international emissions rights systems are reported as intangible assets. Emission rights are capitalised at their acquisition costs when issued for the respective reporting period as (partial) fulfilment of the notice of allocation from the responsible national authorities, or purchased from third parties. The consumption of emission rights is recognised at average cost based on emissions made. A shortfall in emission rights is recognised within other provisions at cost. The expenses incurred for the consumption of emission rights and the recognition of a corresponding provision are reported under power purchases and other cost of sales.

Emission rights generally have maturities of less than one year and are therefore not amortised. Other intangible assets also include the benefits of land options and development contracts, and capitalised development costs. They will be amortised over the useful economic life of the schemes to which they relate (5 to 25 years).

##### **Research and development**

Under IFRS, research and development costs must be allocated to a research phase and a development phase. While expenditure on research is expensed as incurred, development costs must be capitalised as an intangible asset if all the general criteria for recognition specified in IAS 38, as well as certain other specific prerequisites, have been fulfilled. The Group capitalises internally generated software as an intangible asset where it meets all the recognition criteria.

##### **Property, plant and equipment**

Property, plant and equipment is stated at original cost, net of customer contributions, 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. Subsequent costs arising from additional or replacement capital expenditure are only recognised as part of the cost of the related asset if it is probable that the Group will receive a future economic benefit and the cost can be determined reliably. Impairment losses and any subsequent reversals are recognised in the period in which they are identified.

## E.ON UK PLC

### **Notes to the financial statements** **for the year ended 31 December 2009 (continued)**

#### **1 Accounting policies (continued)**

This accounting treatment represents a departure from the Companies Act 2006 which requires property, plant and equipment to be included at their purchase price or production cost and therefore any contribution would be presented as deferred income. However, it is the opinion of the directors that the treatment adopted is necessary to give a true and fair view as the contributions relate directly to the cost of assets used in the distribution network. Customers' contributions towards distribution network assets are credited to the Group Income Statement over the life of the distribution network assets to which they relate by virtue of a reduction in the depreciation charge.

In the case of assets constructed by the Group, directly related overheads and commissioning costs are included in cost. Major assets in the course of construction are included in property, plant and equipment on the basis of expenditure incurred at the balance sheet date. Where borrowings are used to finance the construction of a major capital project with a long period of development, interest payable is capitalised as part of the cost of the asset and written off over the economic useful life of the asset. Where specific borrowings are used, the amount capitalised is based on actual interest payable.

Where general borrowings are used, the amount capitalised is based on the weighted average cost of capital of the Group, not exceeding the actual expenditure incurred during the relevant period of construction.

#### **Depreciation**

Provision for depreciation of generating and other assets is made so as to write off the cost (less residual value) of property, plant and equipment, on a straight line basis except in cases where a different method is deemed more suitable. Assets are depreciated over their estimated useful lives or, in the case of leased assets, over the lease term if shorter. Estimated useful lives and residual values are reviewed annually. No depreciation is provided on freehold land or assets in the course of construction.

The estimated useful lives for the principal categories of property, plant and equipment are

<i>Asset</i>	<i>Life in years</i>
Generating assets	25-45
Distribution and transmission networks	40-70
Other operating and short-term assets	3-40

## **E.ON UK PLC**

### **Notes to the financial statements** **for the year ended 31 December 2009 (continued)**

#### **1 Accounting policies (continued)**

##### **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 estimated useful life, typically the period until the next major overhaul. That period is usually four years. Repairs and maintenance that do not constitute significant replacement capital expenditure are expensed as incurred.

##### **Impairment**

Impairments of assets are calculated as the difference between the carrying value of the asset and its recoverable amount, if lower. Where an asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is defined as the higher of fair value less costs to sell and estimated value-in-use at the date the impairment review is undertaken. Value-in-use represents the present value of expected future cash flows, discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. Impairments are recognised in the Group Income Statement and, where material, are disclosed separately.

##### **Non-current assets held-for-sale**

Non-current assets (and disposal groups) are classified as assets held-for-sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

##### **Discontinued operations**

A discontinued operation is a component of an entity that has either been disposed of, or satisfies the criteria to be classified as held-for-sale, and represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to disposal.

##### **Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the asset to the lessee. All other leases are classified as operating leases. Assets held under finance leases are recognised at their value at the inception of the lease or the present value of minimum lease payments if lower. A corresponding liability is recognised as a finance lease obligation.

## **E.ON UK PLC**

### **Notes to the financial statements** **for the year ended 31 December 2009 (continued)**

#### **1 Accounting policies (continued)**

Assets leased under finance leases where the Group is the lessor are derecognised at the date that the asset is delivered. A lease receivable is recognised at the present value of minimum lease payments. Lease receipts are apportioned between finance income and the reduction of the lease receivable so as to achieve a constant rate of return on the lease receivable. When assets are leased out under an operating lease, the asset is included in the balance sheet based on the nature of the asset. Accordingly, generating assets leased out under operating leases are included within property, plant and equipment.

Rents payable under operating leases are charged to the Group Income Statement evenly over the term of the lease. Income from operating leases is included within other operating income in the Group Income Statement. Income is recognised on a straight line basis except where income receipts vary with output or other factors. Any variable element is recognised as earned.

#### **Inventories**

Inventories are stated at the lower of cost and net realisable value. In general, inventories are recognised in the Group Income Statement on a weighted average cost basis. The Companies Act 2006 requires inventories to be categorised between raw materials, work in progress and finished goods. Fuel stocks and engineering stores are considered to be raw materials under this definition.

#### **Cash and cash equivalents**

Cash and cash equivalents include cash at bank and in hand, deposits with a maturity of three months or less and other short-term liquid investments that are readily convertible to known amounts of cash. Bank overdrafts are excluded and are presented as part of borrowings.

#### **Taxation**

The tax expense for the year represents the sum of the current tax and deferred tax. The tax charge for the year is based on the taxable profits or losses on ordinary activities for the year. Deferred tax is provided in full, using the liability method, on temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction at the time of the transactions that affects neither the tax profit nor the accounting profit. Deferred tax assets and liabilities are offset when there exists a legal and enforceable right to offset and they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

## **E.ON UK PLC**

### **Notes to the financial statements** **for the year ended 31 December 2009 (continued)**

#### **1 Accounting policies (continued)**

Deferred tax is calculated using the enacted or substantially enacted tax rates that are expected to apply in the period in which the temporary difference is expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognised in income for the period that includes the enactment date. Deferred tax is charged or credited in the Group Income Statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is dealt with in equity.

#### **Exceptional items**

As permitted by IAS 1 (Revised), Presentation of Financial Statements, certain items are presented separately. The items that the Group separately presents as exceptional are items which are of a non-recurring nature and, in the judgement of the Directors, need to be disclosed separately by virtue of their nature, size or incidence in order to obtain a clear and consistent presentation of the Group's underlying business performance. Items which may be considered exceptional in nature include disposals of businesses and investments, business restructurings, onerous contract provisions, asset impairments and derivative gains and losses.

#### **Pensions**

The Group provides pension benefits through both defined benefit and defined contribution schemes. The liability recognised in the Group Balance Sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, adjusted for past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

Defined benefit pension scheme costs are attributed to the Group Income Statement over the period of service of the employee. Past service costs are recognised immediately to the extent that the benefits are already vested, otherwise are amortised on a straight line basis over the vesting period. Current and past service costs are charged to staff costs within operating costs. The net pensions interest (interest cost less expected return on assets) is charged to finance costs. Actuarial gains and losses are recognised in full on the Group Balance Sheet and pass through retained earnings. Actuarial gains and losses are also recognised through the Group Statement of Comprehensive Income as incurred. Details of actuarial valuations, including the frequency and methodology, are set out in Note 24.

Payments to defined contribution schemes are charged against profits as incurred. The Group has no further payment obligations once contributions have been paid. Contributions are recognised in the Group Income Statement as staff costs when they are due and prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

## **E.ON UK PLC**

### **Notes to the financial statements** **for the year ended 31 December 2009 (continued)**

#### **1 Accounting policies (continued)**

##### **Equity**

IFRS defines equity as the residual interest in the Group's assets after deducting all liabilities. Therefore, equity is the net amount of all recognised assets and liabilities.

##### **Share-based payments**

Certain directors and senior management personnel participate in cash settled share-based payment schemes administered by the ultimate parent company, E.ON AG. Two schemes are currently in operation – the E.ON Stock Appreciation Rights Scheme and the E.ON Share Performance Plan. The Group accounts for these schemes in accordance with IFRS 2 "Share-based payment". The liability is measured initially and at each reporting date, based on fair value, by applying the Monte Carlo option pricing model, taking into account rights granted and service rendered to date. Costs are recognised in the Group Income Statement over the expected vesting period.

##### **Dividend distribution**

Dividend distribution to the Company's shareholder is recognised as a liability in the Group's financial statements in the period in which the dividends are approved.

# E.ON UK PLC

## Notes to the financial statements for the year ended 31 December 2009 (continued)

### 2 Segmental reporting

Year ended 31 December 2009	Generation £m	EC&R UK £m	Central Networks £m	Retail £m	Energy Services £m	All other segments £m	Total £m
<b>Revenue</b>							
External revenue <sup>+</sup>	1,753	210	503	6,624	110	5	9,205
Inter-segment revenue	-	-	132	34	121	-	287
<b>Total segment revenue</b>	<b>1,753</b>	<b>210</b>	<b>635</b>	<b>6,658</b>	<b>231</b>	<b>5</b>	<b>9,492</b>
<b>Result</b>							
Segment result <sup>++</sup>	198	87	363	80	(4)	(57)	667
Contract provisions, impairment and restructuring costs							(91)
Profit on disposal of investments							56
Net derivative gains							197
Other adjustments							16
Operating profit							845
Finance income							34
Finance costs							(133)
Group's share of associates' and joint ventures' profit after tax	(5)	1	-	-	-	6	2
Profit before tax							748
Tax charge							(193)
<b>Profit for the year from continuing operations</b>							<b>555</b>

#### Other segment items

Capital expenditure	362	161	318	-	43	31	915
Intangible expenditure	-	-	-	3	3	-	6
Depreciation	175	16	106	-	18	3	318
Amortisation of intangible assets	-	-	-	74	1	4	79
Goodwill	56	54	327	2,899	22	(370)	2,988
Joint venture/associate investments	26	-	-	-	-	-	26

<sup>+</sup> All material revenue arises in the UK based on the point of delivery of goods and services. All material assets are located within the UK.

<sup>++</sup> See explanations of these performance measures below.  
See Note 4 for impairments by segment.



# E.ON UK PLC

## Notes to the financial statements for the year ended 31 December 2009 (continued)

### 2 Segmental reporting (continued)

Year ended 31 December 2008	Generation £m	EC&R UK £m	Central Networks £m	Retail £m	Energy Services £m	All other segments £m	Total £m
<b>Revenue</b>							
External revenue <sup>+</sup>	150	56	488	6,524	147	-	7,365
Inter-segment revenue	-	-	138	23	339	-	500
Inter-segment revenue to discontinued operations	1,505	169	-	-	-	-	1,674
<b>Total segment revenue</b>	<b>1,655</b>	<b>225</b>	<b>626</b>	<b>6,547</b>	<b>486</b>	<b>-</b>	<b>9,539</b>
<b>Result</b>							
Segment result <sup>++</sup>	520	60	360	(67)	(12)	(69)	792
Contract provisions, impairment and restructuring costs							(95)
Profit on disposal of investments							3
Net derivative gains							94
Other adjustments							104
Operating profit							898
Finance income							40
Finance costs							(208)
Group's share of associates' and joint ventures' profit after tax	-	2	-	-	-	8	10
Profit before tax							740
Tax charge							(283)
<b>Profit for the year from continuing operations</b>							<b>457</b>

#### Other segment items

Capital expenditure <sup>+++</sup>	542	189	347	1	54	9	1,142
Intangible expenditure <sup>+++</sup>	7	16	-	13	30	11	77
Depreciation	165	11	104	-	13	5	298
Amortisation of intangible assets	4	-	-	89	1	-	94
Goodwill	56	54	327	2,899	22	(254)	3,104
Joint venture/associate investments	-	2	-	-	-	-	2

<sup>+</sup> All material revenue arises in the UK based on the point of delivery of goods and services. All material assets were located within the UK.

<sup>++</sup> See explanations of these performance measures below.

<sup>+++</sup> Including acquisitions.

See Note 4 for impairments by segment.

## E.ON UK PLC

### Notes to the financial statements for the year ended 31 December 2009 (continued)

## 2 Segmental reporting (continued)

### Reported segments

Management has determined the operating segments based on the reports reviewed by the EUEB that are used to make strategic decisions. For management purposes, the Group is organised into five (2008 six) main operating segments – Generation, EC&R UK, Central Networks, Retail and Energy Services (additionally in 2008 E.ON Energy Trading). The main factors defining them as separate operating segments are different products and services, different customer bases and different regulatory environments. Other segments primarily include the support functions for the main operating segments. The Energy Services segment has been reported to provide information to users even though it does not meet the quantitative thresholds. The segments derive their revenue from the following sources:

<i>Segment</i>	<i>Main source of revenue</i>
Generation	Sale of energy on wholesale markets
EC&R UK	Sale of energy produced from renewable sources
Central Networks	Regulated electricity distribution
Retail	Sale of energy to consumers
Energy Services	Installation and maintenance of energy and heating systems
All other segments	Support functions for other segments and ancillary services
E.ON Energy Trading	Trading of energy and derivative products on wholesale markets

Under IFRS 5, segments or material business units that have been sold or are held-for-sale must be reported as discontinued operations. In 2008 and 2009, this includes the results and gain on disposal respectively of E.ON Energy Trading, which was held-for-sale in 2008 and was legally disposed of to a fellow group undertaking on 1 January 2009. Information on discontinued operations is given in Note 9.

### Performance measures

The EUEB assesses the performance of the operating segments based on a measure of adjusted EBIT. This measurement basis is derived from the profit/loss from continuing operations before interest and taxes and adjusted to exclude certain exceptional items. The adjustments include derivative gains and losses, gains and losses on investment/business disposals and other income and expenses of a non-recurring or rare nature.

### Revenues

Sales between segments are carried out at arm's length. The revenue from external parties reported to the EUEB is measured in a manner consistent with that in the Group Income Statement. During 2009, the Generation and EC&R UK segments recognised sales of £1,800 million (2008: £nil) to a major customer, EET SE, who represents more than 10% of the Group's revenues from continuing operations.

# E.ON UK PLC

## Notes to the financial statements for the year ended 31 December 2009 (continued)

### 2 Segmental reporting (continued)

#### Reconciliations to financial statements

The following adjustments are required to reconcile the Group's segment result to the operating profit reported in these financial statements

- Contract provisions, impairment and restructuring costs – see Note 4 for further details
- Profit on disposals of investments/businesses – see Note 5 for further details
- Derivative gains and losses - these include marking to market of derivatives used to protect the Group's operating businesses from price fluctuations
- Other adjustments - the Group's management reporting is also used by the Board to report to the ultimate parent undertaking, E ON AG. Therefore, other adjustments include the effects of certain fair value and other adjustments that are only applicable at the E ON AG consolidated level. They also include certain other income and expenses that are non-recurring

Reportable segments' figures are reconciled to the financial statements as follows

<b>2009 (£m)</b>	<b>Revenue</b>	<b>Intangible expenditure</b>	<b>Depreciation</b>	<b>Amortisation</b>	<b>Goodwill</b>
Total per reportable segments	9,492	6	318	79	2,988
Eliminations	(287)	-	-	-	-
Reversal of group reporting adjustments	22	-	(23)	(15)	(508)
<b>Total per financial statements</b>	<b>9,227</b>	<b>6</b>	<b>295</b>	<b>64</b>	<b>2,480</b>
<b>2008 (£m)</b>	<b>Revenue</b>	<b>Intangible expenditure</b>	<b>Depreciation</b>	<b>Amortisation</b>	<b>Goodwill</b>
Total per reportable segments	9,539	77	298	94	3,104
Eliminations	(500)	-	-	-	-
Reversal of group reporting adjustments	-	-	(24)	(31)	(627)
Discontinued operation	-	611	-	-	-
<b>Total per financial statements</b>	<b>9,039</b>	<b>688</b>	<b>274</b>	<b>63</b>	<b>2,477</b>

No segmented information on liabilities, assets, interest income, interest expense and income tax is provided since these are not reported to the EUEB

# E ON UK PLC

## Notes to the financial statements for the year ended 31 December 2009 (continued)

### 3 Operating costs and other operating income

Operating costs were as follows

Year ended 31 December.	Continuing operations 2009 £m	Continuing operations 2008 £m	Discontinued operations 2009 £m	Discontinued operations 2008 £m	Total 2009 £m	Total 2008 £m
Power purchases and other costs of sales	7,122	6,616	-	2,065	7,122	8,681
Staff costs (Note 6)	544	553	-	26	544	579
Depreciation, including relevant impairments	295	278	-	-	295	278
Intangible asset amortisation, including relevant impairments	67	76	-	-	67	76
Derivative losses	76	108	-	1,076	76	1,184
Other operating charges, including restructuring costs	772	843	-	33	772	876
Operating costs, after contract provisions, impairment and restructuring costs	8,876	8,474	-	3,200	8,876	11,674
Operating costs, before contract provisions, impairment and restructuring costs	8,785	8,379	-	3,200	8,785	11,579
Contract provisions, impairment and restructuring costs (Note 4)	91	95	-	-	91	95

Foreign exchange losses of £3 million were recognised in the Group Income Statement (2008 £13 million loss)

## E.ON UK PLC

### Notes to the financial statements for the year ended 31 December 2009 (continued)

#### 3 Operating costs and other operating income (continued)

Operating costs also include	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Repairs and maintenance costs	121	117
Research and development costs	10	14
Operating lease charges	34	40
Loss on disposal of property, plant and equipment	3	1
Loss on disposal of intangible fixed assets	9	-
Auditors' remuneration for		
Audit services Audit of the Company and consolidated accounts	1.0	1 0
Other services Audit of the Company's subsidiaries pursuant to legislation	0.7	0 6
Other services pursuant to legislation	0 1	0 3
Tax services	-	0 5
All other services	0 2	0 2

The above figures all relate to continuing operations

#### Other operating income

The largest component of other operating income in 2009 was derivative gains of £273 million (£273 million relating to continuing operations and £nil relating to discontinued operations) Other operating income from continuing operations also includes profit on disposal of investments of £56 million and gains on disposal of property, plant and equipment of £8 million were also recognised Foreign exchange gains of £56 million were recognised during 2009 (£56 million relating to continuing operations and £nil relating to discontinued operations) An impairment reversal of £9 million relating to continuing operations was also recognised (see Note 4)

The largest component of other operating income in 2008 was derivative gains of £288 million (£197 million relating to continuing operations and £91 million relating to discontinued operations) Other operating income from continuing operations also includes profit on disposal of businesses of £3 million and gains on disposal of property, plant and equipment of £68 million were also recognised Foreign exchange gains of £8 million were recognised during 2008 (£nil relating to continuing operations and £8 million relating to discontinued operations)

## **E.ON UK PLC**

### **Notes to the financial statements** **for the year ended 31 December 2009 (continued)**

#### **4 Contract provisions, impairment and restructuring costs**

Contract provisions, impairment and restructuring costs comprise

	<b>Year ended 31 December 2009 £m</b>	<b>Year ended 31 December 2008 £m</b>
Contract provisions, impairment and restructuring costs	<b>100</b>	95
Reversal of impairment	<b>(9)</b>	-
Net costs before taxation	<b>91</b>	95
Taxation	<b>(25)</b>	(27)
Net costs after taxation	<b>66</b>	68

During 2009, an impairment reversal of £9 million was recognised in respect of CHP property, plant and equipment (see Note 11). The reversal arose as a result of improvements in expected future cash inflows due to higher forecast sales than previously anticipated. A further onerous contract provision of £75 million was recognised primarily with respect to certain CHP contracts. The onerous contract provision arose as a result of rising wholesale gas prices resulting in increased costs on CHP contracts that receive a relatively fixed price per unit of output. Consequently, in some cases the current estimate of unavoidable costs of meeting the obligations under the contracts exceeds the economic benefits expected to be received under it. CHP plants are within the Generation segment. Restructuring costs of £25 million relating to the Retail business were also recorded. A tax credit of £25 million arose as a result of all these charges. The above charges relate solely to continuing operations.

During 2008, CHP property, plant and equipment was impaired by £4 million (see Note 11) and a further onerous contract of £32 million was recognised with respect to the CHP contracts. The impairment and onerous contract arose as a result of rising wholesale gas prices resulting in increased costs on CHP contracts that receive a relatively fixed price per unit of output. Consequently, in some cases the current estimate of unavoidable costs of meeting the obligations under the contracts exceeds the economic benefits expected to be received under it. CHP plants are within the Generation segment. Goodwill was impaired by £13 million (see Note 10) and restructuring and onerous contract costs of £34 million were recognised following a strategic review of the business activities of the Energy Services segment. Restructuring costs of £12 million relating to the Retail business were also recorded. A tax credit of £27 million arose as a result of all these charges. The above charges relate solely to continuing operations.

# E.ON UK PLC

## Notes to the financial statements for the year ended 31 December 2009 (continued)

### 5 Profits less losses on disposal of investments/businesses (including provisions)

Profits less losses on disposal of investments/businesses (including provisions) comprise

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Profits less losses on disposal of investments/businesses (including provisions) before taxation	56	5
Tax on profits less losses on disposal of investments/ businesses (including provisions)	-	-
<b>Profits less losses on disposal of investments/ businesses (including provisions) after taxation</b>	<b>56</b>	<b>5</b>
Gain on disposals recognised in the income statement	56	3
Gain on partial disposal recognised directly in equity	-	2
<b>Total gains on disposal of investments</b>	<b>56</b>	<b>5</b>

During the year, E ON UK disposed of its 31% investment in Trakya Electric for proceeds of £31 million generating a profit on disposal of £56 million which includes the release of a deferred income balance

During 2008, E ON UK disposed of 100% of its investment in Holford Gas Storage Limited. Proceeds from the disposal and net assets at the date of disposal were £nil. In addition, the Group disposed of 100% of the trade and assets of E ON Engineering for £3 million. The net assets disposed of were £0.4 million, resulting in profit of £2.6 million. Also, E ON UK disposed of a 40% share of E ON Masdar London Array Limited (formerly E ON Climate & Renewables UK London Array Limited) for total proceeds of £5 million. Net assets disposed totalled £3 million, resulting in a profit of £2 million.

# E.ON UK PLC

## Notes to the financial statements for the year ended 31 December 2009 (continued)

### 6 Employee information, including directors' remuneration

The average number of persons employed by the Group, including directors was

	2009	2008
Generation	1,292	1,437
EC&R UK	167	171
Central Networks	3,469	2,535
Retail	8,123	8,004
Energy Services	2,619	4,246
All other segments	1,363	1,126
<b>Continuing operations</b>	<b>17,033</b>	<b>17,519</b>
Discontinued operations	-	228
<b>Total</b>	<b>17,033</b>	<b>17,747</b>

The salaries and related costs of employees, including directors, were

Year ended 31 December	Continuing operations 2009 £m	Continuing operations 2008 £m	Discontinued operations 2009 £m	Discontinued operations 2008 £m	Total 2009 £m	Total 2008 £m
Wages and salaries	509	498	-	20	509	518
Social security costs	49	52	-	2	49	54
Pension costs – defined benefit plans (Note 24)	47	58	-	4	47	62
Pension costs – defined contribution plans	3	-	-	-	3	-
Share-based payments	1	1	-	-	1	1
	<b>609</b>	<b>609</b>	<b>-</b>	<b>26</b>	<b>609</b>	<b>635</b>
Capitalised in property, plant and equipment	(65)	(56)	-	-	(65)	(56)
Charged in income statement as staff costs	<b>544</b>	<b>553</b>	<b>-</b>	<b>26</b>	<b>544</b>	<b>579</b>

The staff costs above include restructuring costs – see Note 4 for further details



# E.ON UK PLC

## Notes to the financial statements for the year ended 31 December 2009 (continued)

### 6 Employee information, including directors' remuneration (continued)

The key management compensation costs were

	Year ended 31 December 2009 £	Year ended 31 December 2008 £
Salaries and short-term employee benefits	4,817,540	5,893,243
Post-employment benefits	1,057,630	1,111,510
Termination benefits	-	496,501
Share-based payments	985,395	517,163
	<u>6,860,565</u>	<u>8,018,417</u>

Key management of the Group consists of directors of the Company and its principal trading subsidiaries. All key management compensation costs relate solely to continuing operations. For details of the highest paid director's remuneration see Note 3 on page 129 of the Company financial statements.

### 7 Finance income and costs

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m (restated)
Interest receivable		
From fellow E.ON group undertakings	3	5
Interest on finance lease receivables	17	17
Gains on interest rate swaps	14	18
<b>Finance income</b>	<b>34</b>	<b>40</b>
Interest payable		
Loans from fellow E.ON group undertakings	(118)	(195)
Net pensions interest (Note 24)	(18)	(3)
Other loans	(16)	(13)
Unwinding of discount in provisions (Note 25)	(20)	(20)
Capitalised interest	39	23
<b>Finance costs</b>	<b>(133)</b>	<b>(208)</b>
<b>Net finance costs</b>	<b><u>(99)</u></b>	<b><u>(168)</u></b>

Finance income and costs all relate to continuing operations. Restatements are explained in Note 25.

# E.ON UK PLC

## Notes to the financial statements for the year ended 31 December 2009 (continued)

### 8 Taxation

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
<b>Current tax:</b>		
UK corporation tax at 28% (2008 28.5%)	219	241
Overseas tax	6	19
Over provision in prior year	(127)	(21)
Total current tax charge	98	239
Less current tax on discontinued operations	(85)	(108)
Current tax on continuing operations	13	131
<b>Deferred tax:</b>		
Origination and reversal of temporary timing differences	324	(211)
Impact of change in rate	-	3
Under provision in prior year	90	53
Total deferred tax charge/(credit) (Note 26)	414	(155)
Less deferred tax on discontinued operations	(234)	307
Deferred tax on continuing operations	180	152
<b>Tax charge on profit on continuing activities</b>	<b>193</b>	<b>283</b>

# E.ON UK PLC

## Notes to the financial statements for the year ended 31 December 2009 (continued)

### 8 Taxation (continued)

The difference between the current tax on the profit on ordinary activities for the year and the tax assessed on the profit on ordinary activities for the year assessed at the standard rate of corporation tax in the UK of 28% (2008 28.5%) can be explained as follows

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Profit on continuing activities before tax	748	740
Less Group's share of associates' profit after tax	(2)	(10)
Profit on continuing activities excluding associates' profit	746	730
Profit/(loss) on discontinued activities before tax	1,222	(764)
Accounting profit/(loss) before tax	<u>1,968</u>	<u>(34)</u>
 Tax charge/(credit) on profit/(loss) on ordinary activities at 28% (2008 28.5%)	 551	 (10)
 Effects of		
Impact of change in rate	-	3
Prior year adjustment	(37)	32
Expenses not deductible for tax purposes	10	22
Impact of phase out of IBA's	6	38
Non-taxable income	(18)	(1)
Total tax charge	<u>512</u>	<u>84</u>
 Tax charge on continuing operations	 193	 283
Tax charge/(credit) on discontinued operations (see Note 9)	319	(199)
Total tax charge	<u>512</u>	<u>84</u>

The impact of the rate change in 2008 occurred due to deferred taxes being calculated at the new statutory rate of corporation tax of 28% in the UK. This is expected to be the effective rate when the timing differences will reverse.

The prior year adjustment relates to a reduction in liabilities as a result of settlements agreed with HMRC.

The tax impact of impairment and restructuring costs are given in Note 4.

# E.ON UK PLC

## Notes to the financial statements for the year ended 31 December 2009 (continued)

### 9 Discontinued operations

The E ON Energy Trading business was sold to a fellow group undertaking on 1 January 2009. The sale included the legal disposal of assets and liabilities that were held-for-sale at the end of 2008. During the year, a subsequent review led to a revision in the assets disposed. As part of the sale, the Group entered into new back to back arrangements with EET SE replicating the economic benefit of the original trades or contracts associated with the UK trading business.

A gain on disposal of £1,222 million was recognised in 2009. A further £195 million gain relating to the new back to back contract arrangements has been deferred (within deferred income) and will be recognised in future periods when the contracts are settled.

#### a) Assets of disposal group classified as held-for-sale

	At 31 December 2009 £m	At 31 December 2008 £m
Intangible assets	-	80
Inventories	-	127
Commodity and other derivative financial receivables	-	28
<b>Total assets held-for-sale</b>	<b>-</b>	<b>235</b>

#### b) Liabilities of disposal group classified as held-for-sale

	At 31 December 2009 £m	At 31 December 2008 £m
Commodity and other derivative financial payables	-	38
Trade and other payables	-	49
Provisions	-	47
<b>Total liabilities held-for-sale</b>	<b>-</b>	<b>134</b>

#### c) Analysis of the cash flows relating to the discontinued operation

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Operating cash flows	-	5
Investing cash flows	-	(5)
<b>Total cash flows</b>	<b>-</b>	<b>-</b>

During 2008, the business did not operate its own individual bank account and therefore all cash flows occur through operating intercompany. Cash flows in 2009 exclude the £813 million sale proceeds received by the Group from the sale of the E ON Energy Trading business.

# E.ON UK PLC

## Notes to the financial statements for the year ended 31 December 2009 (continued)

### 9 Discontinued operations (continued)

*d) Analysis of the result of discontinued operations, and the result recognised on disposal*

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Revenue	-	2,316
Net expenses	-	(3,080)
Loss before tax of discontinued operations	-	(764)
Pre-tax gain on disposal	1,222	-
UK corporation tax	(85)	(127)
Deferred tax	(234)	307
Overseas tax on loss	-	19
<b>Profit/(loss) for the year from discontinued operations</b>	<b>903</b>	<b>(565)</b>

*e) Details of the disposal of the discontinued operation*

	£m	Year ended 31 December 2009 £m
<b>Non-current assets</b>		
Intangible assets		74
<b>Current assets</b>		
Inventories		127
Trade and other receivables		10
Commodity and other derivative assets		28
<b>Current liabilities</b>		
Trade and other payables		(36)
Commodity and other derivative liabilities		(38)
Provisions		(47)
Net assets disposed of		118
Transfer of economic benefits of commodity and other derivatives		(722)
<b>Gain on disposal</b>		
Gain recognised in 2009	1,222	
Deferred gain	195	
		<b>1,417</b>
<b>Sale proceeds – cash inflow</b>		<b>813</b>

# E.ON UK PLC

## Notes to the financial statements for the year ended 31 December 2009 (continued)

### 10 Intangible assets

	Goodwill	Software	Customer lists	Other	Total
	£m	£m	£m	£m	£m
<b>Cost</b>					
At 1 January 2009	2,490	153	465	405	3,513
Additions	-	6	-	-	6
Disposals	(13)	-	-	(338)	(351)
Reclassifications	3	1	-	9	13
<b>At 31 December 2009</b>	<b>2,480</b>	<b>160</b>	<b>465</b>	<b>76</b>	<b>3,181</b>
<b>Aggregate impairment &amp; amortisation</b>					
At 1 January 2009	13	113	287	136	549
Amortisation for the year	-	16	47	1	64
Impairment	-	3	-	-	3
Disposals	(13)	-	-	(92)	(105)
<b>At 31 December 2009</b>	<b>-</b>	<b>132</b>	<b>334</b>	<b>45</b>	<b>511</b>
<b>Net book value</b>					
At 1 January 2009	2,477	40	178	269	2,964
<b>At 31 December 2009</b>	<b>2,480</b>	<b>28</b>	<b>131</b>	<b>31</b>	<b>2,670</b>

	Goodwill	Software	Customer lists	Other	Total
	£m	£m	£m	£m	£m
<b>Cost</b>					
At 1 January 2008	2,495	153	464	281	3,393
Acquisitions	25	-	1	25	51
Additions	-	35	-	602	637
Disposals	-	(27)	-	(457)	(484)
Transferred to disposal group classified as held-for-sale	(30)	(8)	-	(46)	(84)
<b>At 31 December 2008</b>	<b>2,490</b>	<b>153</b>	<b>465</b>	<b>405</b>	<b>3,513</b>
<b>Aggregate impairment &amp; amortisation</b>					
At 1 January 2008	-	114	240	135	489
Amortisation for the year	-	15	47	1	63
Impairment	13	-	-	-	13
Disposals	-	(12)	-	-	(12)
Transferred to disposal group classified as held-for-sale	-	(4)	-	-	(4)
<b>At 31 December 2008</b>	<b>13</b>	<b>113</b>	<b>287</b>	<b>136</b>	<b>549</b>
<b>Net book value</b>					
At 1 January 2008	2,495	39	224	146	2,904
<b>At 31 December 2008</b>	<b>2,477</b>	<b>40</b>	<b>178</b>	<b>269</b>	<b>2,964</b>

## **E.ON UK PLC**

### **Notes to the financial statements** **for the year ended 31 December 2009 (continued)**

#### **10 Intangible assets (continued)**

Other intangible assets comprise emission rights, ROCs and contractual development rights. Contractual development rights are amortised from the period in which the development is completed.

The carrying amount of software intangibles has been impaired during the year to its recoverable value. This loss has been included in "Total operating costs" in the Group Income Statement. All amortisation and impairment charges in the year have been charged through operating costs.

Intangible assets transferred in 2008 to the disposal group classified as held-for-sale amount to a net £80 million and relate to assets which are used by E.ON Energy Trading (goodwill, software and ROCs). See Note 9 for further details regarding the disposal group held-for-sale. Reclassifications represent amounts transferred from property, plant and equipment following a subsequent review of 2008 business combinations.

Goodwill is reviewed annually for impairment or more frequently if there are indications that it may be impaired. Goodwill is allocated to cash generating units, identified according to business segment as per Note 2. Goodwill relating to the Energy Services segment was impaired by £13 million during 2008 (see Note 4). This goodwill impairment related to a central heating business contained within the Energy Services segment that was then disposed of during 2009. The goodwill cost and impairment disposals in 2009 relate solely to the disposal of this business.

The recoverable amounts of goodwill have been assessed based on value-in-use calculations using cash flow projections based on approved financial plans. These plans cover periods in excess of five years on account of the long-term nature of the Groups' assets. Growth rate assumptions used were based on management's expectations of market development. The annual growth rate used to determine cash flows in the long-term ranges from 0% to 1%. Projected cash flows were discounted at rates of between 6% and 7% based on risks relevant to the segment. The discount rate used is pre-tax.

The key assumptions in the value-in-use calculations determining recoverable amounts for specific cash generating units are:

#### **Central Networks**

A 20 year cash flow forecast is built up from medium term plans (extended out based on management views on required investment and expected regulatory returns). In addition a terminal value is also applied to the Regulatory Asset Value and included in the value-in-use calculations.

## **E.ON UK PLC**

### **Notes to the financial statements** **for the year ended 31 December 2009 (continued)**

#### **10 Intangible assets (continued)**

##### Retail

A 5 year cash flow forecast is built up from medium term plans (extended out based on management views on sustainable retail margins and future volume growth) In addition a terminal value is applied to the cash flows in year 6 on the assumption that cash flows will continue into perpetuity

##### Generation and EC&R UK

Value-in-use calculations are performed for each part of the business Power Stations and renewable assets are valued by calculating future cash flows over the life of each unit using E ON AG long-term price tracks These are comparable to market estimates Valuations are then reduced by overhead costs for supporting functions

##### Energy Services

A 5 year cash flow forecast is built up from medium term plans for each business area, (extended out based on management views on growth) In addition a terminal value is applied to the cash flows in year 6 on the assumption that cash flows will continue into perpetuity

##### All other segments

A 5 year cash flow forecast is built up from the medium term plan In addition a terminal value is applied to the cash flows in year 6 on the assumption that cash flows will continue into perpetuity



# E.ON UK PLC

## Notes to the financial statements for the year ended 31 December 2009 (continued)

### 11 Property, plant and equipment

	Generating assets £m	Distribution and transmission networks £m	Other operating and short-term assets £m	Total £m
<b>Cost</b>				
At 1 January 2009	4,633	4,698	476	9,807
Additions	531	336	48	915
Disposals	(5)	-	(73)	(78)
Reclassifications	(44)	(102)	50	(96)
<b>At 31 December 2009</b>	<b>5,115</b>	<b>4,932</b>	<b>501</b>	<b>10,548</b>
<b>Depreciation</b>				
At 1 January 2009	2,239	1,550	201	3,990
Charge for the year	176	94	25	295
Reversal of impairment (Note 4)	(9)	-	-	(9)
Disposals	(5)	-	(65)	(70)
Reclassifications	(40)	(82)	39	(83)
<b>At 31 December 2009</b>	<b>2,361</b>	<b>1,562</b>	<b>200</b>	<b>4,123</b>
<b>Net book value</b>				
At 1 January 2009	2,394	3,148	275	5,817
<b>At 31 December 2009</b>	<b>2,754</b>	<b>3,370</b>	<b>301</b>	<b>6,425</b>

	Generating assets £m	Distribution and transmission networks £m	Other operating and short-term assets £m	Total £m
<b>Cost</b>				
At 1 January 2008	4,044	4,544	457	9,045
Acquisitions	-	-	2	2
Additions	739	342	59	1,140
Disposals	(150)	(188)	(42)	(380)
<b>At 31 December 2008</b>	<b>4,633</b>	<b>4,698</b>	<b>476</b>	<b>9,807</b>
<b>Depreciation</b>				
At 1 January 2008	2,112	1,651	204	3,967
Charge for the year	155	84	35	274
Impairment (Note 4)	4	-	-	4
Disposals	(32)	(185)	(38)	(255)
<b>At 31 December 2008</b>	<b>2,239</b>	<b>1,550</b>	<b>201</b>	<b>3,990</b>
<b>Net book value</b>				
At 1 January 2008	1,932	2,893	253	5,078
<b>At 31 December 2008</b>	<b>2,394</b>	<b>3,148</b>	<b>275</b>	<b>5,817</b>

## E.ON UK PLC

### Notes to the financial statements for the year ended 31 December 2009 (continued)

#### **11 Property, plant and equipment (continued)**

Additions in 2009 include capitalised borrowing costs amounting to £39 million (2008 £23 million) The capitalisation rate used is 4.5% (2008 5.0%) The net book value of property, plant and equipment held under finance leases is £54 million (2008 £59 million) All assets held under finance leases relate to generating assets

Reclassifications relate to a transfer to intangible assets following a subsequent review of 2008 business combinations and also various reclassifications of assets between property, plant and equipment asset categories

Group assets include assets in the course of construction at a cost of £1,110 million (2008 £821 million) primarily relating to generating assets

Land and buildings at net book value comprise

	At 31 December 2009 £m	At 31 December 2008 £m
Freehold	210	168
Long leasehold	26	24
<b>Total</b>	<b>236</b>	<b>192</b>

# E.ON UK PLC

## Notes to the financial statements for the year ended 31 December 2009 (continued)

### 12 Interests in associates and joint ventures

	2009 £m	2008 £m
At 1 January	3	3
Retained profits	2	10
Dividends received	(8)	(22)
Dividends deferred	-	14
Additions	30	-
Disposals	(1)	(2)
<b>At 31 December</b>	<b>26</b>	<b>3</b>

#### Interest in associates and joint ventures

No goodwill is recorded within interest in associates and joint ventures. Details of the Group's significant investments are as follows:

	Accounting reference date	Country of incorporation	Shares held	Percentage of interest held
Horizon Nuclear Power	31 December	England	Ordinary shares	50%

In August 2009, E.ON UK disposed of its 31% associate investment in Trakya Electric for proceeds of £31 million. At 31 December 2009, E.ON UK had no remaining material interests in associates.

#### Balance sheet and results of associates

	31 December 2009 £m	31 December 2008 £m
Assets	-	431
Liabilities	-	(425)
Net assets	-	6
<i>Share of associates' net assets</i>	-	3
Revenue*	143	243
Profit after income tax*	23	27
<i>Share of associates' profit after income tax</i>	7	10

\*2009 includes results up to date of associate disposal

# E.ON UK PLC

## Notes to the financial statements for the year ended 31 December 2009 (continued)

### 12 Interests in associates and joint ventures (continued)

During 2009, E.ON UK entered into a new joint venture with RWE Npower with plans to build new nuclear power stations in the UK. E.ON UK and RWE Npower each have a 50% stake in the joint venture. The principal activity of Horizon Nuclear Power is building and operating new nuclear power stations. The group's interest in jointly controlled entities is accounted for using the equity method.

	31 December 2009 £m
<b>Assets</b>	
Non-current assets	35
Current assets	25
	<b>60</b>
<b>Liabilities</b>	
Non-current liabilities	-
Current liabilities	(9)
	<b>(9)</b>
<b>Net assets</b>	<b>51</b>
<i>Share of joint venture's net assets</i>	<b>26</b>
Revenue	-
Expenses	(10)
<b>Loss after income tax</b>	<b>(10)</b>
<i>Share of joint venture's loss after income tax</i>	<b>(5)</b>
<i>Proportionate interest in joint venture's commitments</i>	<b>137</b>

There are no contingent liabilities relating to the Group's interest in the joint venture, and no contingent liabilities of the joint venture itself.

## E.ON UK PLC

### Notes to the financial statements for the year ended 31 December 2009 (continued)

#### 13 Interests in Group subsidiary undertakings

Details of the Group's principal investments in subsidiary undertakings are set out below. Principal subsidiaries are those which in the opinion of the directors significantly affect the amount of profit and assets and liabilities shown in these accounts. The directors consider that those companies not listed are not significant in relation to the Group as a whole.

Name	Class of share capital	Proportion of nominal value of issued equity shares and voting rights held by the Group %	Country of incorporation or registration	Principal business activities
Central Networks East plc +	Ordinary shares	100	England and Wales	Distribution of electricity
Central Networks West plc +	Ordinary shares	100	England and Wales	Distribution of electricity
Central Networks plc +	Ordinary shares	100	England and Wales	Holding company for distribution activities
Powergen International Limited *	Ordinary shares	100	England and Wales	Holding company for international activities
Powergen (East Midlands) Loan Notes **	Ordinary shares	100	England and Wales	Holding company for distribution activities
East Midlands Electricity Distribution Holdings +	Ordinary shares	100	England and Wales	Intermediate holding company
Ergon Overseas Holdings Limited +	Ordinary shares	100	England and Wales	Investment company
E.ON Energy Limited *	Ordinary shares	100	England and Wales	Supply of electricity and supply, trading and shipping of gas in the UK
E.ON UK Energy Services Limited*	Ordinary shares	100	England and Wales	Supply of metering and home installation services
Powergen Holdings BV +	Ordinary shares	100	The Netherlands	Intermediate holding company

\* direct interest                      + indirect interest

A full list of the Group's principal investments in subsidiary undertakings is available from the Company's registered office.

# E.ON UK PLC

## Notes to the financial statements for the year ended 31 December 2009 (continued)

### 14 Available for sale investments

	£m
At 1 January 2009	19
Disposal	(2)
<b>At 31 December 2009</b>	<b>17</b>

Available for sale financial assets include the following

	At 31 December 2009 £m	At 31 December 2008 £m
Listed equity securities – UK	-	2
Listed gilts – UK	17	17
	<b>17</b>	<b>19</b>

### 15 Financial receivables: amounts falling due after more than one year

	At 31 December 2009 £m	At 31 December 2008 £m (restated)
Finance lease receivables	129	147
Amounts due from parent undertaking and fellow subsidiaries	-	19
	<b>129</b>	<b>166</b>

Amounts due from parent undertaking and fellow subsidiaries at 31 December 2008 comprised an unsecured loan which incurs interest at London Interbank Offered Rate ("LIBOR") plus 47.5 basis points and is repayable in 2010. Further details on financial instruments are provided in Note 23.

Restatements are explained in Note 25.

# E.ON UK PLC

## Notes to the financial statements for the year ended 31 December 2009 (continued)

### 16 Inventories

	At 31 December 2009 £m	At 31 December 2008 £m
Fuel stocks	182	155
Stores	97	102
	<u>279</u>	<u>257</u>

### 17 Trade and other receivables

	At 31 December 2009 £m	At 31 December 2008 £m (restated)
Trade receivables	1,296	1,978
Less provision for impairment of receivables	(282)	(223)
Trade receivables - net	1,014	1,755
Other receivables	136	153
Prepayments and accrued income	387	164
Finance lease receivables	34	36
Amounts due from parent undertaking and fellow subsidiaries	109	55
	<u>1,680</u>	<u>2,163</u>

Further details on financial instruments are provided in Note 23

Restatements are explained in Note 25

### 18 Cash and cash equivalents

At 31 December 2009, the Group held £29 million (2008 £87 million) of financial assets in the form of Sterling bank deposits. These deposits earn interest at floating rates, fixed in advance for periods up to three months, by reference to Sterling London Interbank Bid Rate.

Overdrafts of £41 million (2008 £20 million) are included within borrowings (Note 20)

# E.ON UK PLC

## Notes to the financial statements for the year ended 31 December 2009 (continued)

### 19 Trade and other payables

	At 31 December 2009 £m	At 31 December 2008 £m
<b>Amounts falling due in less than one year</b>		
Trade payables	313	608
Amounts owed to parent undertaking and fellow subsidiaries	557	285
Other taxation and social security	6	6
Accruals and other creditors	654	617
Deferred income	116	63
	<b>1,646</b>	<b>1,579</b>
	At 31 December 2009 £m	At 31 December 2008 £m
<b>Amounts falling due after more than one year</b>		
Deferred income	88	-

Further details on financial instruments are provided in Note 23

### 20 Borrowings: amounts falling due within one year

	At 31 December 2009 £m	At 31 December 2008 £m
Bank overdrafts	41	20
Short-term loans from parent undertaking and fellow subsidiaries	376	72
5% Euro Eurobond 2009 owed to external debt holders	-	251
5% Euro Eurobond 2009 owed to fellow group undertakings	-	224
Other short term loans	11	-
	<b>428</b>	<b>567</b>



# E.ON UK PLC

## Notes to the financial statements for the year ended 31 December 2009 (continued)

### 20 Borrowings: amounts falling due within one year (continued)

Short-term funding is provided through inter-company facilities that are unsecured and repayable on demand. Other short term loans comprise surplus cash received from related parties, to be held by the Group on short term deposit. The weighted average interest rate on all short-term loans during the year was 2.02% (2008: 6.10%). The 2009 Eurobond is unsecured and does not have any financial covenants (2008: none).

### 21 Borrowings: amounts falling due after more than one year

	At 31 December 2009 £m	At 31 December 2008 £m
<b>Amounts owed to external debt holders</b>		
6.25% Sterling Eurobond 2024	8	8
2023 Loan	5	5
	<b>13</b>	<b>13</b>
<b>Amounts owed to fellow group undertakings</b>		
6.25% Sterling Eurobond 2024	225	224
Long-term loan 2010	-	300
Long-term loan 2011	537	333
Long-term loan 2014	350	-
Long-term loan 2037	900	900
Other long-term loans	372	1,495
	<b>2,384</b>	<b>3,252</b>
	<b>2,397</b>	<b>3,265</b>

The 2023 Loan is unsecured, repayable in instalments and incurs interest at 5.15%. The long-term loan 2010 is unsecured, repayable in 2010 and incurs interest at LIBOR plus 25 basis points. The long-term loan 2011 is unsecured, payable in 2011 and incurs interest at LIBOR plus 47.5 basis points. The long-term loan 2014 is unsecured, repayable in 2014 and incurs interest at 5.775%. The long-term loan 2037 is unsecured, repayable in 2037 and incurs interest at 6.075%. Other long-term loans include two unsecured loans totalling £372 million (2008: £1,495 million), both of which are repayable in 2013 and incur interest at LIBOR plus 22.5 basis points. The 2024 Eurobond is unsecured and does not have any financial covenants (2008: none).

Further details on financial instruments are provided in Note 23.

# E.ON UK PLC

## Notes to the financial statements for the year ended 31 December 2009 (continued)

### 22 Commodity and other derivative financial instruments

The following two tables include both derivatives that qualify for IAS 39 hedge accounting treatment and those for which it is not used

	Contracts with positive fair values (£m)			Contracts with negative fair values (£m)		
	At 31 December 2009	At 31 December 2008*	At 1 January 2008*	At 31 December 2009	At 31 December 2008*	At 1 January 2008*
<b>Non-current assets/(liabilities)</b>						
Cross-currency swaps	-	-	41	-	-	-
Foreign currency forward contracts	8	113	7	(1)	(45)	(10)
Commodity swaps	129	171	39	(58)	(254)	(70)
Commodity forward contracts	769	443	107	(765)	(681)	(197)
	<b>906</b>	<b>727</b>	<b>194</b>	<b>(824)</b>	<b>(980)</b>	<b>(277)</b>
<b>Current assets/(liabilities)</b>						
Interest rate swaps	-	4	-	-	-	-
Cross-currency swaps	-	150	-	-	-	(15)
Foreign currency forward contracts	4	352	27	(2)	(185)	(6)
Commodity swaps	184	857	401	(150)	(1,023)	(330)
Commodity forward contracts	1,964	2,189	1,098	(1,962)	(2,705)	(948)
Embedded derivatives within long-term gas contracts	-	-	-	-	(17)	(81)
Options	-	-	3	-	-	(4)
	<b>2,152</b>	<b>3,552</b>	<b>1,529</b>	<b>(2,114)</b>	<b>(3,930)</b>	<b>(1,384)</b>
	<b>3,058</b>	<b>4,279</b>	<b>1,723</b>	<b>(2,938)</b>	<b>(4,910)</b>	<b>(1,661)</b>

\*restated – see Note 1 for details of implementation of revision to IAS 1

#### **Maturity of derivative financial instruments**

Derivative financial instruments are classified within current assets and current liabilities if they mature in the next 12 months, or if they are held for speculative trading purposes. Otherwise they are classified within non-current assets and non-current liabilities.

# E ON UK PLC

## Notes to the financial statements for the year ended 31 December 2009 (continued)

### 22 Commodity and other derivative financial instruments (continued)

The notional principal amounts of derivatives are as follows

	At 31 December 2009 £m	At 31 December 2008 £m
Interest rate swaps	-	251
Cross-currency swaps	-	476
Foreign currency forward contracts	558	3,622
Commodity swaps	2,259	5,625
Commodity forward contracts	12,320	23,990
Embedded derivatives within long-term gas contracts	-	519
	<b>15,137</b>	<b>34,483</b>

#### Cash flow hedges

Hedge accounting in accordance with IAS 39 is used primarily for foreign currency forward contracts, used to hedge planned transactions in Euros and Danish Krone. The amount of ineffectiveness for cash flow hedges recorded for the year ended 31 December 2009 produced results of £nil (2008: £nil).

As of 31 December 2009, the hedged transactions in place included foreign currency cash flow hedges with maturities of up to 3 years (2008: nil). Cash flow hedges relating to capital expenditure will result in reclassification from reserves to depreciation (net of tax) in the Group Income Statement over the lifetime of the asset (up to 24 years). Pursuant to currently available information, the following effects will accompany the reclassification from reserves to the Group Income Statement in subsequent periods:

#### Timing of reclassifications from other reserves to the income statement - 2009

	Carrying amount £m	2010 £m	2011 £m	2012-2014 £m	> 2014 £m
Other reserves – Currency cash flow hedges	5	-	-	-	5

#### Timing of reclassifications from other reserves to the income statement - 2008

	Carrying amount £m	2009 £m	2010 £m	2011-2013 £m	> 2013 £m
Other reserves – Currency cash flow hedges	-	-	-	-	-

Gains and losses from reclassification are reported in that line item of the Group Income Statement which includes the respective hedged transaction.

**Notes to the financial statements**  
**for the year ended 31 December 2009 (continued)**

**22 Commodity and other derivative financial instruments (continued)**

**Contracts to buy or sell non-financial items**

Within the ordinary course of business the Group routinely enters into sale and purchase transactions for commodities. Many of these contracts were entered into and continue to be held for the purpose of the receipt or delivery of the commodity in accordance with the Group's expected sale, purchase or usage requirements. Such contracts are not in the scope of IAS 39.

Certain commodity derivative instruments that are intended to meet forecast demand could be net-settled in future, placing them in the scope of IAS 39. These are recognised on the Group Balance Sheet at fair value, with the movements in fair value recognised in the Group Income Statement.

**Unrealised gains and losses**

Unrealised gains and losses resulting from the initial measurement of derivative financial instruments at the inception of the contract are not recognised in income. They are instead deferred and recognised in income systematically over the term of the derivative.

At the beginning of 2009, no losses from the initial measurement of derivatives were deferred. After additions of £8 million and the realisation of £5 million deferred losses, the remainder is a deferred loss of £3 million at year end, which will be recognised in income during 2010 as the contracts are fulfilled.

# E.ON UK PLC

## Notes to the financial statements for the year ended 31 December 2009 (continued)

### 23 Additional disclosures on financial instruments

The following two tables show the carrying amounts of financial instruments, their grouping into IAS 39 categories, their fair values, and their classification levels according to the IFRS 7 fair value hierarchy

At 31 December 2009	Carrying amount	Total carrying amounts within the scope of IFRS 7	Fair value	Fair value measurement techniques		
				Level 1 Quoted prices	Level 2 Market data	Level 3 Other data
	£m	£m	£m	£m	£m	£m
<b>Available for sale financial assets</b>						
Securities and fixed-term deposits	17	17	17	17	-	-
<b>Loans and receivables</b>						
Receivables from finance leases	163	163	163	-	163	-
Trade receivables	1,014	1,014	1,014	-	1,014	-
Cash and cash equivalents	29	29	29	29	-	-
Other operating assets	245	245	245	-	245	-
<b>Financial assets/(liabilities) at FVPL</b>						
Derivative assets with no hedging relationships	3,051	3,051	3,051	2,654	116	281
Derivative liabilities with no hedging relationships	(2,938)	(2,938)	(2,938)	(2,654)	(3)	(281)
<b>Derivative financial assets/(liabilities) used for hedging</b>						
Derivative assets with hedging relationships	7	7	7	-	7	-
Derivative liabilities with hedging relationships	-	-	-	-	-	-
<b>Financial liabilities at amortised cost</b>						
Trade payables	(313)	(313)	(313)	-	(313)	-
Other operating liabilities	(1,211)	(1,211)	(1,211)	-	(1,211)	-
Bonds	(233)	(233)	(316)	(316)	-	-
Bank loans/liabilities to banks	(46)	(46)	(47)	(47)	-	-
Other short term loans	(11)	(11)	(11)	(11)	-	-
Borrowings amounts falling due after more than one year	(2,159)	(2,159)	(2,451)	-	(2,451)	-
Borrowings amounts falling due within one year	(376)	(376)	(376)	-	(376)	-

There were no transfers between fair value measurement levels 1 and 2 during the year (2008 none)

# E.ON UK PLC

## Notes to the financial statements for the year ended 31 December 2009 (continued)

### 23 Additional disclosures on financial instruments (continued)

At 31 December 2008	Carrying amount	Total carrying amounts within the scope of IFRS 7	Fair value	Fair value measurement techniques		
				Level 1 Quoted prices	Level 2 Market data	Level 3 Other data
	£m	£m	£m	£m	£m	£m
<b>Available for sale financial assets</b>						
Securities and fixed-term deposits	19	19	19	19	-	-
<b>Loans and receivables</b>						
Receivables from finance leases	183	183	183	-	183	-
Trade receivables	1,755	1,755	1,755	-	1,755	-
Cash and cash equivalents	87	87	87	87	-	-
Other operating assets	227	227	227	-	227	-
<b>Financial assets/(liabilities) at FVPL</b>						
Derivative assets with no hedging relationships	4,279	4,279	4,279	3,660	619	-
Derivative liabilities with no hedging relationships	(4,910)	(4,910)	(4,910)	(4,661)	(249)	-
<b>Derivative financial assets/(liabilities) used for hedging</b>						
Derivative assets with hedging relationships	-	-	-	-	-	-
Derivative liabilities with hedging relationships	-	-	-	-	-	-
<b>Financial liabilities at amortised cost</b>						
Trade payables	(608)	(608)	(608)	-	(608)	-
Other operating liabilities	(902)	(902)	(902)	-	(902)	-
Bonds	(707)	(707)	(769)	(769)	-	-
Bank loans/liabilities to banks	(25)	(25)	(26)	(26)	-	-
Other short term loans	-	-	-	-	-	-
Borrowings amounts falling due after more than one year	(3,028)	(3,028)	(3,464)	-	(3,464)	-
Borrowings amounts falling due within one year	(72)	(72)	(72)	-	(72)	-

#### Valuation

Where financial instruments are listed on an active market, the respective price quotes at that market constitute the fair value. This applies in particular to securities held and bonds issued.

## E.ON UK PLC

### **Notes to the financial statements** **for the year ended 31 December 2009 (continued)**

#### **23 Additional disclosures on financial instruments (continued)**

The fair value of shareholdings in unlisted companies and of debt securities that are not actively traded, such as loans received, loans granted and financial liabilities, is determined by discounting future cash flows. Discounting takes place using current customary market interest rates through the remaining terms of the financial instruments.

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

The fair value of derivative instruments is sensitive to movements in underlying market rates and other relevant variables. The Group assesses and monitors the fair value of derivative instruments on a periodic basis. Fair values for each derivative financial instrument are determined as being equal to the price at which one party would assume the rights and duties of another party, and calculated using either quoted prices or common market valuation methods, with reference to available market data, as of the balance sheet date.

The following is a summary of the methods and assumptions used for the valuation of derivative financial instruments, together with their classification according to the IFRS 7 fair value hierarchy, where they cannot be observed directly from quoted prices (level 1):

- Currency and commodity forward contracts and swaps are valued separately at their forward rates and prices as of the balance sheet date. Forward rates and prices are based on market quotations, with forward premiums and discounts taken into consideration (level 2).
- The fair values of existing instruments to hedge interest rate risk are determined by discounting future cash flows using market interest rates over the remaining term of the instrument (level 2).
- Certain long-term energy contracts are valued with the aid of valuation models that use internal data where market prices are not available (level 3). These models use probability weighted expected values for gas prices and other indices, taking into account individual contract details such as volume and price.

#### **Level 3 fair value measurements**

The following table reconciles the movements in fair value measurement level 3:

	<b>Assets £m</b>	<b>Liabilities £m</b>
At 1 January 2009	-	-
Gains/(losses) recognised in income	281	(281)
<b>At 31 December 2009</b>	<b>281</b>	<b>(281)</b>

## E.ON UK PLC

### Notes to the financial statements for the year ended 31 December 2009 (continued)

#### **23 Additional disclosures on financial instruments (continued)**

There were no transfers into or out of level 3. Instruments in level 3 comprise long-term energy contracts for which no market data is available. These are valued with models which use probability weighted expected values for gas prices and other indices, taking into account individual contract details such as volume and price.

The key assumption used in the model is the expected value for future energy prices. A hypothetical 10-percent increase or decrease in this valuation parameter would lead to a respective gross increase or decrease of £12 million (2008: £nil), in both the asset and liability positions. The net position of £nil is not sensitive to changes in the valuation parameters used in the model.

#### **Derecognition of financial assets**

Following the disposal of the E.ON Energy Trading business on 1 January 2009, all existing commodity derivatives at that date were novated or matched by equal and opposite contracts with EET SE. Certain contracts do not qualify for derecognition as the Group is still exposed to any counterparty credit risk relating to the assets. The following assets continue to be recognised in the Group Balance Sheet, and are matched with equal and opposite liabilities.

	<b>At 31 December 2009 £m</b>
<b>Non-current assets</b>	
Commodity swaps	37
Commodity forward contracts	499
	<b>536</b>
<b>Current assets</b>	
Commodity swaps	73
Commodity forward contracts	990
	<b>1,063</b>
	<b>1,599</b>



# E.ON UK PLC

## Notes to the financial statements for the year ended 31 December 2009 (continued)

### 23 Additional disclosures on financial instruments (continued)

#### Cash flows of financial liabilities

The following two tables illustrate the contractually agreed (undiscounted) cash outflows arising from the financial liabilities included in the scope of IFRS 7

At 31 December 2009		Cash outflows		
	2010 £m	2011 £m	2012-2014 £m	from 2015 £m
Bonds	16	16	49	418
Bank loans/liabilities to banks	41	-	2	4
Other financial liabilities	462	619	572	2,265
<b>Cash outflows for financial liabilities</b>	<b>519</b>	<b>635</b>	<b>623</b>	<b>2,687</b>
Trade payables	313	-	-	-
Derivative liabilities (with/without hedging relationships)	1,783	1,047	199	87
Other operating liabilities	1,211	-	-	-
<b>Cash outflows for trade payables and other operating liabilities</b>	<b>3,307</b>	<b>1,047</b>	<b>199</b>	<b>87</b>
<b>Total cash outflows for liabilities under IFRS 7</b>	<b>3,826</b>	<b>1,682</b>	<b>822</b>	<b>2,774</b>

At 31 December 2008		Cash outflows		
	2009 £m	2010 £m	2011-2013 £m	from 2014 £m
Bonds	516	16	49	435
Bank loans/liabilities to banks	20	-	1	4
Other financial liabilities	110	409	2,091	2,323
<b>Cash outflows for financial liabilities</b>	<b>646</b>	<b>425</b>	<b>2,141</b>	<b>2,762</b>
Trade payables	608	-	-	-
Derivative liabilities (with/without hedging relationships)	4,423	1,650	347	-
Other operating liabilities	902	-	-	-
<b>Cash outflows for trade payables and other operating liabilities</b>	<b>5,933</b>	<b>1,650</b>	<b>347</b>	<b>-</b>
<b>Total cash outflows for liabilities under IFRS 7</b>	<b>6,579</b>	<b>2,075</b>	<b>2,488</b>	<b>2,762</b>

Cash outflows for purchases of commodities that will be physically settled are included at their gross nominal amount. Cash outflows for sales and purchases of commodities that will be net-settled in cash are included at their net amount.

For financial liabilities that bear floating interest rates, the rates that were in place on the balance sheet date are used to calculate future interest payments for subsequent periods. Financial liabilities that can be terminated at any time are assigned to the earliest maturity period.

# E.ON UK PLC

## Notes to the financial statements for the year ended 31 December 2009 (continued)

### 23 Additional disclosures on financial instruments (continued)

#### Maturity of financial liabilities

The maturity profile of the carrying amount of the Group's non-current borrowings was as follows

	At 31 December 2009 £m	At 31 December 2008 £m
In more than one year but not more than two years	537	300
In more than two years but not more than five years	722	1,828
In more than five years	1,138	1,137
	<u>2,397</u>	<u>3,265</u>

At 31 December 2009 there was £4,759 million (2008 £3,692 million) of undrawn committed borrowing facilities available to the Group, all of which were inter-company facilities which did not contain any material covenant restrictions and which expire between 2010 and 2013. Including current borrowings, these facilities comprised

Counterparty	Total facility £m	Amount undrawn at 31 December 2009 £m	Expiry date	Fees
E.ON AG	870	829	21 December 2010	25bp
E.ON UK Holding Company Limited	3,000	2,463	6 March 2011	47.5bp
Powergen Group Investments	450	189	21 December 2010	75bp
Powergen Limited	1,100	883	30 June 2013	22.5bp
Powergen Limited	550	395	30 June 2013	22.5bp
	<u>5,970</u>	<u>4,759</u>		

#### Risk management

The prescribed processes, responsibilities and actions concerning financial and risk management are described in detail in internal risk management guidelines applicable throughout the E.ON AG Group. A department exists within the E.ON AG Group to manage all risk controlling and reporting in the area of commodities, while risk controlling and reporting in the areas of interest rates and currencies remains the responsibility of the Treasury department of E.ON AG.

The Group uses an E.ON AG Group-wide treasury, risk management and reporting system. This system is a standard information technology solution and is both fully integrated and continuously updated. The system is designed to provide for the analysis and monitoring of the E.ON AG Group's exposure to liquidity, foreign exchange and interest risks. Counterparty risks are monitored on an E.ON AG Group-wide basis by Treasury, with the support of a standard software package.

## **E.ON UK PLC**

### **Notes to the financial statements** **for the year ended 31 December 2009 (continued)**

#### **23 Additional disclosures on financial instruments (continued)**

The following discussion of the Group's risk management activities and the estimated amounts generated from value-at-risk and sensitivity analyses are "forward-looking statements" that involve risks and uncertainties. Actual results could differ materially from those projected due to actual, unforeseeable developments in the global financial markets. The methods used by the Group to analyse risks, as discussed below, should not be considered projections of future events or losses. The Group also faces risks that are either non-financial or non-quantifiable. Such risks principally include country risk, operational risk and legal risk, which are not represented in the following analyses.

##### **Foreign exchange risk management**

Due to the international nature of some of its business activities, the Group is exposed to exchange risks related to sales, purchases, assets and liabilities denominated in foreign currencies and anticipated foreign exchange payments. The Group's exposure results mainly from transactions in Euros, Danish Krone and Norwegian Krone.

The Group enters into foreign exchange contracts in accordance with its hedging policies. These policies are discussed under 'Foreign exchange risk management' in the Financial Review. There are no material monetary assets or liabilities of the Group that are not denominated in the functional currency of the entity concerned. At 31 December 2008 the Group had financial liabilities denominated in Euros, which matured during 2009.

In line with the Group's internal risk-reporting process and international banking standards, market risk has been calculated using the value-at-risk method on the basis of historical market data. The value-at-risk (or "VaR") is equal to the maximum potential loss (on the basis of a probability of 95%) from foreign-currency positions that could be incurred within the following business day. The calculations take account of correlations between individual transactions, the risk of a portfolio is generally lower than the sum of its individual risks.

The one day VaR from the translation of deposits and borrowings denominated in foreign currency, plus foreign currency derivatives with no hedging relationships, amounted to £0.9 million (2008: £2.5 million) and resulted primarily from open positions denominated in Euros. The decrease in the VaR over the previous year is due to the decreased volatility of the EUR/GBP exchange rate and reduced exposure to open US dollar positions.

The one day VaR from foreign currency derivatives with hedging relationships amounted to £3.2 million (2008: £nil) and resulted primarily from open positions denominated in Euros and Danish Krone. This is due to new instruments used to hedge planned transactions, as discussed in Note 22.

## E.ON UK PLC

### Notes to the financial statements for the year ended 31 December 2009 (continued)

#### 23 Additional disclosures on financial instruments (continued)

This VaR has been calculated in accordance with the requirements of IFRS 7. In practice, however, another value will result, since certain underlying transactions (e.g. scheduled transactions and off-balance sheet own-use agreements) are not considered in the calculation according to IFRS 7.

##### Interest rate risk management

The Group has a portfolio of fixed and floating interest rate debt and, in order to mitigate interest rate risk, arranges interest rate hedges to achieve a desired mix of fixed and floating interest rates, with a range of different maturities. The desired mix is managed by E.ON AG treasury. The interest rate risk profile of financial liabilities is detailed below.

	Total £m	Floating rate financial liabilities £m	Fixed rate financial liabilities		
			£m	Weighted average interest rate %	Weighted ave period for which rate is fixed Years
<b>At 31 December 2009</b>					
Sterling	2,825	1,337	1,488	6.0	19.7
	Total £m	Floating rate financial liabilities £m	Fixed rate financial liabilities		
			£m	Weighted average interest rate %	Weighted ave period for which rate is fixed Years
<b>At 31 December 2008</b>					
Sterling	3,357	2,220	1,137	6.1	26.0
Euros	475	224	251	5.0	0.5
	3,832	2,444	1,388	5.9	21.4

The figures in the above table are stated after taking account of relevant interest rate swap contracts. Floating rate financial liabilities bear interest at variable rates determined with reference to LIBOR and EURIBOR. The Group seeks to maintain an appropriate mix of fixed and floating rate debt in its overall debt portfolio. As of 31 December 2009, the Group has entered into interest rate swaps with a nominal value of £nil (2008: £251 million).

A sensitivity analysis was performed on the Group's short-term and variable-rate borrowings, including interest rate derivatives. A 1% increase/(decrease) in the level of interest rates would cause net interest expense to rise/(fall) by £12 million per annum (2008: £26 million).

##### Commodity price risk management

Following the disposal of the E.ON Energy Trading business on 1 January 2009, the Group's exposure to commodity price risks has changed significantly. All outstanding commodity derivative financial instruments at the date of disposal were novated or matched with equal and opposite contracts with EET SE. This means that the Group bears no commodity price risk in relation to these contracts.

**Notes to the financial statements**  
**for the year ended 31 December 2009 (continued)**

**23 Additional disclosures on financial instruments (continued)**

Certain commodity derivative instruments that are intended to meet forecast demand give rise to commodity price risk as there is a possibility that the instruments will be net-settled in future. The risk in the Group's commodity derivative portfolio therefore arises primarily from potential change in value of contracts which may be net-settled.

The risk metric used for these instruments is a one year VaR with a 95% confidence interval. The VaR relating to the Group's commodity derivative instruments was £1 million as of 31 December 2009. In 2008 this measure was not used. The measure was changed in 2009 to reflect the different nature of commodity price risks faced by the group. A five day VaR was used in 2008, to monitor risk in relation to proprietary trading contracts. At 31 December 2008 this alternative measure of VaR was £60 million.

The two different measures used in 2008 and 2009 are not comparable. The different measures are appropriate for the different commodity price risks faced by the Group in each period.

As of 31 December 2009, E.ON UK had entered into electricity, gas, coal, oil and emissions-related derivatives with a nominal value of £14,579 million (2008: £30,134 million).

The restriction to financial instruments included in the scope of IFRS 7 that has been applied in these calculations does not reflect the economic position of the Group. Consequently, none of the off-balance sheet transactions, such as own-use contracts under normal trading relationships, may be included when calculating the VaR according to IFRS 7, even though such transactions represent a material component of the economic position.

**Credit risk management**

In order to minimise credit risk arising from the use of financial instruments and from operating activities, the Group enters into transactions only with counterparties that satisfy the E.ON AG Group's internally established minimum requirements. Maximum credit risk limits are set on the basis of credit quality ratings established internally, and from Moody's and Standard & Poor's. The setting and monitoring of credit limits is subject to certain minimum requirements applicable throughout the Group. Not included in this process are long-term contracts arising from the operating activities and asset management transactions. Some of these are monitored separately at E.ON UK level.

# E.ON UK PLC

## Notes to the financial statements for the year ended 31 December 2009 (continued)

### 23 Additional disclosures on financial instruments (continued)

The age analysis of unimpaired trade receivables is as follows

	At 31 December 2009 £m	At 31 December 2008 £m
Not impaired and not past-due	549	1,009
Not impaired and up to 90 days past-due	199	417
Not impaired and 91 to 180 days past-due	166	136
Not impaired and 181 to 360 days past-due	81	135
Not impaired and over 360 days past-due	19	58
	<b>1,014</b>	<b>1,755</b>

Valuation allowances for trade receivables have changed as shown in the following table

	2009 £m	2008 £m
Balance as at 1 January	(223)	(205)
Impairment	(59)	(18)
<b>Balance as at 31 December</b>	<b>(282)</b>	<b>(223)</b>

The individual impaired receivables are due from a large number of customers from whom it is unlikely that full repayment will ever be received. Receivables are monitored by the various business units. There are no indications that the carrying amounts reported might be further impaired.

In addition to the increase in the provision for impairment of receivables a further £118 million was charged to the Group Income Statement during 2009 to write off trade receivables (2008: £99 million).

The finance leases granted by the Group arise on the provision of CHP plants on certain client sites and a Public Finance Initiative ("PFI") lighting contract. Each CHP site provides steam and power to one principal client base as well as selling power to the rest of the Group. The lease duration is typically 15-20 years and the lessee generally has the option to acquire the site at the end of the lease. The PFI lighting contract is a 25 year contract to replace, repair and run public lighting across Staffordshire. The maturities of the finance leases are set out in the following table.

# E.ON UK PLC

## Notes to the financial statements for the year ended 31 December 2009 (continued)

### 23 Additional disclosures on financial instruments (continued)

	At 31 December 2009		At 31 December 2008 (restated)	
	Gross Investment £m	Net Investment £m	Gross Investment £m	Net Investment £m
Within 1 year	34	34	36	36
Within 1-5 years	89	66	102	77
After 5 years	120	63	142	70
	<b>243</b>	<b>163</b>	<b>280</b>	<b>183</b>

Unearned finance income at 31 December 2009 amounted to £80 million (2008 £97 million)  
Restatements are explained in Note 25

The credit ratings and maturities of the Group's derivative financial instruments are shown in the following two tables. The nominal values in the table represent the notional values of the derivatives and the counterparty risk is the positive fair value exposure on the derivatives. Derivative financial instruments transacted with the E.ON AG Group are excluded from this analysis.

Derivative transactions are generally executed on the basis of standard agreements that allow for the netting of all outstanding transactions with individual counterparties. Although most contracts do allow netting, the tables below do not show netting of positive and negative fair values of continuous transactions. This means that the counterparty risk is shown to be higher in the following two tables than it actually is.

31 December 2009 (£m)	Total		up to 1 year		1 - 5 years		more than 5 years	
Rating of counterparties Standard & Poor's and/or Moody's	Nominal value	Counter party risk	Nominal value	Counter party risk	Nominal Value	Counter party risk	Nominal value	Counter party risk
AAA and Aaa through AA- and Aa3	2,265	483	1,505	342	760	141	-	-
AA- and A1 or A+ and Aa3 through A- and A3	3,249	964	1,802	467	1,150	277	297	220
A- and Baa1 or BBB+ and A3 through BBB- and Baa3	117	33	72	17	45	16	-	-
BBB- and Ba1 or BB+ and Baa3 through BB- and Ba3	-	-	-	-	-	-	-	-
Other	1,289	113	458	83	504	30	327	-
	<b>6,920</b>	<b>1,593</b>	<b>3,837</b>	<b>909</b>	<b>2,459</b>	<b>464</b>	<b>624</b>	<b>220</b>

# E.ON UK PLC

## Notes to the financial statements for the year ended 31 December 2009 (continued)

### 23 Additional disclosures on financial instruments (continued)

31 December 2008 (£m)	Total		up to 1 year		1 - 5 years		more than 5 years	
Rating of counterparties Standard & Poor's and/or Moody's	Nominal value	Counter party risk	Nominal value	Counter party risk	Nominal value	Counter party risk	Nominal value	Counter party risk
AAA and Aaa through AA- and Aa3	11,422	1,398	7,614	951	3,808	447	-	-
AA- and A1 or A+ and Aa3 through A- and A3	13,365	1,870	9,316	1,294	4,049	576	-	-
A- and Baa1 or BBB+ and A3 through BBB- and Baa3	3,386	351	1,970	209	1,416	142	-	-
BBB- and Ba1 or BB+ and Baa3 through BB- and Ba3	474	19	239	15	235	4	-	-
Other	235	-	230	-	5	-	-	-
	<b>28,882</b>	<b>3,638</b>	<b>19,369</b>	<b>2,469</b>	<b>9,513</b>	<b>1,169</b>	<b>-</b>	<b>-</b>

Counterparties in the 'Other' category consist primarily of parties to contracts with respect to which the Group has received collateral from counterparties with ratings of the above categories or an equivalent internal rating

#### Collateral

Collateral issued to third parties, measured at a fair value, amounts to £30 million (2008 £47 million)

This collateral includes amounts pledged to customers if a default in supply of electricity occurs



## **E.ON UK PLC**

### **Notes to the financial statements** **for the year ended 31 December 2009 (continued)**

#### **24 Pension scheme arrangements**

##### **Defined Contribution Schemes**

In December 2008, the Company opened a defined contribution retirement benefit scheme for all qualifying employees not already in a pension scheme member and for new employees joining the Group. The assets of the scheme are held separately from those of the group funds in an independent administered fund held by the individual members. The total cost charged to the Group Income Statement of £3 million (2008: £nil) represents contributions payable to these schemes by the Group at rates specified in the rules of the plan. As at 31 December 2009, all of the contributions due had been paid over to the scheme.

##### **Defined Benefit Schemes**

At 31 December 2009, E.ON UK had two registered pension schemes and one unfunded unregistered pension scheme. The main E.ON UK pension scheme is the E.ON UK Group of the Electricity Supply Pension Scheme ("the Scheme"). This is a funded scheme with several different benefit categories, largely defined benefit type. An actuarial valuation of the Scheme is normally carried out every three years by the Scheme's independent actuary, who recommends the rates of contribution payable by participating employers. In intervening years the actuary reviews the continuing appropriateness of the rates. The last actuarial valuation of the Scheme was as at 31 March 2007.

The principal actuarial assumptions used to calculate the defined benefit pension balances in the financial statements were:

	<b>At 31 December 2009</b>	<b>At 31 December 2008</b>
Average nominal rate of annual increase in salaries	<b>4.0%</b>	3.0%
Average nominal rate of annual increase in pensions	<b>3.3%</b>	2.5%
Discount rate	<b>5.7%</b>	6.4%
Expected return on assets	<b>6.1%</b>	5.4%
Inflation rate	<b>3.5%</b>	2.5%

## E.ON UK PLC

### Notes to the financial statements for the year ended 31 December 2009 (continued)

#### 24 Pension scheme arrangements (continued)

The mortality assumptions are based on the recent actual mortality experience of members within the Scheme and the assumptions also allow for future mortality improvements. The assumptions are that a member currently aged 60 will live on average for a further 26 years if they are male and for a further 28 years if they are female. For a member who retires in 2029 at age 60, the assumptions are that they will live on average for a further 28 years after retirement if they are male and for a further 30 years after retirement if they are female.

The indicative impact on Scheme liabilities of a change in the discount rate assumption by 0.25% is +/- 3.7%. The indicative impact on Scheme liabilities of a change in the inflation rate assumption by 0.25% is +/- 3.0%. The indicative impact on Scheme liabilities of increasing pensioner life expectancy by one year is 2.7%.

The amounts recognised in the Group Balance Sheet are as follows

	At 31 December 2009 £m	At 31 December 2008 £m
Fair value of plan assets	4,951	4,889
Present value of funded obligations	(5,595)	(4,403)
	(644)	486
Present value of unfunded obligations	(19)	(14)
Net (liability)/asset recognised in the balance sheet	(663)	472

The amounts recognised in the Group Income Statement are as follows

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Current service cost	37	46
Interest cost	276	298
Expected return on plan assets	(258)	(295)
Settlement	-	7
Curtailment	10	9
Net cost recognised in the income statement	65	65

Current service cost, settlements and curtailments are disclosed within operating costs in the Group Income Statement. Interest cost and expected return on plan assets are disclosed within finance costs.

# **E.ON UK PLC**

## **Notes to the financial statements** **for the year ended 31 December 2009 (continued)**

### **24 Pension scheme arrangements (continued)**

During 2009, E.ON UK transferred in employees from Lighting for Staffordshire and United Utilities following acquisitions in previous years and transferred out a portion of their workforce as part of the Rheidol disposal which occurred in 2008

Changes in the present value of the defined benefit obligation are as follows

	<b>Year ended 31 December 2009 £m</b>	<b>Year ended 31 December 2008 £m</b>
Opening defined benefit obligation	<b>4,417</b>	5,241
Service cost	<b>37</b>	46
Interest cost	<b>276</b>	298
Net increase in liabilities from disposals/acquisitions	<b>4</b>	-
Actuarial losses/(gains)	<b>1,137</b>	(914)
Curtailment	<b>10</b>	9
Settlements	<b>-</b>	(9)
Contributions by plan participants	<b>13</b>	19
Benefits paid	<b>(280)</b>	(273)
	<b>5,614</b>	4,417

Changes in the fair value of plan assets are as follows

	<b>Year ended 31 December 2009 £m</b>	<b>Year ended 31 December 2008 £m</b>
Opening fair value of plan assets	<b>4,889</b>	5,103
Expected return on scheme assets	<b>258</b>	295
Actuarial losses	<b>(74)</b>	(369)
Net increase in liabilities from disposals/acquisitions	<b>3</b>	-
Settlements	<b>-</b>	(16)
Contributions by employer	<b>142</b>	130
Contributions by plan participants	<b>13</b>	19
Benefits paid	<b>(280)</b>	(273)
	<b>4,951</b>	4,889

# E.ON UK PLC

## Notes to the financial statements for the year ended 31 December 2009 (continued)

### 24 Pension scheme arrangements (continued)

The Group expects to make a regular contribution of £80 million to its defined benefit pension plans in the year to 31 December 2010 and in addition, during 2010 to 2013, a special contribution of £61 million per annum will also be made by the Group to reduce the deficit in the Scheme

The expected returns on the major categories of plan assets and their fair value as a percentage of total plan assets are as follows

	Expected return		Fair value of assets	
	At 31 December 2009 %	At 31 December 2008 %	At 31 December 2009 %	At 31 December 2008 %
Equity instruments	9.4	9.0	19	14
Debt instruments	4.6	4.2	67	76
Property	9.6	6.6	5	9
Other assets	-	-	9	1
	<b>6.1</b>	<b>5.4</b>	<b>100</b>	<b>100</b>

E.ON UK employs a building block approach in determining the long-term rate of return on pension plan assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed long-term rate of return on each asset class is set out within this note. The overall expected return on assets is derived by aggregating the expected return for each asset class over the benchmark asset allocation. The benchmark asset allocation is 70% bonds, 20% equities and 10% property. No assumption is set for the other assets category.

The actual return on scheme assets is shown below

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Expected return on scheme assets	258	295
Actuarial loss on scheme assets	(74)	(369)
Actual return on scheme assets	<b>184</b>	<b>(74)</b>

# E.ON UK PLC

## Notes to the financial statements for the year ended 31 December 2009 (continued)

### 24 Pension scheme arrangements (continued)

Cumulative actuarial gains and losses recognised in equity.

	At 31 December 2009 £m	At 31 December 2008 £m
Gain at start of year	572	27
Actuarial (losses)/gains recognised in the year	(1,211)	545
(Loss)/gain at the year end	<u>(639)</u>	<u>572</u>

History of experience adjustments.

	At 31 December 2009 £m	At 31 December 2008 £m	At 31 December 2007 £m	At 31 December 2006 £m	At 31 December 2005 £m
Fair value of scheme assets	4,951	4,889	5,103	4,969	4,917
Present value of defined benefit obligations	(5,614)	(4,417)	(5,241)	(5,034)	(5,157)
(Deficit)/surplus in the scheme	(663)	472	(138)	(65)	(240)
Experience adjustments on plan liabilities					
Amounts (£m)	1,137	914	(112)	169	(374)
Percentage of scheme liabilities	20.2%	20.7%	2.1%	3.4%	7.3%
Experience adjustments on plan assets					
Amounts (£m)	(74)	(369)	11	(14)	484
Percentage of scheme assets	1.5%	7.6%	0.2%	0.3%	9.8%

# E.ON UK PLC

## Notes to the financial statements for the year ended 31 December 2009 (continued)

### 25 Provisions

Movements on provisions comprise

	At 31 December 2008 (restated) £m	Charged to the income statement £m	Accretion of discount £m	Provisions utilised £m	Other transfers in £m	At 31 December 2009 £m
Decommissioning	71	16	3	-	-	90
Contract provisions	220	75	17	(67)	-	245
Restructuring	13	-	-	(9)	-	4
Emissions obligations	237	69	-	(237)	-	69
ROCs	-	169	-	(150)	96	115
Other	36	-	-	(36)	-	-
Share-based payments (Note 27)	3	1	-	(3)	-	1
	580	330	20	(502)	96	524

Provisions have been analysed between current and non-current as follows

	At 31 December 2009 £m	At 31 December 2008 (restated) £m
Current	236	360
Non-current	288	220
	524	580

Decommissioning provisions comprise amounts set aside for the estimated costs of terminating power station grid connections, decommissioning power stations and subsequent site restoration costs at UK power stations which will be utilised as each power station closes over the next 4 to 32 years

Contract provisions at 31 December 2009 primarily relate to certain out of the money CHP contracts. The provisions will be utilised over the onerous portions of the contracts, currently estimated to be years up to and including 2020. The balance at 31 December 2008 has been restated to reflect a gross presentation of finance lease receivables and related onerous contract provisions. In addition Note 7 has been restated to reflect the corresponding gross presentation of the accretion of discount on the provision and interest income on the finance lease receivable.

Restructuring provisions relate primarily to the restructuring of the Energy Services business and will be utilised in 2010.

## **E.ON UK PLC**

### **Notes to the financial statements** **for the year ended 31 December 2009 (continued)**

#### **25 Provisions (continued)**

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

ROCs represent the value of certificates payable to national authorities for the Group's activities during the year. ROCs are settled on an annual basis. Other transfers in represent amounts reclassified from trade creditors due to a change in the nature of the Group's ROCs obligations, following the disposal of the E.ON Energy Trading business.

Other provisions at 31 December 2008 primarily represent an amount payable to Lehman Brothers Holdings Inc. following termination of the ISDA Master Agreement and the close out of outstanding transactions arising from the collapse of the Lehman Group.

The Group's provisions include £245 million (2008: £220 million) for contract provisions which meet the definition of financial liabilities under IAS 39. These financial liabilities are considered to be floating rate liabilities as the cash flows have been discounted in establishing the provisions. The discount rate is re-appraised at each reporting date to ensure that it reflects current market assessments of the time value of money and the risks specific to the liability.

#### **26 Deferred tax**

An analysis of the provision for deferred tax recognised at 31 December 2009 is as follows:

	<b>At 31 December 2009 £m</b>	<b>At 31 December 2008 £m</b>
Accelerated capital allowances	<b>832</b>	918
Other temporary differences	<b>(35)</b>	(198)
Provision for deferred tax	<b>797</b>	720
Provision at 1 January	<b>720</b>	717
Deferred tax charge/(credit) for year	<b>414</b>	(155)
Acquired	-	3
Taken to equity	<b>(337)</b>	155
Provision at end of year	<b>797</b>	720

The deferred tax on items taken directly to equity is that arising on movements in cash flow hedges and actuarial gains and losses.

# **E.ON UK PLC**

## **Notes to the financial statements** **for the year ended 31 December 2009 (continued)**

### **26 Deferred tax (continued)**

The deferred tax provision is analysed as follows

	<b>At 31 December 2009 £m</b>	<b>At 31 December 2008 £m</b>
Intangibles	<b>69</b>	13
Investments	<b>(13)</b>	(5)
Property, plant and equipment	<b>832</b>	918
Receivables	-	(6)
Derivatives	<b>88</b>	(281)
Financial liabilities	-	(2)
Operating liabilities	-	(23)
Pensions provision	<b>(200)</b>	132
Other provisions	<b>(19)</b>	(14)
Unrealised capital losses	<b>7</b>	9
Other	<b>33</b>	(21)
	<b>797</b>	720

The deferred tax liability due after more than one year is £797 million (2008 £720 million) The effect of the disposal of the E.ON Energy Trading business in January 2009 was to increase the deferred tax liability by £268 million as at 31 December 2008

The movement in deferred tax relating to pension provisions includes a decrease in the liability of £339 million (2008 increase of £152 million) as a result of actuarial gains and losses, which has been recognised directly in equity The movement in deferred tax relating to derivatives includes an increase in the liability of £2 million (2008 £3 million) as a result of fair value gains and losses relating to cash flow hedges, which has been recognised directly in equity All other deferred tax movements in the year were recognised in the Group Income Statement

A new first year allowance rate of 40% for plant capital allowances was introduced with effect from 1 April 2009, reducing the deferred tax liability by £13 million The phasing out of Industrial Buildings Allowances ("IBA") in the year reduced the deferred tax liability by £6 million (2008 £38 million)



## E.ON UK PLC

### Notes to the financial statements for the year ended 31 December 2009 (continued)

#### 27 Share-based payments

Members of the Board of Management of E.ON UK and certain executives of E.ON UK receive share-based payment as part of the long-term variable compensation. Share-based payment can only be granted if the qualifying executive owns a certain minimum number of shares of E.ON stock, which must be held until maturity or full exercise. The purpose of such compensation is to reward their contribution to E.ON's growth and to further the long-term success of the Group. This variable compensation component, comprising a long-term incentive effect along with a certain element of risk, provides for a sensible linking of the interests of shareholders and management.

The following discussion includes a report on the E.ON AG Stock Appreciation Rights plan, which ended in 2005, and on the E.ON Share Performance Plan, introduced in 2006.

#### **Stock Appreciation Rights ("SARs")**

In 1999, the E.ON AG Group introduced a stock-based compensation plan based on E.ON AG shares. From 2002 up to and including 2005, E.ON UK annually granted virtual stock options (SARs) through the E.ON AG SARs program.

The fifth tranche of the SARs was exercised in full in 2009. At the balance sheet date all SARs of all tranches were exercised.

	<b>Tranche 5</b>
Date of issuance	2 January 2003
Term	7 years
Vesting period	2 years
Price at issuance (€) *	12.62
Base price of Dow Jones STOXX Utilities Index (€)	202.14
Number of participants in year of issuance	21
Number of SARs issued	90,927
Exercise hurdle (exercise price exceeds the price at issuance by at least %)*	10
Exercise hurdle (minimum exercise, €) *	13.88
Number of subscription rights*	3
Maximum exercise gain for 3 subscription rights (€)	-
*after stock split on 4 August 2008	

The amounts paid to executives when they exercise their SARs is paid out in cash, and is equal to the difference between the E.ON AG share price at the time of issuance and the adjusted underlying share price at issuance, multiplied by the number of SARs exercised and by the number of subscription rights of three.

## E.ON UK PLC

### Notes to the financial statements for the year ended 31 December 2009 (continued)

#### 27 Share-based payments (continued)

In 2009, 19,563 SARs from the fifth tranche were exercised on an ordinary basis. The gain to the holders on exercise totalled £0.8 million (2008: £0.1 million). There are no provisions for the SARs as at the balance sheet date (2008: £0.9 million). The decline in the value of rights resulted in income of £0.1 million in 2009 (2008: £1.0 million). The number of SARs, the liability recognised and the income arising from the SARs' plan were as follows:

	<b>Tranche 5</b>
SARs outstanding as at 1 January 2008	19,563
SARs exercised in 2009	(19,563)
SARs outstanding as at 31 December 2009	-
Provision as at 1 January 2008 (£m)	2
Income in 2008 (£m)	(1)
Provision as at 31 December 2008 (£m)	1
Gain to holders in 2009 (£m)	(1)
<b>Provision as at 31 December 2009 (£m)</b>	<b>-</b>

#### **E.ON Share Performance Plan**

In 2006, the E.ON AG Group introduced a stock-based compensation plan, the E.ON Share Performance Plan, based on E.ON AG shares. In 2009, 81,571 virtual shares from the fourth tranche of the E.ON Share Performance Plan were granted. The terms of the Performance Rights are based in Euros (€) and information is presented in Euros below:

	<b>Tranche 4</b>	<b>Tranche 3*</b>	<b>Tranche 2*</b>
Date of issuance	1 January 2009	1 January 2008	1 January 2007
Term	3 years	3 years	3 years
Target value of compensation at issuance (€)	27.93	136.26	96.52
Number of participants in year of issuance	37	24	28
Number of Performance Rights issued	81,571	16,886	28,434
Maximum cash amount (€)	83.79	408.78	289.56

\* issuance before share split in 2008

## **E.ON UK PLC**

### **Notes to the financial statements** **for the year ended 31 December 2009 (continued)**

#### **27 Share-based payments (continued)**

At the end of the three year term, each Performance Right is entitled to a cash payment linked to the final E.ON AG share price established at the time. The amount of the payment is also linked to the relative performance of the E.ON AG share price in comparison with the benchmark index Dow Jones STOXX Utilities Index (Total Return EUR). The amount paid out is equal to the target value at issuance if the E.ON share price is maintained at the end of the term and the performance of the E.ON share price matches that of the benchmark. The maximum amount to be paid out to each participant per Performance Right is limited to three times the original target value on the grant date.

60-day average prices are used to determine the initial price, the final price and the relative performance, in order to mitigate the effects of incidental, short-lived price movements.

The calculation of the amount to be paid out takes place at the same time for all plan participants with effect on the last day of the term of the tranche. If the performance of the E.ON share matches that of the index, the amount paid out is not adjusted, the final share price is paid out. However, if the E.ON share outperforms the index, the amount paid out is increased proportionately. If, on the other hand, the E.ON share underperforms the index, disproportionate deductions are made. In the case of underperformance by 20% or more, no payment takes place.

The plan contains adjustment mechanisms to eliminate the effect of events such as interim corporation actions. After the stock split in 2008, adjustment factors were generated for the second and third tranches to ensure neutrality of value with an unchanged number of Performance Rights. Due to the adjustment factors an adjustment of the "Target Value at Issuance" and the "Maximum Amount Paid" was not necessary.

The fair value of the Performance Rights in accordance with IFRS 2 is calculated using a recognised option pricing model. This model involves the simulation of a large number of possible development tracks for the E.ON share price (taking into account the effects of reinvested dividends and capital adjustments factors) and the benchmark index (Monte Carlo simulation). The benchmark for this plan is the Dow Jones STOXX Utilities Index (Total Return EUR), which stood at 657.34 points on 31 December 2009. Since payments to all plan participants take place on a specified date, no assumptions concerning exercise behaviour are made in this plan structure, and such assumptions are therefore not considered in this option pricing model.

## E.ON UK PLC

### Notes to the financial statements for the year ended 31 December 2009 (continued)

#### 27 Share-based payments (continued)

The risk-free interest rate used for reference is the zero swap rate for the corresponding remaining maturity. The dividend yields of the E.ON share are also included in the pricing model. The E.ON share dividend yield is calculated for each tranche and maturity based on the Bloomberg consensus estimates. The annual average of the Xetra closing prices for E.ON AG shares was €25.51. Dividend payments and corporate actions are taken into account through corresponding factors that are analogous to those employed by the index provider.

The table below shows the parameters used for the purpose of the valuation on the balance sheet date.

	Tranche 4	Tranche 3	Tranche 2**
Intrinsic value on 31 December 2009 (€)	27.79	77.11	90.88
Fair value on 31 December 2009 (€)	22.43	73.32	90.88
Swap rate (%)	1.85%	1.06%	-
Volatility of the E.ON AG stock (%)	44.51	34.75	-
Volatility of the Dow Jones STOXX Utilities Index (Total Return €) (%)	31.93	22.12	-
Correlation	0.91	0.86	-
Dividend yield of the E.ON share (%)	5.52	5.25	-

\*\* issuance before share split in 2008 and matured

The second tranche matured on 31 December 2009. The ordinary payout at the year end for the remaining second tranche performance rights was set at €90.88 per Performance Right. At 1 January 2009, a liability of £2 million relating to 22,703 Performance Rights of the second tranche, was recognised. In addition, the cash amount from 4,600 Performance Rights of the second tranche was paid out in 2009 on an extraordinary basis in accordance with the terms and conditions of the plan. The payout and elimination of the liability will take place in the first quarter of 2010. Total extraordinary payments amounted to £0.4 million (2008: £0.2 million). During the year, 450 Performance Rights from the third tranche expired.

The liability recognised in the Group Balance Sheet at year-end totalled £1 million (2008: £2 million). Each provision is prorated for the respective period elapsed of the total three-year term. The expense for the E.ON Share Performance Plan in 2009 amounted to £1 million (2008: £0.3 million).

# E ON UK PLC

## Notes to the financial statements for the year ended 31 December 2009 (continued)

### 27 Share-based payments (continued)

The number of Performance Rights, the liability recognised and the expenses arising from the E ON Share Performance Plan were as follows

	Tranche 4	Tranche 3	Tranche 2
Performance Rights outstanding as at 1 January 2008	-	-	28,434
Performance Rights granted in 2008	-	16,886	-
Performance Rights settled in 2008	-	-	(498)
Performance Rights expired in 2008	-	-	(633)
Performance Rights outstanding as at 31 December 2008	-	16,886	27,303
Performance Rights granted in 2009	81,571	-	-
Performance Rights settled in 2009	-	-	(27,303)
Performance Rights expired in 2009	-	(450)	-
<b>Performance Rights outstanding as at 31 December 2009</b>	<b>81,571</b>	<b>16,436</b>	<b>-</b>
<hr/>			
Provision as at 1 January 2009 (£m)	-	-	2
Cash amount paid in 2009 (£m)	-	-	(2)
Expense in 2009 (£m)	-	1	-
<b>Provision as at 31 December 2009 (£m)</b>	<b>-</b>	<b>1</b>	<b>-</b>

At the balance sheet date, the third and fourth tranches were not yet payable on an ordinary basis

### 28 Share capital

The share capital of the Company comprises

	At 31 December 2009 £m	At 31 December 2008 £m
<b>Authorised</b>		
3,050,000,002 ordinary shares of 50p each	<u>1,525</u>	<u>1,525</u>
<b>Allotted, called-up and fully paid</b>		
2,649,241,799 ordinary shares of 50p each	<u>1,325</u>	<u>1,325</u>

# E.ON UK PLC

## Notes to the financial statements for the year ended 31 December 2009 (continued)

### 29 Share premium account

	2009 £m	2008 £m
At 1 January and 31 December	<u>97</u>	<u>97</u>

The share premium account is not available for distribution

### 30 Retained earnings

	£m
At 1 January 2008	2,019
Loss for the year	(112)
Actuarial gains and losses (net of tax)	393
Transaction with minority shareholder (Note 5)	2
At 31 December 2008	2,302
Profit for the year	1,453
Actuarial gains and losses (net of tax)	(872)
Dividends paid	(480)
Transaction with minority shareholder	(2)
<b>At 31 December 2009</b>	<b><u>2,401</u></b>

### 31 Other reserves

	Capital redemption reserve £m	Special capital reserve £m	Available for sale investment reserve £m	Hedging reserve £m	Revaluation reserve £m	Total £m
At 1 January 2008	85	474	1	(8)	24	576
Cash flow hedges (net of tax)	-	-	1	8	-	9
At 31 December 2008	85	474	2	-	24	585
Disposal	-	-	(2)	-	-	(2)
Cash flow hedges (net of tax)	-	-	-	5	-	5
<b>At 31 December 2009</b>	<b>85</b>	<b>474</b>	<b>-</b>	<b>5</b>	<b>24</b>	<b>588</b>

## E.ON UK PLC

### Notes to the financial statements for the year ended 31 December 2009 (continued)

#### **31 Other reserves (continued)**

The special capital reserve and capital redemption reserve are not available for distribution. The special capital reserve was determined in accordance with the Transfer Scheme made pursuant to the Electricity Act 1989, under which the Central Electricity Generating Board's (CEGB) net assets were vested in its successor companies.

The revaluation reserve arose as a result of the step acquisitions of the EC&R UK business and Cottam Development Centre Limited. The reserve is not available for distribution.

#### **32 Equity minority interests**

	2009 £m	2008 £m
At 1 January	2	(2)
Income statement	5	4
Transaction with minority shareholder	(2)	2
Dividends paid to minority interests	(2)	(2)
<b>At 31 December</b>	<b>3</b>	<b>2</b>

# E.ON UK PLC

## Notes to the financial statements for the year ended 31 December 2009 (continued)

### 33 Cash flows from operating activities

Reconciliation of net profit/(loss) to cash generated from operations

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Net profit/(loss) including discontinued operations	1,458	(108)
Adjustments for		
Tax charge (Note 8)	512	84
Amortisation (Note 10)	64	63
Intangibles impairment charge (Note 10)	3	13
Depreciation (Note 11)	295	274
Impairment (reversal)/loss on generating assets (Note 11)	(9)	4
Onerous contract recognition (Note 25)	75	32
Loss on disposal of property, plant and equipment, and intangibles (Note 3)	12	1
Gain on disposal of property, plant and equipment (Note 3)	(8)	(68)
Profit on sale of discontinued operations (Note 9)	(1,222)	-
Profit on sale of investments (Note 5)	(56)	(3)
Net finance costs (Note 7)	99	168
Share of results of associates after taxation (Note 12)	(2)	(10)
Gain on settlement of cross currency swap	(100)	-
(Gains)/losses on other derivative financial instruments	(97)	896
Other non-cash differences	3	32
Changes in working capital (excluding effects of acquisitions and disposal of subsidiaries)		
Increase in inventories	(22)	(201)
Increase in receivables and derivative financial assets	(2,894)	(2,283)
Increase in payables and derivative financial liabilities	3,528	2,113
Pensions - difference between cash contributions and amount charged to operating profit	(77)	(67)
Increase in provisions	60	203
<b>Cash generated from operations</b>	<b>1,622</b>	<b>1,143</b>



## **E.ON UK PLC**

### **Notes to the financial statements** **for the year ended 31 December 2009 (continued)**

#### **34 Commitments and contingent liabilities**

- a) At 31 December 2009, the Group had commitments contracted but not provided for of £850 million (2008 £437 million) for capital expenditure relating to property, plant and equipment
- b) The Group is aware of claims in respect of current and former employees, including former employees of the CEGB, and contractors in respect of industrial illness and injury and other potential claims which involve or may involve legal proceedings against the Group

The directors are of the opinion, having regard to legal advice received, the Group's insurance arrangements and provisions held, as appropriate, that it is unlikely that the matters referred to above will have a material effect on the Group's financial position, results of operations or liquidity

- c) A complaint was made to the European Commission by the South Wales Small Mines Association (SWSMA) against, amongst others, the Company and National Power plc in 1990. The complaint alleged breaches of EU law by the CEGB in its coal purchasing practices prior to 1990. Under the arrangements for electricity privatisation, it is possible that either or both of the Company and National Power plc (through its successor companies) could be liable to pay any compensation that may ultimately arise.

The Commission rejected the complaint in 1998 on legal grounds and that decision was subsequently appealed by some former members of SWSMA. The appeal did not proceed to judgement because the Court of Justice of the European Communities held this to be without purpose in light of its decision in a parallel case, in which it overturned the Commission's rejection of a similar complaint. The Commission proceeded to carry out an investigation into the substantive merits of the complaint. By a decision dated 18 June 2007 the Commission rejected the SWSMA complaint, indicating that there were insufficient grounds for acting upon it. This decision has been appealed by members of SWSMA to the European Court of First Instance and the Company have been granted leave to intervene in that action. Whilst there has been a withdrawal of action by some of the complainants, the action continues to be pursued by the remaining complainants.

- d) The Group has in place a portfolio of fuel contracts of varying volume, duration and price, reflecting market conditions at the time of commitment. These contracts are with UK and international suppliers of coal and are backed by transport contracts for rail, road, canal and sea movements. At 31 December 2009, the Group's future commitments for the supply of coal under all its contractual arrangements totalled £348 million (2008 £1,106 million).

# **E.ON UK PLC**

## **Notes to the financial statements** **for the year ended 31 December 2009 (continued)**

### **34 Commitments and contingent liabilities (continued)**

The Group is also committed to purchase gas under various gas supply contracts including the supply of gas to the Group's power stations and to meet retail demand. At 31 December 2009, the estimated minimum commitment for the supply of gas under all these contracts totalled £2,161 million (2008 £3,784 million)

The Group is also committed to power purchase contracts for the supply of electricity to meet retail demand. At 31 December 2009 the total contractual commitment for the Group was £3,405 million (2008 £1,551 million)

Following the disposal of the E.ON Energy Trading business on 1 January 2009, all existing fuel purchase contracts at that date were novated or matched by equal and opposite sales contracts with EET SE. The Group also has further commitments to sell all power and related renewables credits generated to EET SE. The volumes generated are at the discretion of EET SE and therefore this commitment cannot be quantified.

- e) The Group has contingent liabilities in respect of claims and disputes arising in the ordinary course of business amounting to £36 million (2008 £nil)
- f) In the normal course of business the Group gives certain other indemnities and guarantees which are not considered to be material in the context of these financial statements and on which no losses are anticipated to arise
- g) At 31 December, the Group had the following operating lease commitments

	<b>31 December 2009</b>		<b>31 December 2008</b>	
	<b>Property £m</b>	<b>Other assets £m</b>	<b>Property £m</b>	<b>Other assets £m</b>
Aggregate commitments under non-cancellable operating leases expiring				
Within one year	<b>9</b>	<b>11</b>	<b>9</b>	<b>5</b>
Within two to five years	<b>29</b>	<b>19</b>	<b>32</b>	<b>10</b>
After five years	<b>34</b>	<b>-</b>	<b>39</b>	<b>1</b>
	<b>72</b>	<b>30</b>	<b>80</b>	<b>16</b>

The Group leases various offices and other buildings under non-cancellable operating lease arrangements. The leases have various terms, escalation clauses and renewal rights. The Group also leases certain other equipment under non-cancellable operating lease arrangements.

## **E.ON UK PLC**

### **Notes to the financial statements** **for the year ended 31 December 2009 (continued)**

#### **35 Ultimate holding company**

The immediate parent undertaking is Powergen Group Investments, a company incorporated in England. The ultimate parent undertaking and controlling party is E.ON AG, 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 AG's accounts are available from the offices of E.ON AG at the following address:

E.ON AG  
E.ON-Platz 1  
D-40479  
Düsseldorf  
Germany

#### **36 Related party transactions**

Information about material related party transactions is set out below.

##### **Subsidiary companies**

Details of investments in principal subsidiary companies are disclosed in Note 13.

##### **Parent company and fellow subsidiaries**

Transactions and balances with the parent company and fellow subsidiaries are summarised below. Purchases and sales relate predominantly to purchases and sales of electricity and gas.

<b>Income statement items</b>	<b>Year ended 31 December 2009 £m</b>	<b>Year ended 31 December 2008 £m</b>
Income received from parent undertaking and fellow subsidiaries	<b>1,829</b>	193
Expenses incurred from parent undertaking and fellow subsidiaries	<b>4,404</b>	563

Balance sheet items with parent undertakings and fellow subsidiaries are disclosed in Notes 15, 17, 19, 20 and 21. Income statement interest payable and receivable are disclosed in Note 7.

## E.ON UK PLC

### Notes to the financial statements for the year ended 31 December 2009 (continued)

#### 36 Related party transactions (continued)

##### Associates

Purchases from associates were £nil in 2009 (2008 £4 million) Purchases relate largely to electricity generated by associates There were no other transactions or balances with associates in either year

##### Joint ventures

Transactions and balances with joint ventures are summarised below Recharges relate largely to operating costs recharged

Income statement items	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Recharges to joint ventures	6	-
Balance sheet items	At 31 December 2009 £m	At 31 December 2008 £m
Receivables from joint ventures	2	-
Payables to joint ventures	11	-

##### Directors and key management

Details of directors' and key management remuneration are disclosed in Note 6

## **Independent auditors' report to the members of E.ON UK plc**

We have audited the parent company financial statements of E.ON UK plc for the year ended 31 December 2009 which comprise the Company Balance Sheet and the related Notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

### **Respective responsibilities of directors and auditors**

As explained more fully in the Statement of directors' responsibilities, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

### **Opinion on financial statements**

In our opinion the parent company financial statements

- give a true and fair view of the state of the parent company's affairs as at 31 December 2009,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of Companies Act 2006.

### **Opinion on other matters prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' report for the financial year for which the parent company financial statements are prepared is consistent with the parent company financial statements.

## E.ON UK PLC

### Independent auditors' report to the members of E.ON UK plc (continued)


#### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

#### **Other matter**

We have reported separately on the group financial statements of E ON UK plc for the year ended 31 December 2009



Charles Joseland (Senior Statutory Auditor)

For and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

London

**27** April 2010

**E.ON UK PLC**

**COMPANY BALANCE SHEET**  
**as at 31 December 2009**

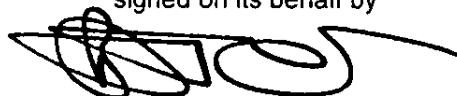
	Note	31 December 2009 £m	31 December 2008 £m
<b>Fixed assets</b>			
Intangible assets			
Goodwill	5	3	21
Other	5	-	237
Total intangible assets		3	258
Tangible assets	6	2,146	1,888
Investments			
Investments in associates and joint ventures	7	30	1
Investments in subsidiaries	7	3,466	3,479
Other	7	17	19
Total investments		3,513	3,499
		<b>5,662</b>	<b>5,645</b>
<b>Current assets</b>			
Stocks	8	204	303
Debtors amounts falling due within one year	9	4,303	4,423
Commodity and other derivative financial instruments	13	3,055	4,307
Cash and short term deposits		4	54
		<b>7,566</b>	<b>9,087</b>
<b>Creditors' amounts falling due within one year</b>			
Loans and overdrafts	10	(570)	(661)
Commodity and other derivative financial instruments	13	(2,946)	(4,950)
Trade and other creditors	11	(4,324)	(4,456)
		<b>(7,840)</b>	<b>(10,067)</b>
<b>Net current liabilities</b>		<b>(274)</b>	<b>(980)</b>
<b>Total assets less current liabilities</b>		<b>5,388</b>	<b>4,665</b>

**E.ON UK PLC**

**COMPANY BALANCE SHEET**  
**as at 31 December 2009 (continued)**

	Note	31 December 2009 £m	31 December 2008 £m
<b>Creditors: amounts falling due after more than one year</b>	12	<b>(2,109)</b>	<b>(1,765)</b>
<b>Provisions for liabilities and charges</b>	14	<b>(115)</b>	<b>(320)</b>
<b>Net assets</b>		<b>3,164</b>	<b>2,580</b>
<b>Capital and reserves</b>			
Called-up share capital	16	<b>1,325</b>	1,325
Share premium account	17	<b>97</b>	97
Special capital reserve	17	<b>474</b>	474
Capital redemption reserve	17	<b>85</b>	85
Profit and loss account	17	<b>1,183</b>	599
<b>Equity shareholders' funds</b>	18	<b>3,164</b>	<b>2,580</b>

The financial statements on pages 119 to 147 were approved by the Board on 26 April 2010 and signed on its behalf by



**Brian Tear**  
Director

26 April 2010

The accounting policies and Notes on pages 121 to 147 form an integral part of these financial statements



## **E.ON UK PLC**

### **Notes to the parent company financial statements** **for the year ended 31 December 2009**

#### **1 Accounting policies**

##### **Nature of operations**

The principal business in the UK is the generation and wholesale of electricity. The Company is also the holding company for the distribution and retail companies.

##### **Basis of preparation of accounts**

The financial statements are prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards and the Companies Act 2006.

There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated in Note 2 and its historical cost equivalent. Values of assets and liabilities vested in the Company on 31 March 1990 under the Transfer Scheme made pursuant to the Electricity Act 1989 (the Transfer Scheme) are based on their historical cost to the Central Electricity Generating Board ("CEGB").

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting year. Actual results can differ from those estimates.

##### **Going concern**

Notwithstanding the fact that the Company has net current liabilities, the directors have prepared the financial statements on the going concern basis. The directors have in place sufficient borrowing facilities such that the Company can meet its obligations as they fall due for a period of at least twelve months from the date of the directors' approval of these financial statements.

##### **Turnover**

Turnover within the UK comprises sales from the generation and wholesale of electricity and the trading of gas. Turnover excludes Value Added Tax.

Sales from the wholesale of electricity to external customers are recognised when the commodity is delivered on the basis of the agreed volumes and rates within the sales contracts.

## **E.ON UK PLC**

### **Notes to the parent company financial statements for the year ended 31 December 2009 (continued)**

#### **1 Accounting policies (continued)**

##### **Provisions**

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

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

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 fixed 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 fixed assets and is not recognised in the profit and loss account

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

Future operating costs are not provided for

##### **Foreign exchange**

Assets and liabilities expressed in foreign currencies are translated to Sterling at rates of exchange ruling at the end of the financial year

Transactions denominated in foreign currencies are translated to Sterling at the exchange rate ruling on the transaction date

## **E.ON UK PLC**

### **Notes to the parent company financial statements for the year ended 31 December 2009 (continued)**

#### **1 Accounting policies (continued)**

Differences on exchange arising from the retranslation of the opening net investment in subsidiaries, associated undertakings and joint ventures are taken to reserves and, where the net investments are hedged, are matched with differences arising on the translation of related foreign currency borrowings and forward exchange contracts. Any differences arising are reported in the statement of total recognised gains and losses. All other realised foreign exchange differences are taken to the profit and loss account in the year in which they arise.

#### **Financial instruments**

The Company's financial risk management policies are consistent with those of the Group and are described in the Directors' report of the Group Financial Statements.

The Company is exempt under the terms of Financial Reporting Standard ("FRS") 29 from providing detailed disclosures in respect of its financial instruments because the Company is included within the Group's consolidated accounts and its financial instruments are incorporated into the disclosures to the Group Financial Statements.

#### **Fixed asset investments**

Investments in subsidiaries, associates and joint ventures are stated at original cost plus subsequent loans advanced or amounts invested. A provision is made for any impairment in the value of investments.

Other investments are treated as available for sale and are carried at fair value. Unrealised gains and losses on available for sale investments are recognised in equity until the investment is disposed of.

#### **Debt instruments**

In accordance with FRS 26, all borrowings are initially stated at the fair value of consideration received after deduction of directly attributable transaction costs. The issue costs and interest payable on bonds are charged to the profit and loss account at a constant rate over the life of the bond. Any premium or discount arising on the early repayment of borrowings is written off to the profit and loss account as incurred or received.

**Notes to the parent company financial statements  
for the year ended 31 December 2009 (continued)**

**1 Accounting policies (continued)**

**Derivative instruments**

The Company uses a range of derivative instruments, including interest rate swaps, cross-currency swaps and energy-based options and futures contracts and foreign exchange contracts. Derivative instruments are used for hedging purposes, apart from certain energy-based options and futures contracts, which are used for trading purposes. Wherever possible, the Company takes the own use exemption permitted by FRS 26 for commodity contracts entered into and held for the purpose of the Company's own purchase, sale or usage requirements. Commodity contracts that do not qualify for own use exemption, including those entered into for trading purposes are accounted for in accordance with the policy below. Certain commodity derivatives qualify as designated hedges of future cash flows.

Derivative instruments are recorded as either assets or liabilities in the balance sheet and measured at fair value. Changes in the fair value of derivatives that do not qualify for hedge accounting are recognised in the profit and loss account as they arise.

Changes in the value of instruments that are designated and effective as hedges of future cash flows ("cash flow hedges") are recognised directly in equity, with any ineffective portion recognised immediately in the profit and loss account.

Changes in the value of derivative instruments that are designated as hedges of the changes in fair value of assets or liabilities are recognised in the profit and loss account. A movement in fair value in the hedged item that is attributable to the risk being hedged is also recognised in the profit and loss account, resulting in any ineffectiveness being recognised immediately in the profit and loss account.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or no longer qualifies for hedge accounting. At that time, any cumulative gains or losses relating to cash flow hedges recognised in equity are recognised in the profit and loss account in the same period in which the hedged item affects net profit or loss. If a hedged transaction is no longer expected to occur, any net cumulative gain or loss recognised in equity is immediately transferred to the profit and loss account.

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

## **E.ON UK PLC**

### **Notes to the parent company financial statements for the year ended 31 December 2009 (continued)**

#### **1 Accounting policies (continued)**

##### **Intangible fixed assets**

###### Goodwill

Purchased goodwill is capitalised in the balance sheet and amortised on a straight-line basis through the profit and loss account over its estimated useful economic life of 20 years

###### Emission allowances

Emission rights held under national and international emissions rights systems are reported as intangible assets. Emission rights are capitalised at their acquisition costs when issued for the respective reporting period as (partial) fulfilment of the notice of allocation from the responsible national authorities, or purchased from third parties. The consumption of emission rights is recognised at average cost based on emissions made. A shortfall in emission rights is recognised within other provisions at cost. The expenses incurred for the consumption of emission rights and the recognition of a corresponding provision are reported under cost of goods sold.

As part of operating activities, emission rights are also held for proprietary trading purposes. Emission rights held for proprietary trading are reported under derivative financial instruments at fair value.

##### **Tangible fixed assets**

Tangible fixed assets are stated at original cost, less accumulated depreciation and any provision for impairment. Impairment losses and any subsequent reversals are recognised in the period in which they are identified. In the case of assets constructed by the Company, directly related overheads and commissioning costs are included in cost.

Major assets in the course of construction are included in tangible fixed assets on the basis of expenditure incurred at the balance sheet date. Where borrowings are used to finance the construction of a major capital project with a long period of development, interest payable is capitalised as part of the cost of the asset and written off over the economic useful life of the asset. Where specific borrowings are used, the amount capitalised is based on actual interest payable. Where general borrowings are used, the amount capitalised is based on the weighted average cost of capital of the Group, not exceeding the actual expenditure incurred during the relevant period of construction.

## E.ON UK PLC

### Notes to the parent company financial statements for the year ended 31 December 2009 (continued)

#### **1 Accounting policies (continued)**

##### **Depreciation**

Provision for depreciation of generating and other assets is made so as to write off the cost (less residual value) of tangible fixed assets, on a straight line basis except in cases where a different method is deemed more suitable. Assets are depreciated over their estimated useful lives or, in the case of leased assets, over the lease term if shorter. Estimated useful lives are reviewed periodically. No depreciation is provided on freehold land or assets in the course of construction.

The estimated useful lives for the other principal categories of fixed assets are

<i>Asset</i>	<i>Life in years</i>
Generating assets	25-45
Other assets	3-40

##### **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 estimated useful life, typically the period until the next major overhaul. That period is usually four years.

##### **Impairment**

Impairments of assets are calculated as the difference between the carrying value of the asset and its recoverable amount, if lower. 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 to which the asset belongs.

##### **Stocks**

Fuel stocks and general and engineering stores are stated at the lower of cost and net realisable value. In general, stocks are recognised in the profit and loss account on a weighted average cost basis. The Companies Act 2006 requires stocks to be categorised between raw materials, work in progress and finished goods. Fuel stocks and stores are considered to be raw materials under this definition.

##### **Cash and short-term deposits**

Short-term deposits include cash at bank and in hand, and certificates of tax deposit.

## **E.ON UK PLC**

### **Notes to the parent company financial statements for the year ended 31 December 2009 (continued)**

#### **1 Accounting policies (continued)**

##### **Taxation**

The tax charge for the year is based on the profits or losses on ordinary activities for the year and takes into account full provision for deferred tax in respect of timing differences on a discounted basis, using the approach set out in FRS 19 'Deferred tax'. Timing differences arise primarily from the differing treatment for taxation and accounting purposes of provisions and depreciation of fixed assets. Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, or where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered.

Deferred tax is measured at the tax rates that are expected to apply in the periods which the timing differences are expected to reverse, based on tax laws that have been enacted or substantially enacted by the balance sheet date.

##### **Cash flow statement**

The Company is the parent undertaking of the E.ON UK Group, and is included in the consolidated financial statements of the Group. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 (revised 1996) 'Cash Flow Statements'.

##### **Related party transactions**

The Company is exempt under the terms of FRS 8, from disclosing related party transactions with entities that are part of the E.ON AG Group or investees of the E.ON AG Group.

##### **Equity**

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

##### **Pension costs**

The Company contributes to a funded group pension scheme operated by the Company, the assets of which are invested in a separate trustee-administered fund. The Company is unable to identify its share of the underlying assets and liabilities of the group pension scheme. The Company has accounted for its contribution to the group pension scheme as if the scheme was a defined contribution scheme and accounts for contributions payable to the group pension scheme in the accounting period in which they fall due.

## **E.ON UK PLC**

### **Notes to the parent company financial statements for the year ended 31 December 2009 (continued)**

#### **1 Accounting policies (continued)**

##### **Dividend distribution**

Dividend distribution to the Company's shareholder is recognised as a liability in the financial statements in the period in which the dividends are approved

##### **Operating leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

When assets are leased out under an operating lease, the asset is included in the balance sheet based on the nature of the asset. Accordingly, generating assets leased out under operating leases are included within tangible assets. Income from operating leases is recognised on a straight line basis except where income receipts vary with output or other factors. Any variable element is recognised as earned.

##### **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.

#### **2 Profit of the Company**

The profit for the financial year of the Company is £1,066 million (2008: £241 million loss). The Company is not publishing a separate profit and loss account as permitted by Section 408 of the Companies Act 2006.



# E.ON UK PLC

## Notes to the parent company financial statements for the year ended 31 December 2009 (continued)

### 3 Directors' remuneration

The total remuneration of the Company's directors, together with details of the individual remuneration of the highest paid director are as follows

<b>All directors</b>	<b>Year ended 31 December 2009 £</b>	<b>Year ended 31 December 2008 £</b>
Aggregate emoluments	<b>3,858,925</b>	3,474,518

Retirement benefits are accruing to five (2008 five) directors under a defined benefit scheme. During the year no directors exercised options over shares they were rewarded for services to the E.ON Group (2008 none). In 2009, four (2008 three) directors exercised Performance Rights (2008 Stock Appreciation Rights) over shares in the ultimate parent company, E.ON AG, which they were awarded for services to the E.ON UK Group.

<b>Highest paid director</b>	<b>Year ended 31 December 2009 £</b>	<b>Year ended 31 December 2008 £</b>
Annual salary	<b>574,975</b>	574,975
Annual bonus	<b>500,000</b>	586,100
Long-term incentive payments	<b>426,636</b>	199,757
Other benefits	<b>38,263</b>	170,155
Total emoluments, excluding gains on the exercise of share options and benefits accruing under long-term incentive schemes	<b>1,539,874</b>	1,530,987
Defined benefit pension scheme		
- Accrued pension at end of year	<b>183,090</b>	183,510

During the year the highest paid director exercised Performance Rights (2008 Stock Appreciation Rights) over shares in the ultimate parent company, E.ON AG, that they were awarded for services to the E.ON UK Group.

# E.ON UK PLC

## Notes to the parent company financial statements for the year ended 31 December 2009 (continued)

### 4 Employee information

The average number of persons employed by the Company, including directors was

	Year ended 31 December 2009	Year ended 31 December 2008
Total operations	<b>2,756</b>	2,840

The salaries and related costs of employees, including directors, were

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Wages and salaries	<b>109</b>	169
Social security costs	<b>10</b>	16
Other pension costs (Note 19)	<b>82</b>	76
	<b>201</b>	261

### 5 Intangible fixed assets

	Goodwill £m	Other £m	Total £m
<b>Cost</b>			
At 1 January 2009	32	237	269
Acquisition (Note 21)	2	-	2
Disposals	(30)	(237)	(267)
<b>At 31 December 2009</b>	<b>4</b>	-	<b>4</b>
<b>Amortisation</b>			
At 1 January 2009	11	-	11
Disposals	(10)	-	(10)
<b>At 31 December 2009</b>	<b>1</b>	-	<b>1</b>
<b>Net book value at 31 December 2009</b>	<b>3</b>	-	<b>3</b>
Net book value at 31 December 2008	21	237	258

Other intangible assets primarily comprise emission rights which are not amortised and are settled each year. The goodwill disposal relates to the disposal of the E.ON Energy Trading business (Note 22).

# E.ON UK PLC

## Notes to the parent company financial statements for the year ended 31 December 2009 (continued)

### 6 Tangible fixed assets

	Generating assets £m	Other assets £m	Total £m
<b>Cost</b>			
At 1 January 2009	3,610	51	3,661
Acquisition (Note 21)	-	1	1
Additions	411	2	413
Disposals	(4)	(5)	(9)
<b>At 31 December 2009</b>	<b>4,017</b>	<b>49</b>	<b>4,066</b>
<b>Depreciation</b>			
At 1 January 2009	1,729	44	1,773
Charge for the year	149	2	151
Disposals	-	(4)	(4)
<b>At 31 December 2009</b>	<b>1,878</b>	<b>42</b>	<b>1,920</b>
<b>Net book value at 31 December 2009</b>	<b>2,139</b>	<b>7</b>	<b>2,146</b>
Net book value at 31 December 2008	1,881	7	1,888

Generating assets include freehold land and buildings with a net book value of £176 million (2008 £160 million)

Generating assets include capitalised finance costs of £42 million (2008 £24 million)

# E.ON UK PLC

## Notes to the parent company financial statements for the year ended 31 December 2009 (continued)

### 7 Investments

	Subsidiary investment	Associate/ joint venture investment	Other investments	Total
	Equity £m	Equity £m	£m	£m
At 31 December 2008	3,479	1	19	3,499
Transfers	(4)	-	-	(4)
Additions	-	30	-	30
Impairments	(9)	-	-	(9)
Disposals	-	(1)	(2)	(3)
<b>At 31 December 2009</b>	<b>3,466</b>	<b>30</b>	<b>17</b>	<b>3,513</b>

On 31 October 2008, the Company purchased the entire issued share capital of Thor Holdings Limited for £10 million. At the beginning of 2009, a transfer out of investments to debtors of £4 million was made upon further assessment of the assets and liabilities acquired. Subsequently in the year, the carrying amount of £6 million relating to the subsidiary investment was impaired following a strategic review of the business activities.

During 2009, the subsidiary investment carrying amount of £3 million relating to Empower Training Services Limited was written down following the transfer of the trade and assets of the subsidiary to the Company.

## E.ON UK PLC

### Notes to the parent company financial statements for the year ended 31 December 2009 (continued)

#### 7 Investments (continued)

##### Interests in subsidiary undertakings

Details of the Company's principal investments in subsidiary undertakings are set out below. Principal subsidiaries are those which in the opinion of the directors significantly affect the amount of profit and assets and liabilities shown in these accounts. The directors consider that those companies not listed are not significant in relation to the Company as a whole.

Name	Class of share capital	Proportion of nominal value of issued equity shares and voting rights held by the Company %	Country of incorporation or registration	Principal business activities
Powergen International Limited	Ordinary shares	100	England and Wales	Holding company for international activities
E.ON Energy Limited	Ordinary shares	100	England and Wales	Supply of electricity and supply, trading and shipping of gas in the UK
Powergen (East Midlands) Investments	Ordinary shares	100	England and Wales	Holding company for distribution activities
E.ON Climate & Renewables UK Limited	Ordinary shares	100	England and Wales	Holding company for renewable activities
EME Distribution No 2 Limited	Ordinary shares	100	England and Wales	Holding company for distribution activities
E.ON UK Energy Services Limited	Ordinary shares	100	England and Wales	Supply of metering and home installation services

## E.ON UK PLC

### Notes to the parent company financial statements for the year ended 31 December 2009 (continued)

#### 7 Investments (continued)

##### Associates

Details of the Company's principal investments in associates and joint ventures are as follows

	Accounting reference date	Country of incorporation or registration	Shares held	% of capital held directly by the Company
Horizon Nuclear Power Limited	31 December	England and Wales	Ordinary shares	50%

On 30 July 2009, the Company purchased a 50% investment in Horizon Nuclear Power. The principal activity of the joint venture is the development of nuclear capacity in the UK. The remaining 50% is owned by RWE Npower, a wholly owned subsidiary of RWE AG.

On 1 October 2009, the Company sold its 50% investment in Biogeneration Limited for its market value of £670,000.

##### Other investments

Other investments include the following

	At 31 December 2009 £m	At 31 December 2008 £m
Listed equity securities – UK	-	2
Listed gilts – UK	17	17
	<u>17</u>	<u>19</u>

# E.ON UK PLC

## **Notes to the parent company financial statements** **for the year ended 31 December 2009 (continued)**

### **8 Stocks**

	At 31 December 2009 £m	At 31 December 2008 £m
Fuel stocks	178	274
Stores	26	29
	<b>204</b>	<b>303</b>

### **9 Debtors: amounts falling due within one year**

	At 31 December 2009 £m	At 31 December 2008 £m
Trade debtors	20	260
Other debtors	85	105
Prepayments and accrued income	120	105
Deferred tax (Note 15)	-	88
Other taxation and social security	66	57
Amounts due from group undertakings	<b>4,012</b>	<b>3,808</b>
	<b>4,303</b>	<b>4,423</b>

Amounts due from group undertakings are unsecured, a combination of interest free and interest bearing, denominated in Sterling and repayable on predetermined dates. Interest bearing loans are set at LIBOR plus 25 to 70 basis points.

# **E.ON UK PLC**

## **Notes to the parent company financial statements for the year ended 31 December 2009 (continued)**

### **10 Loans and overdrafts**

	At 31 December 2009 £m	At 31 December 2008 £m
Bank overdrafts	194	112
Short-term loans from parent undertaking and fellow subsidiaries	376	74
5% Euro Eurobond 2009 – amounts owed to external debt holders	-	251
5% Euro Eurobond 2009 - amounts owed to fellow group undertakings	-	224
	<b>570</b>	<b>661</b>

Short-term funding is provided through inter-company facilities, which are unsecured and repayable on demand. Amounts owed to parent undertaking and fellow subsidiaries are unsecured, incur interest based on LIBOR, are denominated in Sterling and are repayable on predetermined dates.

The weighted average interest rate on all short-term loans during the year was 2.03% (2008: 6.2%). None of the bonds outstanding at 31 December 2008 and 31 December 2009 have any financial covenants.

### **11 Creditors: amounts falling due within one year**

	At 31 December 2009 £m	At 31 December 2008 £m
Trade creditors	223	528
Amounts owed to group undertakings	3,359	3,528
Other taxation and social security	187	-
Deferred Tax (Note 15)	206	-
United Kingdom corporation tax	122	64
Overseas tax	19	19
Deferred income (Note 22)	107	-
Accruals and other creditors	101	317
	<b>4,324</b>	<b>4,456</b>



# **E.ON UK PLC**

## **Notes to the parent company financial statements** **for the year ended 31 December 2009 (continued)**

### **11 Creditors: amounts falling due within one year (continued)**

Amounts owed to group undertakings are unsecured, a combination of interest free and interest bearing, are denominated in Sterling, Euro and US Dollar and are repayable on predetermined dates Interest bearing loans are set at LIBOR less 12 5 to plus 50 basis points

### **12 Creditors: amounts falling due after more than one year**

	At 31 December 2009 £m	At 31 December 2008 £m
<b>Deferred income (Note 22)</b>	<b>88</b>	<b>-</b>
<b>Amounts owed to external debt holders</b>		
6 25% Sterling Eurobond 2024	8	8
	<b>8</b>	<b>8</b>
<b>Amounts owed to fellow group undertakings</b>		
6 25% Sterling Eurobond 2024	226	224
Long-term loan 2010	-	300
Long-term loan 2011	537	333
Long-term loan 2014	350	-
Long-term loan 2037	900	900
	<b>2,013</b>	<b>1,757</b>
	<b>2,109</b>	<b>1,765</b>

None of the bonds outstanding at 31 December 2008 and 31 December 2009 have any financial covenants Amounts owed to fellow group undertakings are unsecured

The long-term loan 2010 is unsecured, repayable in 2010 and incurs interest at LIBOR plus 25 basis points The long-term loan 2011 is repayable in 2011 and incurs interest at LIBOR plus 47 5 basis points The long-term loan 2014 is repayable in 2014 and incurs interest at 5 775% The long-term loan 2037 is repayable in 2037 and incurs interest at 6 075%

# E.ON UK PLC

## Notes to the parent company financial statements for the year ended 31 December 2009 (continued)

### 13 Financial instruments

Amounts recognised in respect of derivative financial instruments are as follows

	<b>Assets (£m)</b>		<b>Liabilities (£m)</b>	
	<b>At 31 December 2009</b>	<b>At 31 December 2008</b>	<b>At 31 December 2009</b>	<b>At 31 December 2008</b>
Interest rate swaps	-	4	-	-
Cross-currency swaps	-	150	-	-
Foreign currency forward contracts	<b>13</b>	465	<b>(11)</b>	(233)
Commodity swaps	<b>310</b>	1,028	<b>(208)</b>	(1,277)
Commodity forward contracts	<b>2,732</b>	2,660	<b>(2,727)</b>	(3,423)
Embedded derivatives within long term gas contracts	-	-	-	(17)
	<b>3,055</b>	4,307	<b>(2,946)</b>	(4,950)

Derivative financial instruments are classified within current assets and current liabilities unless they form part of a designated hedge relationship, when they are classified according to the period in which the hedging relationship is expected to expire

The fair value of these derivatives is equivalent to the carrying value

### 14 Provisions for liabilities and charges

Movements on provisions comprise

	<b>At 31 December 2008</b>	<b>Charged to the profit and loss account</b>	<b>Accretion of discount</b>	<b>Provisions utilised</b>	<b>At 31 December 2009</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Contract provisions	40	1	-	(38)	<b>3</b>
Decommissioning	43	-	2	-	<b>45</b>
Emissions obligations	237	67	-	(237)	<b>67</b>
	<b>320</b>	<b>68</b>	<b>2</b>	<b>(275)</b>	<b>115</b>

The majority of contract provisions at 31 December 2008 related to an amount payable to Lehman Brothers Holdings Inc following termination of the ISDA Master Agreement and the close out of outstanding transactions arising from the collapse of the Lehman Group which was utilised in 2009. The remaining balance relates to onerous lease contract provisions.

# **E.ON UK PLC**

## **Notes to the parent company financial statements** **for the year ended 31 December 2009 (continued)**

### **14 Provisions for liabilities and charges (continued)**

Decommissioning provisions comprise amounts set aside for the estimated costs of terminating power station grid connections, decommissioning power stations and subsequent site restoration costs at UK power stations which will be utilised as each power station closes

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

### **15 Deferred tax**

An analysis of the full provision and discounted provision for deferred tax recognised at 31 December 2009 is as follows

	<b>At 31 December 2009 £m</b>	<b>At 31 December 2008 £m</b>
Accelerated capital allowances	<b>294</b>	236
Other timing differences	<b>2</b>	(254)
Undiscounted provision/(asset) for deferred tax	<b>296</b>	(18)
Discount	<b>(90)</b>	(70)
Discounted provision/(asset) for deferred tax	<b>206</b>	(88)
	<b>2009 £m</b>	<b>2008 £m</b>
(Asset)/provision at 1 January	<b>(88)</b>	142
Deferred tax charge/(credit) for year	<b>294</b>	(233)
Taken to equity	<b>-</b>	3
Provision/(asset) at 31 December	<b>206</b>	(88)

## E.ON UK PLC

### Notes to the parent company financial statements for the year ended 31 December 2009 (continued)

#### 15 Deferred tax (continued)

As at 31 December 2009 deferred tax balances were measured at the standard rate of corporation tax in the UK at 28% (2008 28%), as this is the rate that will apply when these timing differences reverse. As a result of the change in treatment in 2008 of industrial buildings on disposal such that no balancing tax allowances or charges will arise in the future the balance of deferred tax relating to industrial buildings has been removed from the deferred tax balances. The impact of this change is to reduce the deferred tax provision by £4 million (2008 £11 million).

The effect of the disposal of the E.ON Energy Trading business in January 2009 was to remove a net asset of £270 million from the deferred tax balance at 31 December 2008.

#### 16 Share capital

The share capital of the Company comprises

	At 31 December 2009 £m	At 31 December 2008 £m
<b>Authorised</b>		
3,050,000,002 (2008 3,050,000,002) ordinary shares of 50p each	<b>1,525</b>	1,525
<b>Allotted, called-up and fully paid</b>		
2,649,241,799 (2008 2,649,241,799) ordinary shares of 50p each	<b>1,325</b>	1,325

# E.ON UK PLC

## Notes to the parent company financial statements for the year ended 31 December 2009 (continued)

### 17 Reserves

	Share premium account £m	Special capital reserve £m	Capital redemption reserve £m	Profit and loss account £m
At 31 December 2008	97	474	85	599
Dividend	-	-	-	(480)
Disposal of listed investments (net of tax)	-	-	-	(2)
Profit for the year	-	-	-	1,066
<b>At 31 December 2009</b>	<b>97</b>	<b>474</b>	<b>85</b>	<b>1,183</b>

The share premium account, special capital reserve and capital redemption reserve are not available for distribution. The special capital reserve was determined in accordance with the Transfer Scheme made pursuant to the Electricity Act 1989, under which the CEGB's net assets were vested in its successor companies.

### 18 Reconciliation of movements in shareholders' funds

	31 December 2009 £m	31 December 2008 £m
Profit/(loss) for the financial year	1,066	(241)
Dividends	(480)	-
Retained profit/(loss) for the financial year	586	(241)
Disposal of listed investment (net of tax)	(2)	-
Cash flow hedges (net of tax)	-	10
Net movement in shareholders' funds	584	(231)
Opening shareholders' funds	2,580	2,811
Closing shareholders' funds	3,164	2,580

## E.ON UK PLC

### Notes to the parent company financial statements for the year ended 31 December 2009 (continued)

#### 19 Pension commitments

##### Defined Contribution Scheme

In December 2008, the Company opened a defined contribution retirement benefit scheme for all qualifying employees not already a pension scheme member and for new employees joining the Company. The assets of the scheme are held separately from those of the Group funds in an independent administered fund held by the individual members. The total cost charged to the income of £0.3 million (2008: £nil) represents contributions payable to these schemes by the Company at rates specified in the rules of the plan. As at 31 December 2009, all of the contributions had been paid over to the scheme.

##### Defined Benefit Schemes

At 31 December 2009, the Company had two registered pension schemes and one unfunded unregistered pension scheme. The main Company pension scheme is the E.ON UK Group of the Electricity Supply Pension Scheme ("the Scheme"). This is a funded scheme with several different benefit categories, largely defined benefit type. An actuarial valuation of the Scheme is normally carried out every three years by the Scheme's independent actuary, who recommends the rates of contribution payable by participating employers. In intervening years the actuary reviews the continuing appropriateness of the rates. The last full actuarial valuation of the Scheme was as at 31 March 2007. The valuation of the Scheme at Group level (see to Note 24 on page 96) is not performed in accordance with FRS 17 "Retirement Benefits", therefore the (deficit)/ surplus, as calculated in accordance with IAS 19 "Employee Benefits" ("IAS 19"), has been disclosed. The Group's (deficit)/ surplus under IAS 19 is as follows:

	31 December 2009	31 December 2008
Valuation (deficit)/ surplus	<b>(£663m)</b>	£472m
Market value of assets	<b>£4,951m</b>	£4,889m
Funding level	<b>88.2%</b>	110.4%
The scheme was valued using the following assumptions		
– average nominal rate of return on investments (discount rate)	<b>5.7%</b>	6.4%
– average nominal rate of annual increase in salaries	<b>4.0%</b>	3.0%
– average nominal rate of annual increase in pensions	<b>3.3%</b>	2.5%
Inflation rate	<b>3.5%</b>	2.5%
Method of valuation used	<b>IAS 19</b>	IAS 19

**Notes to the parent company financial statements**  
**for the year ended 31 December 2009 (continued)**

**19 Pension commitments (continued)**

The contributions paid by the Company are accounted as if the Scheme was a defined contribution scheme, as the Company is unable to identify its share of the underlying assets and liabilities in the Scheme. The cost of contributions to the Scheme during the year amounted to £82 million (2008 £76 million), being 74.7% of pensionable salary (2008 65.9%). This includes a special contribution of £61 million (2008 £61 million) paid during the year. Excluding the special contribution, the cost of contributions to the Scheme amount to £21 million (2008 £15 million), being 19.3% of pensionable salary (2008 12.8%).

The amount outstanding included in other creditors relating to pension contributions to the Scheme is £nil (2008 £8 million).

**20 Commitments and contingent liabilities**

- a) At 31 December 2009, the Company had commitments contracted but not provided of £335 million (2008 £416 million) for capital expenditure.
- b) The Company is aware of claims in respect of current and former employees, including former employees of the CEGB, and contractors in respect of industrial illness and injury and other potential claims which involve or may involve legal proceedings against the Company.

The directors are of the opinion, having regard to legal advice received, the Company's insurance arrangements and provisions held, as appropriate, that it is unlikely that the matters referred to above will have a material effect on the Company's financial position, results of operations or liquidity.

- c) A complaint was made to the European Commission by the South Wales Small Mines Association (SWSMA) against, amongst others, the Company and National Power plc in 1990. The complaint alleged breaches of EU law by the CEGB in its coal purchasing practices prior to 1990. Under the arrangements for electricity privatisation, it is possible that either or both of the Company and National Power plc (through its successor companies) could be liable to pay any compensation that may ultimately arise.

## E.ON UK PLC

### Notes to the parent company financial statements for the year ended 31 December 2009 (continued)

#### **20 Commitments and contingent liabilities (continued)**

- c) The Commission rejected the complaint in 1998 on legal grounds and that decision was subsequently appealed by some of the former members of SWSMA. The appeal did not proceed to judgement because the Court of Justice of the European Communities held this to be without purpose in light of its decision in a parallel case, in which it overturned the Commission's rejection of a similar complaint. The Commission proceeded to carry out an investigation into the substantive merits of the complaint. By a decision dated 18 June 2008 the Commission rejected the SWSMA complaint, indicating that there were insufficient grounds for acting upon it. This decision has been appealed by members of SWSMA to the European Court of First Instance and the Company have been granted leave to intervene in that action. Whilst there has been a withdrawal of action by some of the complainants, the action continues to be pursued by the remaining complainants.
- d) The Company has in place a portfolio of fuel contracts of varying volume, duration and price, reflecting market conditions at the time of commitment. These contracts are with UK and international suppliers of coal and are backed by transport contracts for rail, road, canal and sea movements. At 31 December 2009, the Company's future commitments for the supply of coal under all its contractual arrangements totalled £348 million (2008 £1,106 million).

The Group is also committed to purchase gas under various gas supply contracts including the supply of gas to the Group's power stations and to meet retail demand. At 31 December 2009, the estimated minimum commitment for the supply of gas under all these contracts totalled £696 million (2008 £3,784 million).

The Company is also committed to power purchase contracts for the supply of electricity. At 31 December 2009, the total contractual commitment for the Company was £nil (2008 £1,551 million).

Following the disposal of the E.ON Energy Trading business on 1 January 2009, all existing fuel purchase contracts at that date were novated or matched by equal and opposite sales contracts with EET SE. The Group also has further commitments to sell all power and related renewables credits generated to EET SE. The volumes generated are at the discretion of EET SE and therefore this commitment cannot be quantified.



## E.ON UK PLC

### Notes to the parent company financial statements for the year ended 31 December 2009 (continued)

#### 20 Commitments and contingent liabilities (continued)

- e) The Company has issued guarantees to third parties to support its subsidiaries' activities, particularly around gas and power procurement and banking activities. At 31 December 2009, the credit risk exposure under financial guarantees issued by E.ON UK plc in support of its subsidiaries was £1,781 million (2008: £602 million).
- f) In the normal course of business the Company gives certain other indemnities and guarantees which are not considered to be material in the context of these financial statements and on which no losses are anticipated to arise.
- g) At 31 December 2009, the Company had the following operating lease commitments relating to property:

	31 December 2009 £m	31 December 2008 £m
Annual commitments expiring under non-cancellable operating leases expiring		
Within one year	-	1
Within two to five years	4	1
After five years	5	6
	<u>9</u>	<u>8</u>

The Company leases various offices and other buildings under non-cancellable operating lease arrangements. The leases have various terms, escalation clauses and renewal rights.

## E.ON UK PLC

### Notes to the parent company financial statements for the year ended 31 December 2009 (continued)

#### 21 Acquisition

On 1 January 2009, the trade and assets of Empower Training Services Limited, a subsidiary company involved in the provision of training and consultancy services in the electricity industry, were transferred to the Company for cash consideration of £3 million

	Book value £m	Fair value £m
Fixed assets	1	1
Current assets	3	3
Current liabilities	(3)	(3)
	1	1
Goodwill arising on acquisition	-	2
<b>Total consideration</b>	<b>1</b>	<b>3</b>
Satisfied by		
Cash		3
Directly attributable costs		-
		<b>3</b>

#### 22 Disposal

On 1 January 2009, the Company disposed of its E ON Energy Trading business to EET SE for £813 million resulting in a gain on disposal of £1,243 million recognised in 2009. A further £195 million gain relating to the new back to back contract arrangements has been deferred (within deferred income) and will be recognised in future periods when the contracts are settled

	£m	£m
Intangibles		20
Stocks		128
Debtors		55
Commodity and other derivative assets		28
Creditors		(49)
Commodity and other derivative liabilities		(38)
Provisions		(47)
Net assets disposed of		97
Transfer of economic benefits of commodity and other derivatives		(722)
Profit on disposal recognised in 2009	1,243	
Deferred gain – due within one year	107	
Deferred gain – due after more than one year	88	
		<b>1,438</b>
<b>Sale proceeds – cash inflow</b>		<b>813</b>

## **E.ON UK PLC**

### **Notes to the parent company financial statements for the year ended 31 December 2009 (continued)**

#### **23 Ultimate parent undertaking and controlling party**

The immediate parent undertaking is Powergen Group Investments, a company incorporated in England. The ultimate parent undertaking in the UK is E.ON UK Holding Company Limited, a company incorporated in England. The ultimate parent undertaking and controlling party is E.ON AG, a company incorporated in Germany, which is the parent company of the largest group to consolidate these financial statements. Copies of E.ON AG's accounts are available from the offices of E.ON AG at the following address:

E.ON AG  
E.ON-Platz 1  
D-40479  
Düsseldorf  
Germany