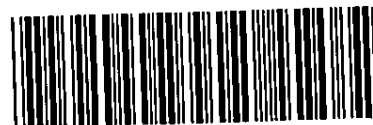


E.ON UK CHP LIMITED
REPORT AND FINANCIAL STATEMENTS
for the year ended 31 December 2007

FRIDAY



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Registered No: 2684288

E.ON UK CHP LIMITED

Report of the directors for the year ended 31 December 2007

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2007

Principal activities

The Company's principal activity during the year and at the year end continued to be the sale of energy and related services, primarily the operation of combined heat and power (CHP) plants.

Business review

Fair review of the Company's business

Difficult trading conditions have continued to hinder the results of the Company. There are no current plans to initiate any new CHP development projects

Notwithstanding the fact that the Company has been loss making, has net current liabilities and net liabilities, the directors have prepared the accounts on the going concern basis. The directors have received confirmation from E.ON UK plc, the principal UK trading subsidiary of the E.ON Group, of its intention to financially support the Company such that the Company can meet its obligations as they fall due for a period of at least twelve months from the date of the directors' approval of these accounts

During the year a review of the Company's plant portfolio and fixed asset investments was undertaken. The cash flows used in this review were discounted at the E.ON UK plc group's cost of capital for CHP operations. An impairment of £5,060,000 (2006: £33,757,000) and an increase in the onerous contract provision of £4,392,000 (2006: £16,198,000) has consequently been recorded within these accounts. The impairment arose as a result of changes in expected future commodity prices.

Principal risks and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks

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

Key performance indicators ('KPIs')

The directors of E.ON UK plc manage the group's operations on a divisional basis. For this reason, the Company's directors believe that analysis using KPIs for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of the Company. The development, performance and position of the Energy Wholesale division of E.ON UK plc, which includes the Company, is discussed within the financial review section of the group's annual report which does not form part of this report.

E.ON UK CHP LIMITED

Report of the directors for the year ended 31 December 2007 (continued)

Results and dividends

The Company's loss for the financial year is £39,555,000 (2006 loss of £72,257,000). The directors do not recommend the payment of a dividend (2006. £nil).

Directors and their interests

The directors who held office during the year and subsequent to the year end are given below:

| | |
|---------------|--|
| R Taylor | (appointed 4 July 2007) |
| D J Morgans | (appointed 1 January 2008) |
| C R Scoins | (appointed 1 January 2008) |
| G J Bartlett | (resigned 4 July 2007) |
| A D Cocker | (resigned 4 July 2007) |
| K Plowman | (resigned 1 January 2008) |
| P Bridgewater | (appointed 4 July 2007, resigned 1 January 2008) |

During the year, no director had an interest in the shares of the Company. At 31 December 2006 and 31 December 2007, no director had any interest requiring disclosure.

Policy and practice on payment of creditors

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

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

For all other cases the Company supports the Better Payments Practice Code and has in place well developed arrangements with a view to ensuring that this is observed. Trade creditors at year end were negligible. At 31 December 2006, trade creditors represented 32 days of purchases.

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period

In preparing those financial statements the directors are required to:

- a) Select suitable accounting policies and then apply them consistently.
- b) Make judgements and estimates that are reasonable and prudent
- c) State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

E.ON UK CHP LIMITED

Report of the directors for the year ended 31 December 2007 (continued)

Statement of directors' responsibilities (continued)

- d) Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

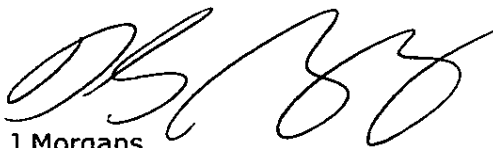
Auditors and disclosure of information to auditors

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

Auditors

On 29 January 1993, the Company passed an elective resolution dispensing with the requirement to appoint auditors annually. Therefore, PricewaterhouseCoopers LLP will continue in office.

BY ORDER OF THE BOARD



D J Morgans
Director
E ON UK CHP Limited
Westwood Way
Westwood Business Park
Coventry
CV4 8LG

29 September 2008

E.ON UK CHP LIMITED

Independent auditors' report to the Shareholders of E.ON UK CHP Limited

We have audited the financial statements of E.ON UK CHP Limited for the year ended 31 December 2007 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies within it. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2007 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

30 September 2008

E.ON UK CHP LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2007

| | Note | Year ended 31 December 2007 £'000 | Year ended 31 December 2006 £'000 |
|--|------|--|--|
| Turnover | 2 | 180,215 | 175,672 |
| Cost of sales | | (204,102) | (210,581) |
| Gross Loss | | (23,887) | (34,909) |
| Operating expenses | 3 | (1,806) | (2,923) |
| Operating Loss before exceptional items | | (25,693) | (37,832) |
| Exceptional items: | | | |
| Impairment of fixed assets | 4 | (5,060) | (33,757) |
| Onerous contract provision | 4 | (4,392) | (16,198) |
| Operating Loss | 5 | (35,145) | (87,787) |
| Interest payable and similar charges | 7 | (19,116) | (13,737) |
| Loss on ordinary activities before taxation | | (54,261) | (101,524) |
| Tax on loss on ordinary activities | 8 | 14,706 | 29,267 |
| Loss on ordinary activities after taxation | 17 | (39,555) | (72,257) |

There are no material differences between the loss on ordinary activities before taxation and the retained loss for either of the years stated above and their historical cost equivalents

The Company has no recognised gains or losses other than the loss above and therefore no separate statement of total recognised gains and losses has been presented.

All the above amounts relate to continuing operations.


The accounting policies and the notes on pages 7 to 19 form part of these financial statements.

E.ON UK CHP LIMITED

BALANCE SHEET
AS AT 31 DECEMBER 2007

| | Note | At 31 December 2007 £'000 | At 31 December 2006 £'000 |
|---|------|------------------------------------|------------------------------------|
| Fixed assets | | | |
| Tangible assets | 9 | 48,904 | 56,722 |
| Investments | 10 | 74,358 | 74,358 |
| | | 123,262 | 131,080 |
| Current assets | | | |
| Stock | 11 | 5,756 | 6,219 |
| Debtors, amounts falling due within one year | 12 | 22,419 | 20,433 |
| Deferred tax asset | 13 | 15,433 | 11,475 |
| | | 43,608 | 38,127 |
| Creditors: amounts falling due within one year | 14 | (351,384) | (317,907) |
| Net current liabilities | | (307,776) | (279,780) |
| Total assets less current liabilities | | (184,514) | (148,700) |
| Provisions | 15 | (23,598) | (19,857) |
| Net Liabilities | | (208,112) | (168,557) |
| Capital and reserves | | | |
| Called-up share capital | 16 | 50,000 | 50,000 |
| Profit and loss reserve | 17 | (258,112) | (218,557) |
| Total shareholders' deficit | | (208,112) | (168,557) |

The financial statements on pages 5 to 19 were approved by the Board of Directors on 29 September 2008 and were signed on its behalf by:


D J Morgans
Director

29 September 2008

The accounting policies and the notes on pages 7 to 19 form part of these financial statements

E.ON UK CHP LIMITED

Notes to the financial statements **for the year ended 31 December 2007**

1 Accounting policies

These financial statements are prepared on the going concern basis, under the historical cost convention, in accordance with the Companies Act 1985 and applicable United Kingdom accounting standards, all of which have been consistently applied. The Company is exempt from the requirement to produce consolidated financial statements as it is included in the consolidated financial statements of E.ON AG, a company registered in Germany. The principal accounting policies are set out below.

(a) Fixed asset investments

Fixed asset investments are stated at original cost plus subsequent loans advanced or amounts invested. Provision is made for any impairment in the value of investments.

(b) Tangible fixed assets

Tangible fixed assets are stated at their purchase or production cost less accumulated depreciation. Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight-line basis over their useful economic lives. The estimated useful economic lives used for the principal categories of fixed assets are as follows:

| <i>Asset</i> | <i>Years</i> |
|-------------------------------|--------------|
| Operating plant and buildings | 10-20 |
| Overhaul costs | 2-3 |
| Other short term assets | 3-5 |

Freehold land and assets in the course of construction are not depreciated.

(c) Overhaul of generation plant

Overhaul costs are capitalised as part of generating assets and depreciated on a straight-line basis over their useful economic life, typically the period until the next major overhaul. That period is usually between two and three years.

(d) Decommissioning costs

A fixed asset and related provision is recognised in respect of the estimated total discounted cost of decommissioning generating assets. The resulting fixed asset is depreciated on a straight-line basis, and the discount on the provision is unwound, over the useful life of the associated power station. On an annual basis, the discount rate is adjusted to reflect the current market conditions.

(e) Fuel stocks and stores

Fuel stocks and stores are stated at the lower of cost and net realisable value. Where necessary, provision is made for obsolete, slow moving or defective stocks. In general, stocks are recognised in the profit and loss account on a weighted average cost basis. The Companies Act 1985 requires stocks to be categorised between raw materials, work in progress and finished goods. Fuel stocks and stores are raw materials under this definition.

E.ON UK CHP LIMITED

Notes to the financial statements **for the year ended 31 December 2007 (continued)**

1 Accounting policies (continued)

(f) 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.

(g) Pension costs

The Company contributes to a funded group pension scheme operated by E.ON UK plc, 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 accounts 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.

(h) 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 Financial Reporting Standard 19 'Deferred tax'. Such timing differences arise primarily from the differing treatment for taxation and accounting purposes of provisions and depreciation of fixed assets. Deferred tax liabilities are recognised in respect of all timing differences that have originated but not reversed at the balance sheet date.

(i) Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into sterling at exchange rates ruling at the end of the financial year. Transactions denominated in foreign currencies are translated into sterling at the exchange rate ruling on the date payment takes place unless related or matching forward foreign exchange contracts have been entered into when the rate specified in that contract is used. Any resultant foreign exchange differences are taken to the profit and loss account in the period in which they arise.

(j) Cash flow statement

The Company is a wholly-owned subsidiary undertaking of E.ON AG, the ultimate parent undertaking of the E.ON Group, and is included in the publicly available consolidated financial statements of E.ON AG. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 (revised 1996).

(k) Revenue

Revenue comprises revenue from the sale of electricity and steam to industrial and commercial customers. Revenue excludes Value Added Tax. Revenue is recognised when earned on the basis of a contractual agreement with the customer; it reflects the value of the volume supplied.

E.ON UK CHP LIMITED

Notes to the financial statements **for the year ended 31 December 2007 (continued)**

1 Accounting policies (continued)

(l) Related party transactions

The Company is exempt under the terms of Financial Reporting Standard 8 from disclosing related party transactions with E.ON AG, its subsidiaries and associates (together "the E.ON Group") or investees of the E.ON Group

(m) Going concern

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

(n) 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 Turnover

Turnover, which excludes Value Added Tax, represents the value of contracted sales of energy (electricity and steam) generated from CHP plant on an accruals basis. The Company's turnover, all of which arises in the course of the Company's principal activity, arises in the United Kingdom.

3 Operating expenses

| | Year ended 31 December 2007 £'000 | Year ended 31 December 2006 £'000 |
|-------------------------|--|--|
| Administrative expenses | 1,806 | 2,923 |

The directors consider that it is appropriate to include all of the costs incurred at the Company's operational sites within "Cost of Sales". The Company incurs administrative costs on behalf of both E.ON UK Cogeneration Limited and Citigen (London) Limited in the form of common management costs, for which no recharge is made.

E.ON UK CHP LIMITED

Notes to the financial statements for the year ended 31 December 2007 (continued)

4 Exceptional items

| | Year ended 31 December 2007 £'000 | Year ended 31 December 2006 £'000 |
|----------------------------|--|--|
| Impairment of fixed assets | (5,060) | (33,757) |
| Onerous contract provision | (4,392) | (16,198) |
| Exceptional items | (9,452) | (49,955) |

During the year ended 31 December 2007, a review of the Company's plant portfolio was undertaken. The cash flows used in this impairment review were discounted at the E.ON UK plc group's cost of capital for CHP operations. An impairment of £5,060,000 (2006: £33,757,000) and an onerous contract provision increase of £4,392,000 (2006: £16,198,000) has been recorded in these accounts. The impairment arose as a result of changes in expected future commodity prices. A tax credit of £2,308,000 (2006: £8,990,000) arose as a result of this item.

5 Operating loss

Operating loss is stated after charging

| | Year ended 31 December 2007 £'000 | Year ended 31 December 2006 £'000 |
|--|--|--|
| Depreciation of tangible fixed assets (all owned by the Company) | | |
| Excluding exceptional impairment charge | 6,272 | 10,736 |
| Asset impairment (note 4) | 5,060 | 33,757 |
| Onerous contract provision (note 15) | 4,392 | 16,198 |
| Operating lease charges: | | |
| Plant and machinery | 2,745 | 1,667 |
| Auditors' remuneration: | | |
| Audit services | - | 25 |

For each of the years ended 31 December 2007 and 31 December 2006, auditors' remuneration includes that for both the Company and its subsidiary undertaking, E.ON UK Cogeneration Limited (EUKCL). The auditors' remuneration relating to EUKCL was not recharged.

E.ON UK CHP LIMITED

Notes to the financial statements **for the year ended 31 December 2007 (continued)**

6 Employee information

The average monthly number of persons (including directors) employed by the Company or the group in respect of the Company during the year was:

| By activity | Year ended 31 December 2007 | Year ended 31 December 2006 |
|--------------------|--|--|
| Operations | 110 | 99 |
| Construction | - | 1 |
| Administration | 26 | 24 |
| | 136 | 124 |

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

| | Year ended 31 December 2007 £'000 | Year ended 31 December 2006 £'000 |
|-----------------------|--|--|
| Wages and salaries | 5,796 | 5,178 |
| Social security costs | 537 | 477 |
| Other pension costs | 863 | 787 |
| | 7,196 | 6,442 |

The directors received no emoluments from the Company during the year (2006 £nil)

7 Interest payable and similar charges

| | Year ended 31 December 2007 £'000 | Year ended 31 December 2006 £'000 |
|---|--|--|
| Interest payable to group undertakings | 17,813 | 13,599 |
| Provisions - discount unwind (see note 15) | 1,303 | 138 |
| Total interest payable and similar charges | 19,116 | 13,737 |

E.ON UK CHP LIMITED

Notes to the financial statements
for the year ended 31 December 2007 (continued)

8 Tax on loss on ordinary activities

| | Year ended 31 December 2007 £'000 | Year ended 31 December 2006 £'000 |
|--|--|--|
| Current tax: | | |
| UK corporation tax credit on losses for the year | (15,304) | (21,055) |
| Under/(Over) provision in prior year | 4,556 | (336) |
| Total current tax | (10,748) | (21,391) |
| Deferred tax: | | |
| Origination of timing differences | (968) | (9,398) |
| Unwinding of discount | (266) | 1,859 |
| Effect of change in rate | 1,226 | - |
| Over provision in prior year | (3,950) | (337) |
| Total deferred tax (see note 13) | (3,958) | (7,876) |
| Tax on loss on ordinary activities | (14,706) | (29,267) |

The difference between the tax on the loss on ordinary activities for the year and the tax assessed on the loss on ordinary activities for the year assessed at the standard rate of corporation tax in the UK (30%) can be explained as follows:

| | Year ended 31 December 2007 £'000 | Year ended 31 December 2006 £'000 |
|--|--|--|
| Loss on ordinary activities before tax | (54,261) | (101,524) |
| Tax on loss on ordinary activities before tax at 30% | (16,278) | (30,457) |
| <i>Effects of:</i> | | |
| Depreciation in excess of capital expenditure | (156) | 8,797 |
| Other timing differences | 1,124 | 601 |
| Expenses not deductible for tax purposes | 6 | 4 |
| Adjustments in respect of prior periods | 4,556 | (336) |
| Current tax credit for the year | (10,748) | (21,391) |

The current tax credit of £10,748,000 for the year ended 31 December 2007 is in respect of losses that will be surrendered to group undertakings for which payment will be received.

E.ON UK CHP LIMITED

Notes to the financial statements
for the year ended 31 December 2007 (continued)

9 Tangible fixed assets

| | Operating plant and buildings £'000 | Other short term assets £'000 | Total £'000 |
|----------------------------|--|--|-----------------------------|
| Cost: | | | |
| At 1 January 2007 | 366,899 | 877 | 367,776 |
| Additions | 3,496 | 18 | 3,514 |
| Disposals | (226) | (411) | (637) |
| At 31 December 2007 | 370,169 | 484 | 370,653 |
| Depreciation: | | | |
| At 1 January 2007 | 310,177 | 877 | 311,054 |
| Charge for the year | 6,271 | 1 | 6,272 |
| Impairment (see note 4) | 5,060 | - | 5,060 |
| Disposals | (226) | (411) | (637) |
| At 31 December 2007 | 321,282 | 467 | 321,749 |
| Net book value: | | | |
| At 31 December 2007 | 48,887 | 17 | 48,904 |
| At 31 December 2006 | 56,722 | - | 56,722 |

Additions include £32,000 resulting from a change in accounting estimate for the decommissioning provision (note 15). The closing net book value includes £2,436,000 (2006: £2,602,000) relating to the assets associated to the cost of decommissioning the sites.

E.ON UK CHP LIMITED

Notes to the financial statements for the year ended 31 December 2007 (continued)

10 Fixed asset investments

| | Shares in group undertakings £'000 | Loans to group undertakings £'000 | Total £'000 |
|---|---|--|--------------------|
| Cost: | | | |
| At 31 December 2006 and at 31 December 2007 | 6,501 | 68,003 | 74,504 |
| Provisions: | | | |
| At 31 December 2006 and at 31 December 2007 | (146) | - | (146) |
| Net cost: | | | |
| At 31 December 2006 and at 31 December 2007 | 6,355 | 68,003 | 74,358 |

Fixed asset investments comprise the following as at 31 December 2007:

| Name | Country of incorporation | Shares held | Voting rights held | Nature of business |
|------------------------------------|-----------------------------|----------------------------|-----------------------|---|
| E.ON UK Cogeneration Limited | England & Wales | Ordinary Shares 100% | 100% | Sale of energy services involving the construction and operation of CHP plants |
| Citigen (London) Limited | England & Wales | Ordinary Shares 100% | 100% | Sale of energy services involving the supply of heating, hot water and ventilation services. |

11 Stock

| | At 31 December 2007 £'000 | At 31 December 2006 £'000 |
|------------------------------|---|------------------------------------|
| Raw material and consumables | | |
| Fuel stocks | 1,983 | 2,191 |
| Stores | 3,773 | 4,028 |
| | 5,756 | 6,219 |

E.ON UK CHP LIMITED

Notes to the financial statements
for the year ended 31 December 2007 (continued)

12 Debtors: amounts falling due within one year

| | At 31 December 2007 £'000 | At 31 December 2006 £'000 |
|-------------------------------------|--|--|
| Trade debtors | 21,709 | 20,230 |
| Amounts due from group undertakings | 449 | - |
| Prepayments and accrued income | 261 | 203 |
| | 22,419 | 20,433 |

Amounts due from group undertakings are unsecured, are free of any interest charge and are repayable on demand

13 Deferred tax

The deferred tax asset comprises:

| | At 31 December 2007 £'000 | At 31 December 2006 £'000 |
|--|--|--|
| Undiscounted asset for deferred tax (accelerated capital allowances) | (10,537) | (12,075) |
| Other timing differences | (6,628) | (1,398) |
| Discount | 1,732 | 1,998 |
| Discounted asset for deferred tax | (15,433) | (11,475) |

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

| | £'000 |
|---|-----------------|
| Deferred tax asset at 31 December 2006 | (11,475) |
| Deferred tax credit to profit and loss account (see note 8) | (3,958) |
| Deferred tax asset at 31 December 2007 | (15,433) |

The Company has recognised the benefit of the deferred tax asset of £15,433,000 (2006: £11,475,000). It is anticipated that because the Company is part of a UK group that is a net corporation tax payer, any losses arising in the Company will be utilised by surrender, by way of group relief, to fellow group companies.

A number of changes to the UK Corporate tax system were announced in March 2007 Budget Statement and changes to the rates at which capital allowances are given are expected to be enacted in the 2008 Finance Act. These changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements

E.ON UK CHP LIMITED

Notes to the financial statements **for the year ended 31 December 2007 (continued)**

13 Deferred tax (continued)

The effect of the changes to be enacted in the Finance Act 2008 would be to reduce the deferred tax asset provided at 31 December 2007 by £3,100,000 in 2007 with a corresponding increase in the loss for the year. This decrease in the asset is due to the fact that the Company has chosen a policy of discounting the deferred tax balance. The reduction in the writing down allowances on the plant and machinery (from 25% to 20%) and the phasing out of industrial buildings allowances with effect from 1 April 2008 affects the profile of the reversal of the accelerated capital allowances and therefore the deferred tax asset.

14 Creditors: amounts falling due within one year

| | At 31 December 2007 £'000 | At 31 December 2006 £'000 |
|------------------------------------|--|--|
| Trade creditors | 10 | 1,713 |
| Amounts owed to group undertakings | 288,247 | 251,242 |
| Other taxation and social security | - | 3,304 |
| Accruals and deferred income | 6,127 | 4,648 |
| Redeemable preference shares | 57,000 | 57,000 |
| | 351,384 | 317,907 |

Amounts owed to group undertakings are unsecured, bear interest at base rate plus 1% and are repayable on demand

The 57,000,000 redeemable preference shares have a nominal value of £57,000,000. The holders of these shares have an option to redeem them on demand at any time for the original consideration. The shares carry a coupon which is variable and represents the 20 year interest swap rate plus a margin of 3%. FRS 25 requires such redeemable shares to be classified as debt due to the holder's right of redemption. Prior to the adoption of FRS 25 these shares would have been classified as share capital.

E.ON UK CHP LIMITED

Notes to the financial statements for the year ended 31 December 2007 (continued)

15 Provisions

| | Onerous contract | Decommissioning provision | Total |
|---|---------------------|------------------------------|---------------|
| | £'000 | £'000 | £'000 |
| At 31 December 2006 | 16,198 | 3,659 | 19,857 |
| Addition | 4,392 | - | 4,392 |
| Utilisation | (1,986) | - | (1,986) |
| Change in accounting estimate (note 9) | - | 32 | 32 |
| Interest unwind (note 7) | 1,134 | 169 | 1,303 |
| At 31 December 2007 | 19,738 | 3,860 | 23,598 |

Following a review of the contracts of the CHP sites, including a review of the costs to meet the contracts combined with market commodity prices, it was found that the contracts for two sites were considered onerous. As such, a provision has been calculated based on the future expected cash flows for those sites discounted at the E.ON UK plc group's post tax cost of capital. These contracts remain in place until 2020

The change in accounting estimate is due to the revision of the discount rate applied to expected future cashflows.

16 Share capital

| | At 31 December 2007 £'000 | At 31 December 2006 £'000 |
|---|------------------------------------|------------------------------------|
| Authorised | | |
| 50,000,000 ordinary shares of £1 each | 50,000 | 50,000 |
| 57,000,000 preference shares of £1 each | - | - |
| | 50,000 | 50,000 |
| Allotted, called-up and fully paid | | |
| 50,000,000 ordinary shares of £1 each | 50,000 | 50,000 |
| 57,000,000 preference shares of £1 each | - | - |
| | 50,000 | 50,000 |

The preference shares are disclosed within creditors: amounts falling due within one year (note 14) The shares are still in issue

E.ON UK CHP LIMITED

Notes to the financial statements **for the year ended 31 December 2007 (continued)**

17 Reserves

| | Profit and loss Reserve £'000 |
|--------------------------------------|--|
| At 31 December 2006 | (218,557) |
| Retained loss for the financial year | (39,555) |
| At 31 December 2007 | <u>(258,112)</u> |

18 Reconciliation of movements in shareholders' deficit

| | At 31 December 2007 £'000 | At 31 December 2006 £'000 |
|--------------------------------------|--|--|
| Equity shareholders' deficit | | |
| Loss for the financial year | (39,555) | (72,257) |
| Opening equity shareholders' deficit | (168,557) | (96,300) |
| Closing equity shareholders' deficit | <u>(208,112)</u> | <u>(168,557)</u> |

19 Pension commitments

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

The fund is valued every three years by a professionally qualified, independent actuary, the rates of contribution payable being determined by the actuary. In the intervening years the actuary reviews the appropriateness of the rates. The latest published actuarial assessment of the scheme was at 31 March 2007.

The Company is unable to identify its share of the underlying assets and liabilities in the scheme. Consequently, the Company accounts for the scheme as a defined contribution scheme. The cost of contributions to the scheme amounts to £863,000 (2006: £787,000). An amount of £75,000 (2006: £69,000) is included within amounts owed to group undertakings being the outstanding contributions to the scheme.

E.ON UK CHP LIMITED

Notes to the financial statements **for the year ended 31 December 2007 (continued)**

20 Financial commitments

The Company had annual commitments under non-cancellable operating leases in respect of plant and equipment expiring as follows:

| | At 31 December 2007 £'000 | At 31 December 2006 £'000 |
|-----------------------------------|--|--|
| Expiring within one year | - | 1,000 |
| Expiring within two to five years | 1,663 | 740 |
| Expiring after five years | 94 | 177 |
| | <u>1,757</u> | <u>1,917</u> |

21 Ultimate parent undertaking and controlling party

The immediate parent undertaking is E.ON UK plc. 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. The smallest group to consolidate these financial statements is that of which E.ON UK plc, the principal UK trading subsidiary of E.ON AG, is the parent undertaking. 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