# E.ON UK CHP LIMITED

## REPORT AND FINANCIAL STATEMENTS

## for the year ended 31 December 2010



**Registered No: 2684288**

## E.ON UK CHP LIMITED

## Report of the directors for the year ended 31 December 2010

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2010.

### Principal activities

The Company's principal activities during the year and at the year end were the sale of energy and related services, primarily from 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 during the year and these economic factors, when combined with operational issues, have resulted in performance below expected levels. The profit before tax during the year of £11,517,000, includes favourable financial adjustments of £22,050,000 (as described below) leaving an underlying trading loss of £10,533,000. The Company continues to review its contractual obligations and there are no plans at present to initiate any new CHP development projects.

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 £4,797,000 (2009 £5,192,000) and a release of the onerous contract provision of £26,847,000 (2009 £9,175,000 charge) have consequently been recorded within these financial statements. The onerous contract release arose as a result of management updating its view of 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 risks and asset performance The management of 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 Generation 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

### Results and dividends

The Company's profit for the financial year is £7,540,000 (2009 loss of £47,938,000) The directors do not recommend the payment of a dividend (2009: £nil).

## Directors

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

Mr D J Morgans
Mr J T Lightfoot

## 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 the year end represented 1 day (2009: negligible) of purchases

## Contributions to political and charitable purposes

Donations to charitable organisations during the financial year by the Company amounted to £nil (2009· £nil). No political donations were made (2009. £nil).

## Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial period. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 Company and of the profit or loss of the Company for that period.

In preparing these financial statements the directors are required to:

a) select suitable accounting policies and then apply them consistently;

b) make judgements and accounting estimates that are reasonable and prudent,

c) state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and

d) prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

### Statement of directors' responsibilities (continued)

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

### Directors' indemnities

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

### Going concern

Notwithstanding the fact that the Company has net current liabilities and net liabilities, the directors have prepared the financial statements 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 financial statements.

### Disclosure of information to auditors

So far as each of 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.

ON BEHALF OF THE BOARD

**D J Morgans**
Director
E ON UK CHP Limited
Registered No 2684288
Westwood Way
Westwood Business Park
Coventry
CV4 8LG

7 July 2011

## Independent auditor's report to the members of E.ON UK CHP Limited

We have audited the financial statements of E ON UK CHP Limited for the year ended 31 December 2010 which comprise the Profit and Loss Account, the 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 financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK 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 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 financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

**Opinion on other matter prescribed by the Companies Act 2006**
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**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 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

Paul Nott

Paul Nott (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
East Midlands

13 July 2011

## E.ON UK CHP LIMITED

## PROFIT AND LOSS ACCOUNT
## FOR THE YEAR ENDED 31 DECEMBER 2010

| | Note | **Year ended 31 December 2010** | Year ended 31 December 2009 |
|---|---|---|---|
| | | **£'000** | £'000 |
| **Turnover** | 2 | **173,803** | 205,232 |
| Cost of sales | | **(169,564)** | (229,180) |
| **Gross profit/(loss)** | | **4,239** | (23,948) |
| Net operating expenses | 3 | **(4,342)** | (2,085) |
| Impairment of fixed assets | 5 | **(4,797)** | (5,192) |
| Onerous contract provision | 4 | **26,847** | (9,175) |
| **Operating profit/(loss)** | 4 | **21,947** | (40,400) |
| Interest payable and similar charges | 7 | **(10,430)** | (11,469) |
| **Profit/(loss) on ordinary activities before taxation** | | **11,517** | (51,869) |
| Tax on profit/(loss) on ordinary activities | 8 | **(3,977)** | 3,931 |
| **Profit/(loss) for the financial year** | | **7,540** | (47,938) |

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

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

All of the above amounts relate to continuing operations.

The accounting policies and the notes on pages 7 to 21 form part of these financial statements

## BALANCE SHEET
## AS AT 31 DECEMBER 2010

| | Note | At 31 December 2010 £'000 | At 31 December 2009 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Tangible assets | 9 | **26,774** | 36,181 |
| Investments | 10 | **6,360** | 74,358 |
| | | **33,134** | 110,539 |
| **Current assets** | | | |
| Stock | 11 | **5,521** | 6,381 |
| Debtors: amounts falling due within one year | 12 | **132,546** | 19,628 |
| Deferred tax asset | 15 | **16,251** | 24,091 |
| | | **154,318** | 50,100 |
| **Creditors: amounts falling due within one year** | 13 | **(420,551)** | (374,079) |
| **Net current liabilities** | | **(266,233)** | (323,979) |
| **Total assets less current liabilities** | | **(233,099)** | (213,440) |
| **Provisions for liabilities** | 14 | **(50,031)** | (77,230) |
| **Net liabilities** | | **(283,130)** | (290,670) |
| **Capital and reserves** | | | |
| Called-up share capital | 16 | **50,000** | 50,000 |
| Profit and loss reserve | 17 | **(333,130)** | (340,670) |
| **Total shareholders' deficit** | 18 | **(283,130)** | (290,670) |

The financial statements on pages 5 to 21 were approved by the Board of Directors on 7 July 2011 and were signed on its behalf by

**D J Morgans**
Director
E.ON UK CHP Limited
Registered No: 2684288

7 July 2011

The accounting policies and the notes on pages 7 to 21 form part of these financial statements

**Notes to the financial statements for the year ended 31 December 2010**

## 1 Accounting policies

These financial statements are prepared on the going concern basis, under the historical cost convention, in accordance with the Companies Act 2006 and applicable United Kingdom accounting standards, all of which have been consistently applied. The Company is a wholly-owned subsidiary undertaking of E.ON AG, the ultimate parent undertaking, 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 consolidated financial statements under the terms of Section 400 of the Companies Act 2006. 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 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. 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:

| | |
|---|---|
| Generation assets | 2-20 years |

### (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) 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

## 1 Accounting policies (continued)

### (f) 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 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 raw materials under this definition

### (g) Pension costs

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

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

### (h) Taxation

The tax credit 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'. 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 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.

### (i) Turnover

Turnover comprises revenue from the sale of electricity and heat to industrial customers and is recognised when supplied. Turnover excludes value added tax.

## 1 Accounting policies (continued)

### (j) Foreign currencies

Monetary 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.

### (k) Cash flow statement

The Company is a wholly-owned subsidiary undertaking of E ON AG, the ultimate parent undertaking, and is included in the publicly available consolidated financial statements of E ON AG and its subsidiaries and associates (together, "the E.ON Group") 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).

### (l) Related party transactions

The Company is exempt under the terms of Financial Reporting Standard 8 from disclosing related party transactions with the E.ON Group or investees of the E.ON Group

### (m) 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.

### (n) Inter-company balances

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

### (o) Going concern

Notwithstanding the fact that the Company has net current liabilities and net liabilities, the directors have prepared the financial statements 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 financial statements

## 1 Accounting policies (continued)

### (p) 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.

### (q) Impairment

Impairments of assets are calculated as the difference between the carrying value of the asset and its recoverable amount, if lower. Recoverable amount is defined as the higher of fair value less costs to sell and estimated value in use at the date the impairment review is undertaken.

Value in use represents the present value of expected future cash flows, discounted using a 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 profit and loss account and, where material, are disclosed separately.

## 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 UK

## 3 Net operating expenses

| | **Year ended 31 December 2010 £'000** | Year ended 31 December 2009 £'000 |
|---|---|---|
| Administrative expenses | **4,342** | 2,085 |

## 4 Operating profit/(loss)

Operating profit/(loss) is stated after charging/(crediting):

| | **Year ended 31 December 2010 £'000** | Year ended 31 December 2009 £'000 |
|---|---|---|
| Depreciation of tangible fixed assets: | | |
| Owned assets | **7,281** | 5,714 |
| Impairment of tangible fixed assets· | | |
| Owned assets (note 5) | **4,797** | 5,192 |
| Operating lease charges | | |
| Plant and machinery | **-** | 2,602 |
| Onerous contract provision (note 14) | **(26,847)** | 9,175 |

Auditors' remuneration of £15,000 (2009: £15,000) was borne by the immediate parent undertaking E.ON UK plc and not recharged

The directors received no emoluments from the Company during the year (2009 £nil).

## 5 Impairment of fixed asset investments

| | **Year ended 31 December 2010 £'000** | Year ended 31 December 2009 £'000 |
|---|---|---|
| Impairment of fixed assets | **4,797** | 5,192 |

At 31 December 2010, a review of the appropriateness of the carrying value of the Company's plant portfolio was undertaken, in accordance with FRS 11 'Impairment of fixed assets and goodwill' The cash flows used in this impairment review were based on approved budgets and discounted at the E ON UK plc group's cost of capital for CHP operations As a result of the review, an impairment charge of £4,797,000 (2009: £5,192,000) was recorded in these financial statements. A tax credit of £634,000 (2009: £1,170,000) arose in respect of this item. The discount rate used to calculate this impairment is 6.9% (2009: 7.47%).

## 6 Employee information

The average monthly number of persons (including executive directors) employed by the immediate parent undertaking E.ON UK plc and associated companies in respect of the Company during the year was:

| By activity | Year ended 31 December 2010 | Year ended 31 December 2009 |
|---|---|---|
| Administration | **31** | 29 |
| Operations | **100** | 102 |
| | **131** | 131 |

The salaries and related costs of employees, including directors, recharged to the Company by E.ON UK plc were:

| | Year ended 31 December 2010 £'000 | Year ended 31 December 2009 £'000 |
|---|---|---|
| Wages and salaries | **6,435** | 6,405 |
| Social security costs | **634** | 572 |
| Other pension costs | **1,600** | 1,300 |
| | **8,669** | 8,277 |

## 7 Interest payable and similar charges

| | Year ended 31 December 2010 £'000 | Year ended 31 December 2009 £'000 |
|---|---|---|
| Interest payable to group undertakings | **5,237** | 7,085 |
| Discount unwind on provisions (note 14) | **5,193** | 4,384 |
| **Total interest payable and similar charges** | **10,430** | 11,469 |

## 8 Tax on profit/(loss) on ordinary activities

| | **Year ended 31 December 2010 £'000** | Year ended 31 December 2009 £'000 |
|---|---|---|
| **Current tax:** | | |
| UK corporation tax credit on profit/(loss) for the year | **(2,733)** | (10,551) |
| Adjustment in respect of previous periods | **(1,130)** | 9,012 |
| Total current tax credit | **(3,863)** | (1,539) |
| **Deferred tax:** | | |
| Origination and reversal of timing differences | **6,341** | (3,965) |
| Adjustment in respect of previous periods | **595** | 1,474 |
| Changes in tax laws and rates | **839** | - |
| Unwinding of deferred tax | **65** | 99 |
| Total deferred tax charge/(credit) (note 15) | **7,840** | (2,392) |
| **Tax on profit/(loss) on ordinary activities** | **3,977** | (3,931) |

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

| | **Year ended 31 December 2010 £'000** | Year ended 31 December 2009 £'000 |
|---|---|---|
| Profit/(loss) on ordinary activities before tax | **11,517** | (51,869) |
| Tax on profit/(loss) on ordinary activities before tax at 28% (2009: 28%) | **3,225** | (14,523) |
| *Effects of:* | | |
| Depreciation in excess of capital allowances | **640** | 392 |
| Expenses not deductible for tax purposes | **618** | 7 |
| Adjustment in respect of previous periods | **(1,130)** | 9,012 |
| Other timing differences | **(7,216)** | 3,573 |
| **Current tax credit for the year** | **(3,863)** | (1,539) |

## 8 Tax on profit/(loss) on ordinary activities (continued)

The Finance (No. 2) Act 2010 was substantively enacted on 20 July 2010 and included legislation to reduce the main rate of corporation tax from 28% to 27% from 1 April 2011 The deferred tax asset at 31 December 2010 has been re-measured accordingly.

Further reductions to the UK corporation tax rate were announced in the June 2010 Budget. These changes, which are expected to be enacted separately each year, proposed to reduce the rate by 1% per annum to 24% by 1 April 2014. The Budget also included measures to reduce the rate of writing-down allowances on the main pool of plant and machinery expenditure to 18% and on the special rate pool to 8%, both with effect from 1 April 2012

In addition to the changes in rates of corporation tax disclosed above, a number of further changes to the UK corporation tax system were announced in the March 2011 UK Budget Statement. A resolution passed by Parliament on 29 March 2011 has reduced the main rate of corporation tax to 26% from 1 April 2011. Legislation to reduce the main rate of corporation tax from 26% to 25% from 1 April 2012 is expected to be included in the Finance Act 2011 Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 23% by 1 April 2014.

The effect of the changes enacted by Parliament on 29 March 2011 is to reduce the deferred tax asset provided at the balance sheet date by £604,000. This decrease in the deferred tax asset is due to the additional reduction in the corporation tax rate to 26% with effect from 1 April 2011.

The effect of the changes expected to be enacted in the Finance Act 2011 would be to further reduce the deferred tax asset provided at the balance sheet date by an additional £629,000. This decrease in the deferred tax asset is due to the reduction in the corporation tax rate from 26% to 25% and a reduction in the rate of writing-down allowances on the main pool of plant and machinery expenditure to 18% and on the special rate pool to 8% with effect from 1 April 2012.

The proposed reductions of the main rate of corporation tax by 1% per year to 23% by 1 April 2014 are expected to be enacted separately each year The overall effect of the further changes from 25% to 23%, if these applied to the deferred tax balance at the balance sheet date, would be to reduce the deferred tax asset by an additional £1,752,000.

The corporation tax receivable has been reduced by £3,863,000 because of group relief surrendered to a fellow group undertaking for which a payment will be received (2009 £1,539,000). Accordingly no tax losses are available for carry forward.

## 9 Tangible fixed assets

| | Generation assets £'000 |
|---|---|
| **Cost:** | |
| At 1 January 2010 | 369,944 |
| Additions | 4,098 |
| Disposals | (81,830) |
| **At 31 December 2010** | **292,212** |
| **Accumulated depreciation:** | |
| At 1 January 2010 | 333,763 |
| Charge for the year | 7,281 |
| Impairment (note 5) | 4,797 |
| Disposals | (80,403) |
| **At 31 December 2010** | **265,438** |
| **Net book value:** | |
| **At 31 December 2010** | **26,774** |
| At 31 December 2009 | 36,181 |

Disposals include £1,427,000 (2009: additions of £74,000) resulting from a change in accounting estimate for the decommissioning provision (note 14) The closing net book value includes £598,000 (2009: £2,319,000) relating to the assets associated to the cost of decommissioning the sites

## 10 Fixed asset investments

| | Loans £'000 | Investment in subsidiaries £'000 | Total £'000 |
|---|---|---|---|
| **Cost:** | | | |
| At 1 January 2010 | 68,003 | 6,501 | 74,504 |
| Transfers | (5) | 5 | - |
| Reclassifications | (67,998) | - | (67,998) |
| **At 31 December 2010** | **-** | **6,506** | **6,506** |
| **Provision for impairment:** | | | |
| At 1 January 2010 | - | (146) | (146) |
| **At 31 December 2010** | **-** | **(146)** | **(146)** |
| **Net book value:** | | | |
| **At 31 December 2010** | **-** | **6,360** | **6,360** |
| At 31 December 2009 | 68,003 | 6,355 | 74,358 |

Fixed asset investments comprise the following

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

During the year a loan owed to the Company from E.ON UK Cogeneration Limited became repayable on demand and is therefore now disclosed as a current asset (note 12)

## 11 Stocks

| | At 31 December 2010 £'000 | At 31 December 2009 £'000 |
|---|---|---|
| **Raw material and consumables:** | | |
| Fuel stocks | **1,216** | 1,443 |
| Stores | **4,305** | 4,938 |
| | **5,521** | 6,381 |

## 12 Debtors: amounts falling due within one year

| | At 31 December 2010 £'000 | At 31 December 2009 £'000 |
|---|---|---|
| Trade debtors | **12,589** | 17,053 |
| Amounts owed by group undertakings | **119,276** | 1,881 |
| Other debtors | **386** | 155 |
| Prepayments and accrued income | **295** | 539 |
| | **132,546** | 19,628 |

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

## 13 Creditors: amounts falling due within one year

| | At 31 December 2010 £'000 | At 31 December 2009 £'000 |
|---|---|---|
| Trade creditors | **606** | - |
| Loan from group undertakings | **267,282** | - |
| Amounts owed to group undertakings | **86,675** | 308,026 |
| Other taxation and social security | **3,594** | 4,381 |
| Accruals | **5,394** | 4,672 |
| Preference share liabilities | **57,000** | 57,000 |
| | **420,551** | 374,079 |

The loan from group undertakings is unsecured, incurs interest at LIBOR plus 75 basis points and is repayable on 29 December 2011. Amounts owed to group undertakings are unsecured, interest free and are repayable on demand.

## 13 Creditors: amounts falling due within one year (continued)

| | At 31 December 2010 £'000 | At 31 December 2009 £'000 |
|---|---|---|
| **Authorised** | | |
| 57,000,000 redeemable preference shares of £1 each | **57,000** | 57,000 |
| **Allotted, called-up and fully paid** | | |
| 57,000,000 redeemable preference shares of £1 each | **57,000** | 57,000 |

The holders of the redeemable preference shares have an option to redeem the shares 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%. Interest is only payable if the Company makes distributable profits

## 14 Provisions for liabilities

| | Decommissioning provision £'000 | Onerous contracts £'000 | Total £'000 |
|---|---|---|---|
| At 1 January 2010 | 4,448 | 72,782 | 77,230 |
| Credited to the profit and loss account | - | (26,847) | (26,847) |
| Change in accounting estimate | (1,427) | - | (1,427) |
| Utilised during the year | - | (4,118) | (4,118) |
| Unwinding of discount | 171 | 5,022 | 5,193 |
| **At 31 December 2010** | **3,192** | **46,839** | **50,031** |

### Decommissioning provision

A decommissioning provision is held where the Company has an obligation to decommission a plant at the end of its useful life The change in accounting estimate relates to a change in the estimated cost of decommissioning the plant and to a change in the discount rate

## 14 Provisions for liabilities (continued)

### Onerous contracts provision

During the year a review of the Company's plant portfolio was undertaken based on the value of discounted future cash flows, using expected future commodity prices, to be generated from each site under the contracts in place A release of the onerous contract provisions of £26,847,000 (2009: £9,175,000 charge) was recorded in these financial statements as a result of this review. The discount rate used to calculate the expected future value is 6.9% (2009 7 47%) A tax charge of £7,249,000 (2009: £2,569,000 tax credit) arose as a result of this release

## 15 Deferred tax

The deferred tax asset comprises:

| | **At 31 December 2010 £'000** | At 31 December 2009 £'000 |
|---|---|---|
| Decelerated capital allowances | **2,958** | 2,767 |
| Other timing differences | **13,542** | 21,660 |
| Undiscounted asset for deferred tax | **16,500** | 24,427 |
| Discount | **(249)** | (336) |
| **Discounted asset for deferred tax** | **16,251** | 24,091 |

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

| | **£'000** |
|---|---|
| Deferred tax asset at 1 January 2010 | **24,091** |
| Deferred tax charge to profit and loss account (see note 8) | (6,406) |
| Change in tax rate | (839) |
| Adjustment in respect of prior years | (595) |
| **Deferred tax asset at 31 December 2010** | **16,251** |

The deferred tax asset is largely expected to be recovered after more than one year.

The Finance (No 2) Act 2010 was substantively enacted on 20 July 2010 and included legislation to reduce the main rate of corporation tax from 28% to 27% from 1 April 2011 The deferred tax asset at 31 December 2010 has been re-measured accordingly. Within the current year deferred tax charge of £7,245,000, the amount that relates to the change in tax rate is £839,000.

## 16 Called-up share capital

| | At 31 December 2010 £'000 | At 31 December 2009 £'000 |
|---|---|---|
| **Authorised** | | |
| 50,000,000 ordinary 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 |

## 17 Reserves

| | Profit and loss reserve £'000 |
|---|---|
| At 1 January 2010 | (340,670) |
| Profit for the financial year | 7,540 |
| **At 31 December 2010** | **(333,130)** |

## 18 Reconciliation of movements in shareholders' deficit

| | Year ended 31 December 2010 £'000 | Year ended 31 December 2009 £'000 |
|---|---|---|
| Profit/(loss) for the financial year | **7,540** | (47,938) |
| Opening shareholders' deficit | **(290,670)** | (242,732) |
| Closing shareholders' deficit | **(283,130)** | (290,670) |

## 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 actuarial valuation of the scheme was at 31 March 2010.

**Notes to the financial statements**
**for the year ended 31 December 2010 (continued)**

## 19 Pension commitments (continued)

Due to the complexity of actuarial calculations and the number of different companies contributing to the scheme, the Company is unable to identify its share of the underlying assets and liabilities in the scheme. Consequently, the Company accounts for the scheme as a defined contribution scheme. The cost of contributions to the scheme in the year amounts to £1,600,000 (2009: £1,300,000).

Further details of the scheme are available in E.ON UK plc's consolidated financial statements Due to a deficit in the scheme, E ON UK plc made a special contribution of £200 million on 31 March 2011 and expects to make special contributions of £120 million in 2012, £50 million in 2013 and £35 million per annum from 2014 until 2016 None of this cost is expected to be recharged to the Company.

## 20 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.

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