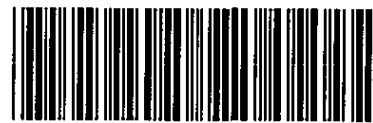


Company number 2684288

# E.ON UK CHP Limited

Directors' Report and Financial Statements  
for the Year Ended 31 December 2011

FRIDAY



\*A1IF7322\*

A05

28/09/2012

#264

COMPANIES HOUSE

**E.ON UK CHP Limited**  
**Directors' Report for the Year Ended 31 December 2011**

The directors present their report and the audited financial statements for the year ended 31 December 2011

**Directors of the Company**

The directors of the Company who were in office during the year and up to the date of signing the financial statements were

D J Morgans

J T Lightfoot

**Principal activity**

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

**Business review**

**Fair review of the 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 loss before tax during the year of £69,920,000, includes financial adjustments of £57,468,000 (as described below) leaving an underlying trading loss of £12,452,000

During the final quarter of 2010, one of the contracts reached maturity meaning that one of the two CHP plants in Kemsley was transferred to the customer. A new operating and maintenance contract was entered into resulting in the Company operating the plant on behalf of the customer.

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. This review resulted in a charge of £57,468,000 in the year (2010 £22,050,000 credit) which can be split into two areas, an impairment of £2,428,000 (2010 £4,797,000) and an increase in the onerous contract provision of £55,040,000 (2010 a release of £26,847,000). These positions have consequently been recorded within these financial statements. The movement in the onerous contract provision arose as a result of management updating its view of expected future commodity prices.

In order to bring the statutory reporting in line with the way that the Company operates, the profit and loss account comparative figures have been restated to reflect a reclassification of £17,933,000 of costs from cost of sales to administrative expenses.

**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.

**E.ON UK CHP Limited**  
**Directors' Report for the Year Ended 31 December 2011**  
**(continued)**

**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 Other Segments 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 loss for the financial year is £51,991,000 (2010: profit of £7,540,000). The directors do not recommend the payment of a final dividend (2010: £nil).

**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 3 days (2010: 1 day) of purchases.

**Political donations**

No political donations were made during the year (2010: £nil).

**Charitable donations**

No charitable donations were made during the year (2010: £nil).

**Directors' indemnities**

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

**Going concern**

Notwithstanding the fact that the Company has been loss making, 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.

**E.ON UK CHP Limited**  
**Directors' Report for the Year Ended 31 December 2011**  
**(continued)**

**Disclosure of information to the auditors**

Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information. The directors confirm that there is no relevant information that they know of and which they know the auditors are unaware of.

**Statement of directors' responsibilities**

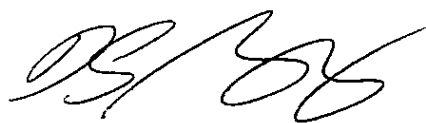
The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have 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

- select suitable accounting policies and apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether 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 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.

Approved by the Board on 24 September 2012 and signed on its behalf by



**D J Morgans**  
Director

E.ON UK CHP Limited  
Company No 2684288  
Westwood Way  
Westwood Business Park  
Coventry  
CV4 8LG

## **Independent Auditors' 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 2011, 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. In addition, we read all the financial and non-financial information in the Directors' Report and financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on the 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 2011 and of its loss 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.

**Independent Auditors' Report to the Members of**  
**E.ON UK CHP Limited**  
**(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 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 (Senior Statutory Auditor)  
For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors

East Midlands

Date 25/9/12

**E.ON UK CHP Limited**  
**Profit and Loss Account for the Year Ended 31 December 2011**

		2011 £ 000	(As restated) 2010 £ 000
<b>Turnover</b>		146,859	173,803
Cost of sales		<u>(139,941)</u>	<u>(151,631)</u>
Gross profit		6,918	22,172
Administrative expenses		(13,506)	(22,275)
Impairment of fixed assets		(2,428)	(4,797)
Onerous contract provision		(55,040)	26,847
Other operating income		<u>3,565</u>	<u>-</u>
<b>Operating (loss)/profit</b>	2	<u>(60,491)</u>	21,947
Interest payable and similar charges	4	<u>(9,429)</u>	<u>(10,430)</u>
<b>(Loss)/profit on ordinary activities before taxation</b>		(69,920)	11,517
Tax on (loss)/profit on ordinary activities	5	<u>17,929</u>	<u>(3,977)</u>
<b>(Loss)/profit for the financial year</b>	14	<u><u>(51,991)</u></u>	<u><u>7,540</u></u>

Turnover and operating (loss)/profit derive wholly from continuing operations

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

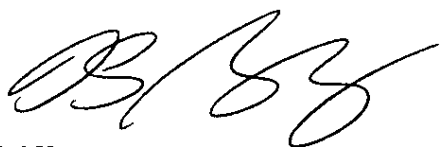
The Company has no recognised gains or losses for the year, other than the results above and therefore no separate statement of total recognised gains and losses has been presented

The notes on pages 8 to 21 form an integral part of these financial statements

**E.ON UK CHP Limited**  
**(Company number: 2684288)**  
**Balance Sheet as at 31 December 2011**

	Note	2011 £ 000	2010 £ 000
<b>Fixed assets</b>			
Tangible assets	6	28,534	26,774
Investments	7	6,360	6,360
		<u>34,894</u>	<u>33,134</u>
<b>Current assets</b>			
Stocks	8	4,402	5,521
Debtors amounts falling due after more than one year	9	22,394	16,251
Debtors amounts falling due within one year	10	132,359	132,546
		<u>159,155</u>	<u>154,318</u>
<b>Creditors amounts falling due within one year</b>	11	<u>(446,233)</u>	<u>(420,551)</u>
<b>Net current liabilities</b>		<u>(287,078)</u>	<u>(266,233)</u>
<b>Total assets less current liabilities</b>		<u>(252,184)</u>	<u>(233,099)</u>
<b>Provisions for liabilities</b>	12	<u>(82,937)</u>	<u>(50,031)</u>
<b>Net liabilities</b>		<u>(335,121)</u>	<u>(283,130)</u>
<b>Capital and reserves</b>			
Called up share capital	13	50,000	50,000
Profit and loss account	14	<u>(385,121)</u>	<u>(333,130)</u>
<b>Total shareholders' deficit</b>	15	<u>(335,121)</u>	<u>(283,130)</u>

Approved by the Board on 24 September 2012 and signed on its behalf by



**D J Morgans**  
Director

E ON UK CHP Limited

The notes on pages 8 to 21 form an integral part of these financial statements



## **E.ON UK CHP Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2011**

#### **1 Accounting policies**

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

These financial statements are prepared on the going concern basis, under the historical cost convention, and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The principal accounting policies, which have been applied consistently throughout the year, are set out below.

The profit and loss account comparative figures have been restated to reflect a reclassification of £17,933,000 of costs from cost of sales to administrative expenses in order to bring the statutory reporting in line with the way that the Company operates.

The Company is exempt from preparing a cash flow statement as 90% or more of the voting rights are held within the group.

##### **Exemption from preparing group accounts**

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.

##### **Going concern**

Notwithstanding the fact that the Company has been loss making, has net current liabilities and has 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.

##### **Turnover**

Turnover predominantly comprises revenue from the sale of electricity and steam to industrial customers, along with other income streams directly related to the operation of the plants. Turnover is recognised when earned on the basis of a contractual agreement with the customer. It reflects the value of the volume supplied. Turnover excludes value added tax.

##### **Tangible fixed assets**

Tangible fixed assets are stated at original cost less accumulated depreciation and any provision for impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Plant and machinery relate primarily to generating assets.

##### **Depreciation**

Depreciation is provided on tangible fixed assets so as to write off the cost or valuation, less any estimated residual value, over their expected useful economic life as follows:

**E.ON UK CHP Limited**  
**Notes to the Financial Statements for the Year Ended 31 December 2011**  
**(continued)**

<b>Asset class</b>	<b>Depreciation method and rate</b>
Plant and machinery	Straight line basis over 2- 40 years

Estimated useful lives are reviewed periodically

**Impairment**

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

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

**Overhaul of generation plant**

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

**Decommissioning costs**

The fair value of a liability arising from the decommissioning of an asset is recognised in the period in which it is incurred and a reasonable estimate of the fair value can be made. When the provision is recorded, the Company capitalises the costs of the provision by increasing the carrying amount of the tangible 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 directly in the profit and loss account.

**Fixed asset investments**

Fixed asset investments are stated at historical cost less provision for any diminution in value.

**Stock**

Stock and work in progress are valued at the lower of cost and net realisable value, after due regard for obsolete and slow moving stocks. Net realisable value is based on selling price less anticipated costs to completion and selling costs. In general, stocks are recognised in the profit and loss account on a weighted average cost basis. 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.

**E.ON UK CHP Limited**  
**Notes to the Financial Statements for the Year Ended 31 December 2011**  
**(continued)**

**Foreign currency**

Transactions in foreign currencies are recorded at the exchange rate ruling at the date of the transaction, unless related or matching forward foreign exchange contracts have been entered into, when the rate specified in that contract is used. Monetary assets and liabilities denominated in foreign currencies are retranslated at the closing rates at the balance sheet date. All exchange differences are included in the profit and loss account.

**Inter-company balances**

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

**Offsetting**

Financial assets and financial liabilities are offset and the net amount presented in the balance sheet, when the Company has a legally enforceable right to set off the recognised amounts and it intends either to settle on a net basis or realise the asset and settle the liability simultaneously.

**Provisions**

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

The amount recognised 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.

Future operating costs are not provided for.

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

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.

**E.ON UK CHP Limited**  
**Notes to the Financial Statements for the Year Ended 31 December 2011**  
**(continued)**

**Taxation**

The tax credit for the year is based on the losses on ordinary activities for the year

This 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 substantively enacted by the balance sheet date.

**Operating leases**

Leases in which a substantial 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.

**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.

**Related party transactions**

The Company is exempt under the terms of Financial Reporting Standard 8 'Related Party Disclosures' from disclosing related party transactions with entities that are part of the E.ON AG Group or investees of the E.ON AG Group.

**E.ON UK CHP Limited**  
**Notes to the Financial Statements for the Year Ended 31 December 2011**  
**(continued)**

**2 Operating (loss)/profit**

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

	2011 £ 000	2010 £ 000
Hire of plant and machinery	19	16
Hire of motor vehicles	84	139
Foreign currency losses	8	15
Depreciation of owned assets (note 6)	2,488	7,281
Impairment of tangible fixed assets (note 6)	2,428	4,797
Onerous contract provision (note 12)	<u>55,040</u>	<u>(26,847)</u>

At 31 December 2011, 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 £2,428,000 (2010: £4,797,000) was recorded in these financial statements. A tax credit of £643,000 (2010: £634,000) arose in respect of this item. The discount rate used to calculate this impairment is post-tax rate of 7.0% (2010: 6.9%).

Auditors' remuneration of £15,000 (2010: £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 (2010: £nil).

**3 Employee information**

The average monthly number of persons (excluding directors) employed by the Company or the group in respect of the Company during the year was as follows. In addition, £157,000 (2010: £700,000) of central salary costs associated with total CHP activities in the UK have been recharged to the Company and £689,000 (2010: £nil) have been recharged by the Company to other companies within the E.ON UK group.

	2011 No.	2010 No.
Administration and support	27	31
Other departments	<u>102</u>	<u>100</u>
	<u>129</u>	<u>131</u>

**E.ON UK CHP Limited**  
**Notes to the Financial Statements for the Year Ended 31 December 2011**  
*(continued)*

The associated salaries and related costs were

	2011 £ 000	2010 £ 000
Wages and salaries	5,487	6,435
Social security costs	582	634
Staff pensions	1,469	1,600
	<u>7,538</u>	<u>8,669</u>

**4 Interest payable and similar charges**

	2011 £ 000	2010 £ 000
Interest payable to group undertakings	6,045	5,237
Accretion of discount on provisions	3,384	5,193
	<u>9,429</u>	<u>10,430</u>

**5 Tax on (loss)/profit on ordinary activities**

	2011 £ 000	2010 £ 000
<b>Current tax</b>		
Corporation tax credit	(10,880)	(2,733)
Adjustments in respect of prior periods	(906)	(1,130)
UK corporation tax	(11,786)	(3,863)
<b>Deferred tax</b>		
Origination and reversal of timing differences	(7,078)	6,341
Deferred tax adjustment relating to previous years	(43)	595
Effect of changes in tax rates	1,225	839
Unwinding of discount	(247)	65
Total deferred tax	(6,143)	7,840
Total tax on (loss)/profit on ordinary activities	<u>(17,929)</u>	<u>3,977</u>

**E.ON UK CHP Limited**  
**Notes to the Financial Statements for the Year Ended 31 December 2011**  
**(continued)**

**Factors affecting current tax (credit)/charge for the year**

The difference between the tax on the (loss)/profit on ordinary activities for the year and the tax assessed on the (loss)/profit on ordinary activities for the year assessed at the effective rate of corporation tax in the UK at 26.5% (2010: 28%) can be explained as follows

	2011 £ 000	2010 £ 000
(Loss)/profit on ordinary activities before taxation	<u>(69,920)</u>	<u>11,517</u>
Corporation tax at effective rate	(18,529)	3,225
Depreciation in excess of capital allowances	(793)	640
Other timing differences	8,296	(7,216)
Expenses not deductible for tax purposes	146	618
Adjustment in respect of previous periods	<u>(906)</u>	<u>(1,130)</u>
Total current tax	<u>(11,786)</u>	<u>(3,863)</u>

A resolution passed by Parliament on 29 March 2011 reduced the main rate of corporation tax from 28% to 26% from 1 April 2011

The Finance Act 2011 was substantively enacted on 5 July 2011 and included legislation to reduce the main rate of corporation tax from 26% to 25% from 1 April 2012. In addition, the Finance Act 2011 included measures to reduce the rate of writing-down allowances on the main pool of plant and machinery expenditure to 18% with effect from 1 April 2012. The deferred tax asset at 31 December 2011 has been re-measured accordingly.

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 2012 UK Budget Statement. A resolution passed by Parliament on 26 March 2012 reduced the main rate of corporation tax to 24% from 1 April 2012. Legislation to reduce the main rate of corporation tax from 24% to 23% from 1 April 2013 is included in the Finance Act 2012. A further reduction to the main rate is also proposed to reduce the rate to 22% from 1 April 2014. None of these rate reductions had been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements.

The effect of the change in the corporation tax rate from 25% to 24% is to reduce the deferred tax asset provided at the balance sheet date by £896,000. This £896,000 decrease in the deferred tax asset would reduce profit by £896,000.

The overall effect of the further changes from 24% to 22%, if applied to the deferred tax balance at the balance sheet date, would be to reduce the deferred tax asset by an additional £1,735,000.

The corporation tax receivable has been reduced by £11,786,000 because of group relief surrendered to a fellow group undertaking for which a payment will be received (2010: £3,863,000).

**E.ON UK CHP Limited**  
**Notes to the Financial Statements for the Year Ended 31 December 2011**  
*(continued)*

**6 Tangible assets**

	<b>Plant and machinery £ 000</b>
<b>Cost or valuation</b>	
At 1 January 2011	292,212
Additions	6,676
Disposals	(89)
At 31 December 2011	<u>298,799</u>
<b>Depreciation</b>	
At 1 January 2011	265,438
Charge for the year	2,488
Impairment	2,428
Eliminated on disposals	(89)
At 31 December 2011	<u>270,265</u>
<b>Net book value</b>	
At 31 December 2011	<u>28,534</u>
At 31 December 2010	<u>26,774</u>

Additions include £479,000 (2010 disposals of £1,427,000) resulting from a change in accounting estimate for the decommissioning provision. The closing net book value includes £1,010,000 (2010 £598,000) relating to the assets associated with the cost of decommissioning the sites.

**7 Investments**

	<b>2011 £ 000</b>	<b>2010 £ 000</b>
Shares in group undertakings and participating interests	<u>6,360</u>	<u>6,360</u>



**E.ON UK CHP Limited**  
**Notes to the Financial Statements for the Year Ended 31 December 2011**  
*(continued)*

**Shares in group undertakings and participating interests**

	<b>Subsidiary undertakings £ 000</b>
<b>Cost</b>	
At 1 January 2011	6,506
At 31 December 2011	6,506
<b>Provision for impairment</b>	
At 1 January 2011	146
At 31 December 2011	146
<b>Net book value</b>	
<b>At 31 December 2011</b>	<b>6,360</b>
At 31 December 2010	6,360

**Details of undertakings**

Details of the investments in which the Company holds 20% or more of the nominal value of any class of share capital are as follows

<b>Undertaking</b>	<b>Holding</b>	<b>Proportion of voting rights and shares held</b>	<b>Principal activity</b>
<b>Subsidiary undertakings</b>			
E ON UK Cogeneration Limited	Ordinary shares	100%	Sales of energy services involving the construction and operation of CHP plants
Citigen (London) Limited	Ordinary shares	100%	Sales of energy services involving the supply of heating, hot water and ventilation

**8 Stocks**

	<b>2011 £ 000</b>	<b>2010 £ 000</b>
Fuel stocks	1,021	1,216
Stores	3,381	4,305
	<b>4,402</b>	<b>5,521</b>

**E.ON UK CHP Limited**  
**Notes to the Financial Statements for the Year Ended 31 December 2011**  
*(continued)*

**9 Debtors: amounts falling due after more than one year**

	<b>2011</b> <b>£ 000</b>	<b>2010</b> <b>£ 000</b>
Deferred tax	<u>22,394</u>	<u>16,251</u>

**Deferred tax**

The movement in the deferred tax asset in the year is as follows

	<b>£ 000</b>
At 1 January 2011	16,251
Deferred tax credited to the profit and loss account	<u>6,143</u>
At 31 December 2011	<u>22,394</u>

**Analysis of deferred tax**

	<b>2011</b> <b>£ 000</b>	<b>2010</b> <b>£ 000</b>
Difference between accumulated depreciation and amortisation and capital allowances	1,941	2,958
Other timing differences	<u>20,454</u>	<u>13,542</u>
	<u>22,395</u>	16,500
Discount	<u>(1)</u>	<u>(249)</u>
<b>Discounted asset for deferred tax</b>	<u>22,394</u>	<u>16,251</u>

The Finance Act 2011 included legislation to reduce the main rate of corporation tax to 25% and reduce the rate of writing-down allowances on the main pool of plant and machinery expenditure to 18% with effect from 1 April 2012. The deferred tax asset at 31 December 2011 has been re-measured accordingly.

Within the deferred tax credit of £6,143,000, the amounts that relate to the change in the tax rate and the reduction in the capital allowances are charges of £1,225,000 and £28,000 respectively.

**E.ON UK CHP Limited**  
**Notes to the Financial Statements for the Year Ended 31 December 2011**  
**(continued)**

**10 Debtors: amounts falling due within one year**

	2011 £ 000	2010 £ 000
Trade debtors	16,294	12,589
Amounts owed by group undertakings	115,822	119,276
Other debtors	-	386
Prepayments and accrued income	243	295
	<u>132,359</u>	<u>132,546</u>

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

**11 Creditors: amounts falling due within one year**

	2011 £ 000	2010 £ 000
Trade creditors	1,303	606
Preference shares	57,000	57,000
Amounts owed to group undertakings	382,201	353,957
Other taxes and social security	2,624	3,594
Other creditors	31	-
Accruals and deferred income	3,074	5,394
	<u>446,233</u>	<u>420,551</u>

Amounts owed to group undertakings includes a loan of £273,304,000 (2010 £267,282,000), which is unsecured, incurs interest at a rate of LIBOR plus 75 basis points and is repayable in December 2012. Other amounts owed to group undertakings are unsecured, interest free and repayable on demand.

**E.ON UK CHP Limited**  
**Notes to the Financial Statements for the Year Ended 31 December 2011**  
**(continued)**

Details of the preference shares are given below

	2011 £ 000	2010 £ 000
<b>Authorised</b>		
57,000,000 redeemable preference shares of £1 each	<u>57,000</u>	<u>57,000</u>
<b>Allotted, called-up and fully paid</b>		
57,000,000 redeemable preference shares of £1 each	<u>57,000</u>	<u>57,000</u>

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.

**12 Provisions for liabilities**

	Decommissioning £ 000	Contract provisions £ 000	Emission obligations £ 000	Total £ 000
At 1 January 2011	3,193	46,838	-	50,031
Charged to the profit and loss account	-	55,040	1,120	56,160
Utilised during the year	-	(27,117)	-	(27,117)
Accretion of discount	105	3,279	-	3,384
Capitalised in tangible assets	479	-	-	479
	<u>584</u>	<u>31,202</u>	<u>1,120</u>	<u>32,906</u>
At 31 December 2011	<u>3,777</u>	<u>78,040</u>	<u>1,120</u>	<u>82,937</u>

# **E.ON UK CHP Limited**

## **Notes to the Financial Statements for the Year Ended 31 December 2011**

**(continued)**

Contract provisions relate to onerous lease contract provisions. 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 charge of £55,040,000 (2010: £26,847,000 release) was recorded in these financial statements as a result of this review. The discount rate used to calculate the expected future value is 9.5% (2010: 6.9%). A tax credit of £14,310,000 (2010: £7,249,000 tax charge) arose as a result of this release.

Decommissioning provisions comprise amounts set aside for the estimated costs of decommissioning power stations and subsequent site restoration costs at UK power stations which will be utilised as each power station closes. The amount capitalised in tangible assets to a change in the estimated cost of decommissioning the plant and to a change in the discount rate.

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

### **13 Called up share capital**

#### **Allotted and fully paid**

	<b>2011</b>		<b>2010</b>	
	<b>No</b>	<b>£ 000</b>	<b>No.</b>	<b>£ 000</b>
Ordinary shares of £1 each	<u>50,000,000</u>	<u>50,000</u>	<u>50,000,000</u>	<u>50,000</u>

### **14 Reserves**

	<b>Profit and loss account £ 000</b>
At 1 January 2011	(333,130)
Loss for the year	<u>(51,991)</u>
<b>At 31 December 2011</b>	<u><b>(385,121)</b></u>

### **15 Reconciliation of movement in shareholders' funds**

	<b>2011 £ 000</b>	<b>2010 £ 000</b>
(Loss)/profit attributable to the members of the Company	<u>(51,991)</u>	<u>7,540</u>
Net (reduction)/addition to shareholders' funds	<u>(51,991)</u>	<u>7,540</u>
Shareholders' deficit at 1 January	<u>(283,130)</u>	<u>(290,670)</u>
<b>Shareholders' deficit at 31 December</b>	<u><b>(335,121)</b></u>	<u><b>(283,130)</b></u>

**E.ON UK CHP Limited**  
**Notes to the Financial Statements for the Year Ended 31 December 2011**  
**(continued)**

**16 Pension schemes**

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.

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 £1,469,000 (2010 £1,600,000).

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 £120 million during January 2012 and expects to make special contributions of £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.

**17 Ultimate parent**

The Company is controlled by E ON UK plc. The ultimate controlling party is E ON AG, which is the parent company of the largest group to consolidate these financial statements. The smallest group to consolidate these financial statements is E ON UK plc, the principal UK trading subsidiary of E ON AG. 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  
Dusseldorf  
Germany