

E.ON UK CHP LIMITED
REPORT AND FINANCIAL STATEMENTS
for the year ended 31 December 2009

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Registered No: 2684288

E.ON UK CHP LIMITED

Report of the directors for the year ended 31 December 2009

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2009.

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.

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 £5,192,000 (2008: £2,943,000) and an increase in the onerous contract provision of £9,175,000 (2008: £40,572,000) has consequently been recorded within these accounts. The impairment arose as a result of downgrading our view of expected future commodity prices.

On 1 January 2009, the E.ON AG group centralised its European energy trading activities. Prior to this date, transactions between the Company and fellow subsidiaries of E.ON UK plc were carried out using a market based internal pricing methodology. With effect from 1 January 2009, the Company now trades its output with E.ON Energy Trading SE, a German legal entity headquartered in Dusseldorf, under an arm's length contract. The principal impacts of this change are: to amend the timeframes over which the forecast output and requirement of energy commodity products is priced in line with market liquidity; and to reflect prevailing commodity prices in the market at the time of any change to the forecasts made by the Company

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

E.ON UK CHP LIMITED

Report of the directors for the year ended 31 December 2009 (continued)

Results and dividends

The Company's loss for the financial year is £47,938,000 (2008: £34,620,000). The directors do not recommend the payment of a dividend (2008: £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 (appointed 17 May 2010)
Mr C R Scoins (resigned 17 May 2010)

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 both the 2009 and 2008 year ends were negligible.

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 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 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.

E.ON UK CHP LIMITED

Report of the directors for the year ended 31 December 2009 (continued)

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.

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.

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.

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 Number: 2684288
Westwood Way
Westwood Business Park
Coventry
CV4 8LG

3 September 2010

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 2009 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 Directors' Responsibilities Statement, 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 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 2009 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.

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



Nicholas Stevenson (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

3 September 2010

E.ON UK CHP LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2009

		Year ended 31 December 2009	Year ended 31 December 2008
	Note	£'000	£'000
Turnover	2	205,232	185,241
Cost of sales		(229,180)	(168,673)
Gross loss		(23,948)	16,568
Operating expenses	3	(2,085)	(2,447)
Operating (loss)/profit before exceptional items		(26,033)	14,121
Exceptional items:			
Impairment of fixed assets	4	(5,192)	(2,943)
Onerous contract provision	4	(9,175)	(40,572)
Operating loss	5	(40,400)	(29,394)
Interest payable and similar charges	7	(11,469)	(18,520)
Loss on ordinary activities before taxation		(51,869)	(47,914)
Tax on loss on ordinary activities	8	3,931	13,294
Loss for the financial year		(47,938)	(34,620)

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 20 form part of these financial statements

E.ON UK CHP LIMITED
BALANCE SHEET
AS AT 31 DECEMBER 2009

	Note	At 31 December 2009 £'000	At 31 December 2008 £'000
Fixed assets			
Tangible assets	9	36,181	45,507
Investments	10	74,358	74,358
		110,539	119,865
Current assets			
Stock	11	6,381	5,915
Debtors' amounts falling due within one year	12	19,628	23,730
Deferred tax asset	13	24,091	21,699
		50,100	51,344
Creditors: amounts falling due within one year	14	(374,079)	(349,516)
Net current liabilities		(323,979)	(298,172)
Total assets less current liabilities		(213,440)	(178,307)
Provisions	15	(77,230)	(64,425)
Net liabilities		(290,670)	(242,732)
Capital and reserves			
Called-up share capital	16	50,000	50,000
Profit and loss reserve	17	(340,670)	(292,732)
Total shareholders' deficit	18	(290,670)	(242,732)

The financial statements on pages 5 to 20 were approved by the Board of Directors on 3 September 2010 and were signed on its behalf by:



D J Morgans
Director

3 September 2010

The accounting policies and the notes on pages 7 to 20 form part of these financial statements.

E.ON UK CHP LIMITED

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

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 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 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.

E.ON UK CHP LIMITED

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

(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).

E.ON UK CHP LIMITED

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

1 Accounting policies (continued)

(k) Revenue

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

(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

(o) 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 statement 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 United Kingdom.

E.ON UK CHP LIMITED

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

3 Operating expenses

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Administrative expenses	2,085	2,447

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.

4 Exceptional items

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Impairment of fixed assets	(5,192)	(2,943)
Onerous contract provision	(9,175)	(40,572)
Exceptional items	(14,367)	(43,515)

During the year, an impairment review of the Company's plant portfolio was undertaken. Using expected future commodity prices, the value of expected discounted future cash flows to be generated from each site under the contracts in place was compared to the net book value of the fixed assets, and where the net present value was lower than net book value, an impairment to the fixed assets was recorded. 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 £5,192,000 (2008: £2,943,000) and an onerous contract provision increase of £9,175,000 (2008: £40,572,000) has been recorded in these accounts. A tax credit of £3,739,000 (2008: £11,959,000) arose as a result of these items. The discount rate used to calculate this impairment is 7.47% (2008: 7.47%).

E.ON UK CHP LIMITED

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

5 Operating loss

Operating loss is stated after charging:

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Depreciation of tangible fixed assets		
Owned	5,714	5,145
Impairment of tangible fixed assets.		
Owned (Note 4)	5,192	2,943
Onerous contract provision (Note 15)	9,175	40,572
Operating lease charges:		
Plant and machinery	2,602	1,757

For each of the years ended 31 December 2009 and 31 December 2008, auditors' remuneration of £15,000 (2008: £15,000) 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.

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 2009 Number	Year ended 31 December 2008 Number
Operations	102	109
Administration	29	17
	<u>131</u>	<u>126</u>

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

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Wages and salaries	6,405	5,818
Social security costs	572	548
Other pension costs	1,300	1,040
	<u>8,277</u>	<u>7,406</u>

The directors received no emoluments from the Company during the year (2008: £nil).

E.ON UK CHP LIMITED

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

7 Interest payable and similar charges

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Interest payable to group undertakings	7,085	16,965
Provisions – discount unwind (Note 15)	4,384	1,555
Total interest payable and similar charges	11,469	18,520

8 Tax on loss on ordinary activities

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Current tax:		
UK corporation tax credit on losses for the year	(10,551)	(3,081)
Under/(over) provision in prior year	9,012	(3,947)
Total current tax	(1,539)	(7,028)
Deferred tax:		
Origination of timing differences	(3,965)	(5,810)
Unwinding of discount	99	(1,256)
Over provision in prior year	1,474	800
Total deferred tax (Note 13)	(2,392)	(6,266)
Tax credit on loss on ordinary activities	(3,931)	(13,294)

E.ON UK CHP LIMITED

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

8 Tax on loss on ordinary activities (continued)

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 for the year in the UK at 28% (2008: 28.5%) can be explained as follows:

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Loss on ordinary activities before tax	(51,869)	(47,914)
Tax on loss on ordinary activities before tax at 28% (2008: 28.5%)	(14,523)	(13,655)
<i>Effects of:</i>		
Depreciation in excess of capital expenditure	392	(1,073)
Other timing differences	3,573	11,641
Expenses not deductible for tax purposes	7	6
Adjustments in respect of prior periods	9,012	(3,947)
Current tax credit for the year	(1,539)	(7,028)

The standard rate of corporation tax in the UK changed from 30% to 28% with effect from 1 April 2008. Accordingly the Company's profits were taxed at an effective rate of 28.5% in 2008 and 28% in 2009.

The corporation tax receivable for the year has been reduced because of group relief surrendered to a fellow group undertaking for which a payment will be received. Accordingly no tax losses are available for carry forward.

E.ON UK CHP LIMITED

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

9 Tangible fixed assets

	Operating plant and buildings £'000
Cost:	
At 1 January 2009	368,364
Additions	1,580
At 31 December 2009	369,944
 Accumulated depreciation:	
At 1 January 2009	322,857
Charge for the year	5,714
Impairment (Note 4)	5,192
At 31 December 2009	333,763
 Net book value:	
At 31 December 2009	36,181
At 31 December 2008	45,507

Additions include £74,000 (2008: £172,000) resulting from a change in accounting estimate for the decommissioning provision (Note 15). The closing net book value includes £2,319,000 (2008: £2,522,000) 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 2009 (continued)

10 Fixed asset investments

	Shares in group undertakings £'000	Loans to group undertakings £'000	Total £'000
Cost:			
At 1 January 2009 and 31 December 2009	6,501	68,003	74,504
Provisions:			
At 1 January 2009 and 31 December 2009	(146)	-	(146)
Net cost:			
At 1 January 2009 and 31 December 2009	6,355	68,003	74,358

Fixed asset investments comprise the following as at 31 December 2009.

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 2009 £'000	At 31 December 2008 £'000
Raw material and consumables:		
Fuel stocks	1,443	1,717
Stores	4,938	4,198
	6,381	5,915

E.ON UK CHP LIMITED

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

12 Debtors: amounts falling due within one year

	At 31 December 2009 £'000	At 31 December 2008 £'000
Trade debtors	17,053	22,717
Amounts due from group undertakings	1,881	313
Prepayments and accrued income	539	530
Other debtors	155	170
	19,628	23,730

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

13 Deferred tax asset

The deferred tax asset comprises:

	At 31 December 2009 £'000	At 31 December 2008 £'000
Undiscounted asset for deferred tax (accelerated capital allowances)	2,767	4,009
Other timing differences	21,660	18,066
Discount	(336)	(376)
Discounted asset for deferred tax	24,091	21,699

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

	£'000
Deferred tax asset at 31 December 2008	21,699
Deferred tax credit to profit and loss account (Note 8)	2,392
Deferred tax asset at 31 December 2009	24,091

Deferred tax balances are measured at the standard rate of corporation tax in the UK of 28% as this was the rate in force at the balance sheet date. On 22 June 2010, the UK Government announced a number of changes to the UK corporation tax system. The Finance (No. 2) Act 2010 included legislation to reduce the main rate of corporation tax from 28% to 27% from 1 April 2011. Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 24% by 1 April 2014. In addition, capital allowances on plant expenditure will be reduced by 2% from 1 April 2012, on normal plant from 20% to 18% and long life plant from 10% to 8%. 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 2009 (continued)

13 Deferred tax asset (continued)

Due to the proximity of this announcement to the signing of these accounts, it has not been possible to assess the impact of these changes on the deferred tax balances included in the Company's balance sheet.

During the year, a new first year rate for capital allowances of 40% was introduced for certain assets and industrial buildings allowances were reduced from 3% to 2%, to be reduced to nil by 2011. The impact of this change is to increase the deferred tax asset by £145,000.

14 Creditors: amounts falling due within one year

	At 31 December 2009 £'000	At 31 December 2008 £'000
Amounts owed to group undertakings	308,026	283,443
Other taxation and social security	4,381	1,494
Accruals and deferred income	4,672	7,579
Redeemable preference shares	57,000	57,000
	<u>374,079</u>	<u>349,516</u>

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%, and is only payable if the Company makes distributable profits. FRS 25 requires such redeemable shares to be classified as debt, due to the holder's right of redemption.

15 Provisions for liabilities and charges

	Onerous contract £'000	Decommissioning provision £'000	Total £'000
At 1 January 2009	60,220	4,205	64,425
Addition	9,175	-	9,175
Utilisation	(828)	-	(828)
Change in accounting estimate (Note 9)	-	74	74
Interest unwind (Note 7)	4,215	169	4,384
At 31 December 2009	<u>72,782</u>	<u>4,448</u>	<u>77,230</u>

E.ON UK CHP LIMITED

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

15 Provisions for liabilities and charges (continued)

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 Called up share capital

	At 31 December 2009 £'000	At 31 December 2008 £'000
Authorised		
50,000,000 ordinary shares of £1 each	<u>50,000</u>	<u>50,000</u>
Allotted, called-up and fully paid		
50,000,000 ordinary shares of £1 each	<u>50,000</u>	<u>50,000</u>

17 Reserves

	Profit and loss reserve £'000
At 1 January 2009	(292,732)
Retained loss for the financial year	<u>(47,938)</u>
At 31 December 2009	<u>(340,670)</u>

18 Reconciliation of movements in shareholders' deficit

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Equity shareholders' deficit		
Loss for the financial year	(47,938)	(34,620)
Opening shareholders' deficit	<u>(242,732)</u>	<u>(208,112)</u>
Closing shareholders' deficit	<u>(290,670)</u>	<u>(242,732)</u>

E.ON UK CHP LIMITED

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

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.

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 defined benefit and defined contribution schemes during the year amounts to £1,300,000 (2008: £1,040,000). An amount of £126,000 (2008: £95,000) is included within amounts owed to group undertakings being the outstanding contributions to the scheme.

Further details of the scheme are available in the group's annual report which does not form part of this report. Due to a deficit in the scheme, E.ON UK plc expects to make special contributions of £61 million per annum until 2013. None of this cost is expected to be recharged to the Company.

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 2009 £'000	At 31 December 2008 £'000
within one year	1,065	1,095
within two to five years	83	1,413
after five years	94	94
	<u>1,242</u>	<u>2,602</u>

E.ON UK CHP LIMITED

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

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:

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