E.ON UK COGENERATION LIMITED

REPORT AND FINANCIAL STATEMENTS

for the year ended 31 December 2007

Registered No: 2730697

E.ON UK COGENERATION LIMITED

Report of the directors for the year ended 31 December 2007

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

Principal activities

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

Business review

Fair review of the Company's business

Difficult trading conditions have continued to hinder the results of the Company.

There are no current plans to initiate any new CHP development projects

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

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 these risks is undertaken at E.ON UK plc consolidated ('group') level. Further discussion of these risks and uncertainties, in the context of the group as a whole, is provided within the financial review section of the group's annual report which does not form part of this report

Key performance indicators ('KPIs')

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

Results and dividends

The Company's loss for the financial year is £1,006,000 (2006: loss of £146,000) The directors do not recommend the payment of a dividend (2006 £nil).

Directors and their interests

The directors who held office during the year are given below

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

During the year, no director had an interest in the shares of the Company. At 31 December 2005 and 31 December 2006, no director had any interest requiring disclosure

Policy and practice on payment of creditors

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

- settle the terms of payment with the supplier when agreeing the terms of each transaction,
- ensure that those suppliers are made aware of the terms of payment by inclusion of other relevant terms in the contracts, and
- 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. At the end of the year there were no trade creditors. At 31 December 2006 trade creditors represented 32 days

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. In preparing those financial statements, the directors are required to.

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

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

c) state whether applicable accounting standards have been followed, subject to any material departure 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 proper accounting records that 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 1985 They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The directors confirm that they have fulfilled their responsibilities.

Auditors and disclosure of information to auditors

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

Auditors

On 9 September 1999, the Company passed an elective resolution dispensing with the requirement to appoint auditors annually. Therefore PricewaterhouseCoopers LLP will continue in office

BY ORDER OF THE BOARD

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

29 September 2008

Independent auditor's report to the shareholders of E.ON UK Cogeneration Limited

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

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

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

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

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies within it

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

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

Opinion
In our opinion

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

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
30 September 2008

E.ON UK COGENERATION LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	**Year ended 31 December 2007 £'000**	Year ended 31 December 2006 £'000
Turnover	2	**35,878**	32,633
Cost of sales	3	**(38,301)**	(33,221)
Gross loss		**(2,423)**	(588)
Operating loss	4	**(2,423)**	(588)
Interest receivable and similar income	6	**718**	294
Interest payable and similar charges	7	**(163)**	(112)
Loss on ordinary activities before taxation		**(1,868)**	(406)
Tax on loss on ordinary activities	8	**862**	260
Retained loss on ordinary activities after taxation	19	**(1,006)**	(146)

All the above amounts relate to continuing operations.

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

The accounting policies and the notes on pages 8 to 18 form part of these financial statements.

E.ON UK COGENERATION LIMITED

NOTE OF HISTORICAL COST LOSSES
FOR THE YEAR ENDED 31 DECEMBER 2007

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Reported loss on ordinary activities before taxation	**(1,868)**	(406)
Difference between historical cost depreciation charge for the year calculated on the revalued amount	**58**	58
Historic cost loss on ordinary activities before taxation	**(1,810)**	(348)
Historic cost loss for the year retained after taxation	**(948)**	(88)

The accounting policies and the notes on pages 8 to 18 form part of these financial statements.

E.ON UK COGENERATION LIMITED

BALANCE SHEET
AS AT 31 DECEMBER 2007

	Note	At 31 December 2007 £'000	At 31 December 2006 £'000
Fixed assets			
Tangible assets	9	**26,257**	28,597
Current assets			
Stock	10	**1,034**	672
Debtors: amounts falling due after more than one year	11	**12,129**	14,502
Debtors: amounts falling due within one year	12	**46,355**	39,360
Deferred tax asset	16	**-**	91
		59,518	54,625
Creditors: amounts falling due within one year	13	**(7,099)**	(3,831)
Net current assets		**52,419**	50,794
Total assets less current liabilities		**78,676**	79,391
Creditors: amounts falling due after more than one year	14	**(67,998)**	(67,998)
Provisions	15	**(3,757)**	(3,525)
Deferred Tax	16	**(59)**	-
Net Assets		**6,862**	7,868
Capital and reserves			
Called-up share capital	17	**-**	-
Profit and loss account	18	**6,715**	7,663
Revaluation reserve	18	**147**	205
Equity shareholders' funds	19	**6,862**	7,868

The financial statements on pages 5 to 18 were approved by the Board of Directors on 29 September 2008 and were signed on its behalf by.

D J Morgans
Director

29 September 2008

The accounting policies and the notes on pages 8 to 18 form part of these financial statements.

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

1 Accounting policies

These financial statements are prepared on the going concern basis, under the historical cost convention, in accordance with the Companies Act 1985 and applicable United Kingdom Accounting Standards, all of which have been consistently applied. The principal accounting policies are set out below.

(a) Tangible fixed assets

Tangible fixed assets are stated at their purchase or production cost less accumulated depreciation. Certain generating plant was revalued following the assessment of the fair value of the fixed assets of the Company following its acquisition by E ON UK CHP Limited on 31 December 1998 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

Asset	*Years*
Combined Cycle Gas Turbine (CCGT) plant	Up to 40
Other generating plant	15-20
Overhaul costs	2-3
Other short term assets	3-5

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

(b) 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

(c) 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

(d) Decommissioning

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 current market conditions.

(e) Fuel stocks and stores

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

1 Accounting policies (continued)

(f) 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

(g) Taxation

The tax charge for the year is based on the profits or losses on ordinary activities for the year and takes into account full provision for deferred tax in respect of timing differences on a discounted basis, using the approach set out in Financial Reporting Standard 19 'Deferred tax'. Such timing differences arise primarily from the differing treatment for taxation and accounting purposes of provisions and depreciation of fixed assets Deferred tax liabilities are recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered

(h) Foreign currencies

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

(i) Revenue

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

(j) Cash flow statement

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

(k) 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.

1 Accounting policies (continued)

(l) Offsetting

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

2 Turnover

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

3 Cost of sales

The directors consider that it is appropriate to include all the operating costs of the Company within Cost of Sales. Administrative expenses, in the form of common management costs, are borne by other companies within the E.ON UK group and not recharged

4 Operating loss

Operating loss is stated after charging

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Depreciation of tangible fixed assets (all owned by the Company)	**3,529**	**3,284**
Operating lease charges		
Plant and machinery	**1,404**	**905**

Administration Costs

All administration costs were borne by the parent undertaking E ON UK CHP Limited and not recharged

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

For the year ended 31 December 2007 and 31 December 2006, auditors' remuneration for audit services relating to the Company was borne by E ON UK CHP Limited and not recharged

5 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:

By activity	Year ended 31 December 2007	Year ended 31 December 2006
Operations	**27**	31

The associated salaries and related costs were:

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Wages and salaries	**1,102**	1,196
Social security costs	**102**	108
Other pension costs	**168**	183
	1,372	1,487

6 Interest receivable and similar income

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Long Term Receivable-Discount unwind	**718**	294

The discount unwind relates to the long term asset included in debtors amounts falling due after more than one year, as detailed in note 11.

7 Interest payable and similar charges

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Provision - Discount unwind (note 15)	**163**	112

8 Tax on loss on ordinary activities

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Current tax:		
UK corporation tax on loss for the year	**(962)**	(684)
Over provision in prior year	**(50)**	(81)
	(1,012)	(765)
Deferred tax:		
Origination and reversal of timing differences	**419**	581
Effect of change in Rate	**(29)**	-
Unwinding of discount	**(280)**	(70)
Under/(Over) provision in prior year	**40**	(6)
Total deferred tax (note 16)	**150**	505
Tax on loss on ordinary activities	**(862)**	(260)

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

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Loss on ordinary activities before tax	**(1,868)**	(406)
Tax on loss on ordinary activities before tax at 30%	**(560)**	(122)
Effects of		
Capital allowances in excess of depreciation	**(474)**	(511)
Other timing differences	**53**	(70)
Expenses not deductible for tax purposes	**19**	19
Adjustments in respect of prior periods	**(50)**	(81)
Current tax credit for the year	**(1,012)**	(765)

The corporation tax credit for the year has been reduced by £1,012,000 because of group relief surrendered to a fellow group undertaking for which payment will be received during 2008

9 Tangible fixed assets

	Freehold land and buildings £'000	Other short term assets £'000	Generating plant £'000	Total £'000
Cost:				
At 31 December 2006	13	83	127,411	127,507
Additions	-	-	1,189	1,189
Disposals	-	(29)	-	(29)
At 31 December 2007	**13**	**54**	**128,600**	**128,667**
Depreciation:				
At 31 December 2006	-	83	98,827	98,910
Charge for the year	-	-	3,529	3,529
Disposals	-	(29)	-	(29)
At 31 December 2007	**-**	**54**	**102,356**	**102,410**
Net book value:				
At 31 December 2007	**13**	**-**	**26,244**	**26,257**
At 31 December 2006	13	-	28,584	28,597

Additions to generating plant include £69,000 resulting from a change in accounting estimate for the decommissioning provision (note 15). The closing net book value includes £2,454,000 (2006· £2,525,000) relating to the assets associated to the cost of decommissioning the sites

10 Stock

	At 31 December 2007 £'000	At 31 December 2006 £'000
Raw material and consumables		
Fuel stocks	**94**	94
Stores	**940**	578
	1,034	672

11 Debtors: amounts falling due after more than one year

	At 31 December 2007 £'000	At 31 December 2006 £'000
Other debtors	**12,129**	14,502

Other debtors consist of revenue recognised in the profit and loss account that will be paid in instalments to 2013 The total discounted present value of the fee due at 31 December 2007 is £14,052,000 (2006 £17,070,000), of which £2,373,000 (2006: £2,568,000) is due in less than one year (note 12).

12 Debtors: amounts falling due within one year

	At 31 December 2007 £'000	At 31 December 2006 £'000
Trade debtors	**708**	1,432
Amounts owed by group undertakings	**41,284**	33,892
Other debtors (note 11)	**2,373**	2,568
Other Taxation	**323**	200
Prepayments and accrued income	**1,667**	1,268
	46,355	39,360

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

13 Creditors: amounts falling due within one year

	At 31 December 2007 £'000	At 31 December 2006 £'000
Trade creditors	-	261
Amounts owed to group undertakings	**2,465**	-
Accruals and deferred income	**4,634**	3,570
	7,099	3,831

Amounts owed to group undertakings are unsecured, free of any interest charge and are repayable on demand

14 Creditors: amounts falling due after more than one year

	At 31 December 2007 £'000	At 31 December 2006 £'000
Amounts owed to group undertakings	**67,998**	67,998

Amounts owed to group undertakings are unsecured interest free loan stock repayable in 2010.

15 Provisions

	Decommissioning provision £'000
At 31 December 2006	3,525
Change in accounting estimate	69
Interest unwind (note 7)	163
At 31 December 2007	**3,757**

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

16 Deferred tax

The deferred tax provision comprises

	At 31 December 2007 £'000	At 31 December 2006 £'000
Accelerated Capital Allowances	**(1,543)**	(1,138)
Other timing differences	**1,132**	1,156
Undiscounted (liability)/asset for deferred tax	**(411)**	18
Discount	**352**	73
Discounted provision for deferred tax (liability)/asset	**(59)**	91

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

	£'000
Deferred tax asset at 31 December 2006	(91)
Deferred tax charge to profit and loss account (note 8)	150
Deferred tax liability at 31 December 2007	**59**

As a result of the change in the Corporation tax rates which will be effective from 1 April 2008, deferred tax balances have been remeasured such that deferred tax related to timing differences expecting to reverse after 1 April 2008 is measured at the rate of 28% as this is the rate that will apply on reversal

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

The effect of the changes to be enacted in the Finance Act 2008 would be to increase the deferred tax liability provided at 31 December 2007 by £95,000 in 2007 This £95,000 increase in deferred tax would increase the loss for the year by £95,000 This increase in deferred tax is due to the fact that the Company has chosen a policy of discounting the deferred tax balance The reduction in the writing down allowances on plant and machinery (from 25% to 20%), the increase in allowances for long life assets (from 6% to 10%) and the phasing out of industrial buildings allowances with effect from 1 April 2008 to be enacted in the 2008 Finance Act affects the profile of the reversal of the accelerated capital allowances and therefore the discounted deferred tax liability.

17 Share capital

	At 31 December 2007 £'000	At 31 December 2006 £'000
Authorised		
100,000 ordinary shares of £1 each	**100**	100
Allotted, called-up and fully paid		
2 ordinary shares of £1 each	**-**	-

18 Reserves

	Revaluation reserve £'000	**Profit and loss account £'000**	**Total £'000**
At 31 December 2006	205	7,663	7,868
Transfers	(58)	58	-
Loss for the financial year	-	(1,006)	(1,006)
At 31 December 2007	**147**	**6,715**	**6,862**

19 Reconciliation of movements in shareholders' funds

	31 December 2007 £'000	31 December 2006 £'000
Loss for the financial year	**(1,006)**	**(146)**
Net reduction in shareholders' funds	**(1,006)**	**(146)**
Opening shareholders' funds	**7,868**	**8,014**
Closing shareholders' funds	**6,862**	**7,868**

20 Pension commitments

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

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

The Company is unable to identify its share of the underlying assets and liabilities in the scheme. Consequently, the Company accounts for the scheme as a defined contribution scheme The cost of contributions to the scheme amounts to £168,000 (2006 £183,000) An amount of £13,000 (2006 £15,000) is included within amounts owed to group undertakings being the outstanding contributions to the scheme

21 Financial commitments

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

	At 31 December 2007 £'000	At 31 December 2006 £'000
Expiring within one year	**-**	-
Expiring within two to five years	**1,524**	1,137
Expiring after five years	**-**	-
	1,524	1,137

22 Ultimate parent undertaking and controlling party

The immediate parent undertaking is E ON UK CHP Limited. 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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