CENTRAL NETWORKS WEST PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS

for the year ended 31 December 2009

Registered No: 3600574

CENTRAL NETWORKS WEST PLC

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 was the distribution of electricity to industrial, commercial and domestic customers.

Business review

Fair review of the Company's business

The Company is regulated by Ofgem and the current five year price control period commenced on 1 April 2010.

By allowing the Company an increased level of capital investment, 24% higher than in the last regulatory period, Ofgem has recognised the need to continue to maintain and improve the network To deliver this, the Company has fundamentally changed the way it works with its contractors by introducing a new Alliancing model from April 2010

Despite this change, the underlying requirement to keep lights on by providing electricity to homes and businesses remains unchanged and the Company's strategic priorities remain clear.

- Safety
- Network Performance
- Customer
- Cost
- Sustainability

This consistency and clarity has enabled the Company to focus on what is important and it has continued to deliver substantial improvements in 2009.

- Safety performance remained strong with the number of lost time and major injuries across the Central Networks division, which also includes Central Networks East plc and Central Networks Services Limited, at similarly low levels to those achieved in 2008 The Company is now aiming to deliver a step change reduction in 2010 and a big enabler of this will be the introduction of the Alliance model and the sharing of best practice.

- Network performance improved in 2009 with the number of Customer Minutes Lost decreasing by 8% and Customer Interruptions increasing by 3%. This has been driven by many factors including increased use of automation, applying Lean principles to working practices, implementing a new proactive tree clearance policy and smarter operational control such as sequence switching.

- The Company has successfully embedded a new Customer Charter to deliver value to its customers by putting itself in their shoes. It focuses on putting the lights back on as safely and quickly as possible, and keeping those affected up to date with useful and accurate information. An example of this is the provision of a manned Customer Support Vehicle to offer hot drinks, warm clothing and blankets, as well as providing the latest information about a situation – helping customers to plan around the inconvenience

Business review (continued)

Fair review of the Company's business (continued)

- There have also been across the board annual cost savings in the Central Networks division driven from a detailed understanding of the Company's cost base and the use of industry benchmarking The cost associated with fault activity is now down 26% in 3 years.

- On sustainability, the Company has completed preliminary work on future networks, smart grids and a 2030 carbon strategy. The Alliance model will proactively address the delivery requirements associated with the substantial investment to replace ageing network assets and in 2010 the Company's managers, in tandem with Alliance partners, will jointly complete an operational excellence programme which has been developed in line with the Company's commitment to help deliver a sustainable low carbon future.

Electrical power distributed during the year decreased compared to the prior year by 1,545 GWh (6%) and was also lower than expected volumes. The principal reasons for the reduced level of demand were the economic downturn and the reduction in industrial output.

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 weather 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

The Company is funded through an inter-company facility with E.ON UK plc, the principal UK trading subsidiary of the E.ON Group E.ON UK plc undertakes the treasury management activities of the Company, operating within the E ON AG framework for interest rate risk management. This funding facility exposes the Company to movements in interest rates as it is based on LIBOR.

Key performance indicators ('KPIs')

The Company is part of the Central Networks division of the E.ON UK Group. This division also includes Central Networks East plc and Central Networks Services Limited The division considers its three main indicators of performance to be safety, network performance and power distributed

Safety

The Lost Time Injury Frequency ('LTIF') is a key safety measure monitored at a divisional level. LTIF is defined as the number of lost time injuries per 1,000,000 hours worked The safety of people is of vital importance to the Company and it has worked hard to reduce the number of accidents. The rate at 31 December 2009 was 2.5 compared to 2 25 at 31 December 2008 The number of total accidents has decreased, however reduced working hours have caused the KPI to increase in 2009.

Business review (continued)

Network performance

Customer Minutes Lost continued to improve with 78.3 in 2009 (2008: 85 1). Customer Interruptions worsened slightly with 103.7 in 2009 (2008: 101 0).

Audited information on network performance of the Company covering the regulatory year to 31 March is published annually by Ofgem on their website www ofgem.gov.uk.

Power distributed

Electrical power distributed in 2009 was 25,863 GWh (2008 27,408 GWh)

Financial risk management

The Company is a member of the E ON UK Group. Treasury management for all companies within the E.ON UK Group, including the Company, is conducted by E.ON UK plc, the intermediate parent company E ON UK plc, in common with other major E.ON AG subsidiaries, must comply with E.ON AG financial management and treasury policies and procedures but must also have its own local operational treasury team which services the treasury requirements of the business The teams liaise closely with the local business to ensure that liquidity and risk management needs are met within the requirements of the E.ON AG policies and procedures. The treasury team works closely with the treasury and corporate finance teams at E ON AG

E ON AG has a central department that is responsible for financing and treasury strategy, policies and procedure throughout the E.ON AG Group. Major strategic financings and corporate finance actions are planned and executed by the corporate finance team at E.ON AG. There is also a treasury team which co-ordinates currency and interest risk management, as well as cash management for the whole E ON AG Group

E.ON UK plc also operates its own specific treasury procedures within the overall E.ON AG treasury framework

E ON AG's financing policy is to centralise external financing at the E ON AG holding company level, and to reduce external debt in subsidiaries wherever possible E ON AG has the strongest credit rating in the E.ON AG Group, and this allows the finest terms for external finance to be negotiated E.ON AG then funds its subsidiaries with inter-company finance. This finance may be in the form of equity or debt, as appropriate.

The E.ON UK plc treasury team employs a continuous forecasting and monitoring process to ensure that the E.ON UK Group complies with all its banking and other non-financial covenants, and also the regulatory constraints that apply to the financing of the UK business E ON UK treasury works in close liaison with the various operating businesses within the E ON UK Group, when considering hedging requirements on behalf of their activities A group-wide cash forecasting and currency exposure reporting process exists which ensures regular reporting into treasury of future positions, both short and medium term. Information is submitted to E.ON AG for incorporation into E ON AG Group forecasting processes on a monthly and quarterly basis.

E.ON UK plc does not enter into speculative treasury arrangements Accordingly, all transactions in financial instruments are matched to an underlying business requirement, such as committed purchases or forecast debt requirements Treasury activities are reviewed by internal audit on a regular basis.

Results and dividends

The Company's profit for the financial year is £143.2m (2008· £99 6m) No interim dividends were paid during the year (2008: £nil). The directors do not recommend the payment of a final dividend (2008 £nil)

Directors

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

Dr P Golby
Mr G M Thompson
Mr J Crackett

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.

Policy and practice on payment of creditors

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

a) settle the terms of payment with the supplier when agreeing the terms of each transaction;

b) ensure that those suppliers are made aware of the terms of payment by inclusion of other relevant terms in the contracts; and

c) pay in accordance with its contractual and other legal obligations.

For all other cases the Company supports the Better Payments Practice Code and has in place well developed arrangements with a view to ensuring that this is observed Trade creditors at year end represented 29 days (2008: 31 days) of purchases

Employees

The employees undertaking asset management and engineering services within the Company are legally employed by Central Networks Services Limited, a fellow group undertaking. The costs relating to these employees are initially borne by Central Networks Services Limited and are then fully recharged to the Company.

Equal opportunities

The Company's employment policies are designed to attract, retain and motivate the very best people recognising that this can only be achieved through offering equal opportunities for all, irrespective of sex, race, marital status, age, or disability

Employment practices and procedures are regularly reviewed to ensure that they provide equality of opportunity to all employees within the current legislative framework The Company encourages the use of flexible working arrangements where practicable.

Employee involvement

Recognising that the success of the Company depends on the quality of performance of employees, increased emphasis is being put on communication programmes to ensure that employees understand the business strategy and can contribute towards its achievements. Throughout the year, principally through regular team briefings and meetings with employees and their representatives, the Company has continued to improve arrangements for employee consultation and communication on matters relating to business performance and objectives There are also well established consultative and negotiating arrangements involving employees, employee representatives and trade union officials to ensure that employees' views are considered in relation to employment conditions, safety and health , welfare and training issues.

The Company provides appropriate training in order to satisfy business needs and to develop the talents and skills of employees, benefiting the individual, the Company and its customers

Safety and health

The directors consider that good safety and health performance is an essential part of business activities and the Company aims to achieve the highest standards. All aspects of safe and healthy working practices are promoted throughout the Company in the interests of employees, customers, suppliers and the wider community.

People with disabilities

The Company fully recognises its responsibility to encourage and assist the recruitment, employment, training and career development of people with disabilities. If employees become disabled during their service with the Company, arrangements are discussed to enable continuity of employment and development as appropriate.

Contributions for political and charitable purposes

Donations to charitable organisations made during the year by the Company amounted to £677 (2008: £13). No political donations were made (2008 £nil)

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

Statement of directors' responsibilities (continued)

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;

d) 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.

Going concern

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

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

Mr G M Thompson
Director
Central Networks West plc
Registered No: 3600574
Westwood Way
Westwood Business Park
Coventry
CV4 8LG

23 June 2010

Independent auditors' report to the members of Central Networks West plc

We have audited the financial statements of Central Networks West plc 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 profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

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

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
  we have not received all the information and explanations we require for our audit

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

28 June 2010

CENTRAL NETWORKS WEST PLC

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	**Year ended 31 December 2009 £m**	Year ended 31 December 2008 £m
Turnover	2	**306.9**	311.2
Cost of sales		**(21.2)**	(30.5)
Gross profit		**285.7**	280 7
Net operating expenses	3	**(121.8)**	(110 3)
Operating profit	4	**163.9**	170.4
Interest payable and similar charges	7	**(15.0)**	(29 0)
Profit on ordinary activities before taxation		**148.9**	141.4
Tax on profit on ordinary activities	8	**(5.7)**	(41 8)
Profit for the financial year		**143.2**	99.6

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

The Company has no recognised gains and losses other than the profit 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 10 to 20 form an integral part of these financial statements

CENTRAL NETWORKS WEST PLC

BALANCE SHEET
AS AT 31 DECEMBER 2009

	Note	At 31 December 2009 £m	At 31 December 2008 £m
Fixed assets			
Tangible assets	9	**1,627.3**	1,508.4
Current assets			
Stock	10	**4.9**	6 4
Debtors amounts falling due within one year	11	**73.4**	55.7
		78.3	62.1
Creditors: amounts falling due within one year	12	**(754.3)**	(735.4)
Net current liabilities		**(676.0)**	(673 3)
Total assets less current liabilities		**951.3**	835 1
Provision for liabilities and charges	13	**(81.1)**	(108.1)
Net assets		**870.2**	727 0
Capital and reserves			
Called-up share capital	15	**0.1**	0.1
Profit and loss reserve	16	**870.1**	726.9
Total shareholders' funds	17	**870.2**	727.0

The financial statements on pages 8 to 20 were approved by the Board of Directors on 23 June 2010 and were signed on its behalf by

Mr G M Thompson
Director

23 June 2010

The accounting policies and the notes on pages 10 to 20 form an integral part of these financial statements.

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, except for the accounting policy for customer contributions (see tangible fixed assets below) where an alternative treatment has been adopted in order to present, in the opinion of the directors, a true and fair view. The Company is a wholly-owned subsidiary undertaking of E.ON AG, the ultimate parent undertaking, and is included in the publicly available consolidated financial statements of E.ON AG. Consequently, the Company has taken advantage of the exemption from preparing consolidated financial statements under the terms of Section 400 of the Companies Act 2006 The principal accounting policies are set out below.

(a) Tangible fixed assets

Tangible fixed assets are stated at their purchase or production cost less accumulated depreciation Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight-line basis over their useful economic lives. Tangible fixed assets are not revalued. The estimated useful economic lives used for the principal categories of fixed assets are as follows:

	Life in years
Distribution network:	
Distribution network assets and customer contributions	*40-70*
Meters	*10-20*
Other assets:	
Plant, machinery, fixtures, equipment and tools	*Up to 10*
Vehicles and mobile plant	*Up to 10*

Customer contributions are deducted from the cost of the related fixed assets. This accounting treatment represents a departure from the Companies Act 2006 which requires fixed assets to be included at their purchase price or production cost and therefore any contribution would be presented as deferred income. However, it is the opinion of the directors that the treatment adopted is necessary to give a true and fair view, as the contributions relate directly to the cost of fixed assets used in the distribution network. Customers' contributions towards distribution network assets are credited to the profit and loss account over the life of the distribution network assets to which they relate by virtue of a reduction in the depreciation charge.

Charges for impairments of assets are recognised when indicators suggest that an asset may be impaired and an impairment charge is calculated as the difference between the carrying value of the asset and its recoverable amount, if lower 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 to which the asset belongs.

1 Accounting policies (continued)

(b) 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

(c) Stocks and stores

Stocks and stores are stated at the lower of cost and net realisable value. Where necessary, provision is made for obsolete, slow moving or defective stocks. Stocks are recognised in the profit and loss account on a weighted average cost basis. The Companies Act 2006 requires stocks to be categorised between raw materials, work in progress and finished goods Stocks and stores are raw materials under this definition

(d) 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 liabilities are 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.

(e) 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.

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

(f) Turnover

Turnover comprises revenue from the distribution of electricity to industrial and commercial and domestic customers and is recognised when supplied Turnover excludes value added tax

Turnover relating to the distribution of electricity represents the value of charges for electricity distributed during the year including estimates of the sales value of units distributed to customers between the date of the last meter reading and the year end

1 Accounting policies (continued)

(g) 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 and its subsidiaries and associates (together, "the E ON Group") Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 (revised 1996).

(h) Related party transactions

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

(i) Going concern

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

2 Turnover

All the Company's turnover arises in the course of the Company's principal activity in the United Kingdom Turnover also includes amounts billable to third parties in respect of subcontracted services in relation to the distribution of electricity.

3 Net operating expenses

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Recharged staff costs (note 6)	**39.1**	35.2
Depreciation	**42.3**	42.1
Other operating charges	**40.4**	33.0
	121.8	110 3

The directors believe that the nature of the Company's business is such that the analysis of operating costs required by the Companies Act 2006 is not deemed appropriate. As required by the Act, the directors have therefore adopted the presented format so that the operating costs are disclosed in a manner they believe is more appropriate to the Company's principal activity

4 Operating profit

Operating profit is stated after charging:

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Depreciation of tangible fixed assets:		
Owned assets	**42.3**	42.1
Loss on disposal of fixed assets	**0.2**	-
Operating lease charges:		
Vehicles	**3.2**	2 5
Auditors' remuneration:		
Audit services	**0.1**	0.2

Non audit fees of £42,000 were incurred during the year (2008: £42,500)

Auditors' remuneration includes half the audit fee of Central Networks plc of £3,000 (2008: £3,000), the Company's immediate parent undertaking, which have not been recharged.

Auditors' remuneration for the year ended 31 December 2008, includes half the audit fee of Central Networks Services Limited (£3,000), a fellow group undertaking, which was not recharged There were £nil non-audit fees.

5 Directors' emoluments

	Year ended 31 December 2009 £	Year ended 31 December 2008 £
Aggregate emoluments	**484,444**	447,543

Mr G M Thompson and Mr J Crackett are directors of both the Company and Central Networks East plc, a fellow group undertaking They shared their management time equally between these two companies. As a result, their emoluments for the years ended 31 December 2009 and 2008, have been split equally between the Company and Central Networks East plc.

Dr P Golby received no emoluments from the Company during the year (2008: £nil) His remuneration is borne by E ON UK plc and not recharged

Retirement benefits are accruing to two (2008: two) directors under a defined benefit scheme. During the year no directors exercised options over shares they were rewarded for services to the E.ON Group (2008 none) During the year two (2008: two) directors exercised Performance Rights over shares in the ultimate parent company, E.ON AG, that they were awarded for services to the E.ON UK Group.

5 Directors' emoluments (continued)

Highest paid director

	Year ended 31 December 2009 £	Year ended 31 December 2008 £
Total emoluments, excluding gains on the exercise of share options and benefits accruing under long-term incentive schemes	**293,155**	261,737
Defined benefit pension scheme.		
Accrued pension at end of year	**64,570**	62,285

During the year the highest paid director exercised Performance Rights over shares in the ultimate parent company, E.ON AG, that he was awarded for services to the E ON UK Group

6 Employee information

The employees undertaking asset management and engineering services within the Company are legally employed by Central Networks Services Limited, a fellow subsidiary undertaking. The costs relating to these employees are initially borne by Central Networks Services Limited and are then fully recharged to the Company.

Employee numbers undertaking these activities for the current and prior year were 1,399 employees for 2009 (2008: 1,362). Associated salary and related costs of employees recharged to the Company by Central Networks Services Limited were £69.4m for 2009 (2008 £64 2m) A total of £30.3m (2008: £29 0m) of these costs were capitalised in fixed assets

7 Interest payable and similar charges

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Interest payable to group undertakings	**15.0**	29 0

8 Tax on profit on ordinary activities

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Current tax:		
UK corporation tax on profits for the year	**37.7**	38.9
Adjustment in respect of previous periods	**(4.0)**	0 5
Total current tax charge	**33.7**	39.4
Deferred tax:		
Origination and reversal of timing differences	**4.1**	1 5
Adjustment in respect of previous periods	**0.1**	(0 1)
Movement in deferred tax discount	**(32.2)**	1.0
Total deferred tax (credit)/charge	**(28.0)**	2.4
Tax charge on profit on ordinary activities	**5.7**	41.8

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

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Profit on ordinary activities before taxation	**148.9**	141 4
Tax on profit on ordinary activities before tax at 28% (2008: 28.5%)	**41.7**	40.3
Effects of:		
Permanent differences	**0.1**	0.2
Capital allowances in excess of depreciation	**(4.1)**	(1 6)
Adjustment in respect of previous periods	**(4.0)**	0 5
Current tax charge for the year	**33.7**	39.4

8 Tax on profit on ordinary activities (continued)

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, and will be taxed at 28% in the future

The corporation tax payable for the year has been reduced by £33 7m because of group relief received from a fellow group undertaking for which a payment will be made (2008 £39.4m)

9 Tangible assets

	Distribution network £m	Customer contributions £m	Other assets £m	Total £m
Cost:				
At 1 January 2009	2,757.5	(555.3)	9 8	2,212.0
Additions	206.0	(46.7)	2.5	161 8
Disposals	(1 2)	-	-	(1.2)
At 31 December 2009	**2,962.3**	**(602.0)**	**12.3**	**2,372.6**
Accumulated depreciation:				
At 1 January 2009	862.9	(162.5)	3 2	703.6
Charge for the year	51.6	(11.0)	1.7	42 3
Disposals	(0 6)	-	-	(0.6)
At 31 December 2009	**913.9**	**(173.5)**	**4.9**	**745.3**
Net book value:				
At 31 December 2009	**2,048.4**	**(428.5)**	**7.4**	**1,627.3**
At 31 December 2008	1,894 6	(392.8)	6.6	1,508.4

10 Stock

	At 31 December 2009 £m	At 31 December 2008 £m
Stock and stores	**4.9**	6 4

11 Debtors: amounts falling due within one year

	At 31 December 2009 £m	At 31 December 2008 £m
Trade debtors	**41.0**	37 3
Amounts owed by group undertakings	**25.8**	11 8
Other debtors	**3.1**	1 0
Prepayments and accrued income	**3.5**	5.6
	73.4	55.7

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

12 Creditors: amounts falling due within one year

	At 31 December 2009 £m	At 31 December 2008 £m
Trade creditors	**10.2**	7.6
Amounts owed to group undertakings	**711.8**	707.1
Other creditors	**5.4**	0.8
Accruals and deferred income	**26.9**	19.9
	754.3	735.4

The Company has a £750 0m rolling loan facility with E.ON UK plc, expiring on 8 July 2013. The drawn down amount under this facility, included within amounts owed to group undertakings above, is £508.6m at 31 December 2009 (2008 £431.0m). This loan is unsecured, incurs interest at 0.7% (2008 0 7%) above LIBOR and is reviewed on a daily basis.

Other amounts owed to group undertakings are unsecured, interest free and are repayable on demand.

13 Provisions for liabilities and charges

	Restructuring £m	Deferred tax (note 14) £m	Total £m
At 1 January 2009	-	108 1	108 1
Charged to the profit and loss account	1.0	(28.0)	(27.0)
Utilised during the year	-	-	-
At 31 December 2009	**1.0**	**80.1**	**81.1**

The restructuring provision relates to the provision for demobilisation costs associated with the introduction of the new Alliancing model to fundamentally change the way the Company works with its contractors.

14 Deferred tax

The deferred tax provision comprises:

	At 31 December 2009 £m	At 31 December 2008 £m
Accelerated capital allowances	**224.2**	220.0
Supply gain held over	**41.0**	51 0
Offset by		
Available capital losses	**(41.0)**	(51.0)
Undiscounted provision for deferred tax	**224.2**	220 0
Discount	**(144.1)**	(111.9)
Discounted provision for deferred tax	**80.1**	108 1

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

	£m
Deferred tax provision at 1 January 2009	108 1
Deferred tax credit to profit and loss account (see note 8)	(28.0)
Deferred tax provision at 31 December 2009	**80.1**

Deferred tax balances are measured at the standard rate of corporation tax in the UK of 28% as this is the rate that will apply when these timing differences reverse. During the year, a new first year rate for capital allowances of 40% was introduced for certain assets and industrial buildings were reduced from 3% to 2%, to be reduced to nil by 2011 The deferred tax provision is not impacted by this change

14 Deferred tax (continued)

The discount for deferred tax has increased by £32.2m in the year, primarily due to an increase in the period over which assets are depreciated for accounts purposes.

15 Called-up share capital

	At 31 December 2009 £m	At 31 December 2008 £m
Authorised		
50,000 ordinary shares of £1 each	**0.1**	0.1
Allotted, called-up and fully paid		
50,000 ordinary shares of £1 each	**0.1**	0.1

16 Reserves

	Profit and loss reserve £m
At 1 January 2009	726.9
Profit for the financial year	143.2
At 31 December 2009	870 1

17 Reconciliation of movements in total shareholders' funds

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Profit for the financial year	**143.2**	99.6
Net addition to shareholders' funds	**143.2**	99.6
Opening shareholders' funds	**727.0**	627 4
Closing shareholders' funds	**870.2**	727.0

18 Capital and other commitments

At 31 December 2009, the Company had commitments of £10.4m (2008 £10 1m) for capital expenditure not provided for in these financial statements.

19 Financial commitments

The Company had annual commitments under non-cancellable operating leases in respect of vehicles expiring as follows

	At 31 December 2009 £m	At 31 December 2008 £m
within one year	**0.2**	0.2
within two to five years	**3.6**	2.2
	3.8	2.4

20 Ultimate parent undertaking and controlling party

The immediate parent undertaking is Central Networks 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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