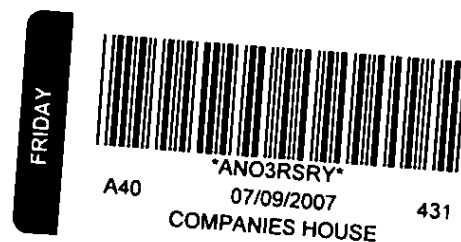


E.ON UK Energy Services Limited
REPORT AND FINANCIAL STATEMENTS
for the 14 month period ended 31 December 2006



Registered No: 5615669

E.ON UK ENERGY SERVICES LIMITED

Report of the directors for the 14 month period ended 31 December 2006

The directors present their report and the audited financial statements of the Company for the 14 month period ended 31 December 2006

Principal activities

The Company's principal activities during the year and at the year end were split into three distinct areas, the connection of external customers to the electricity distribution system, providing metering services to both Powergen Retail Limited ("Retail") a fellow E.ON UK group company and external customers, and providing home installation services to both Retail and external customers

Business Review

Fair review of the Company's business

The Company was incorporated on 8 November 2005 and commenced trading on 1 January 2006. The Company was created by bringing together the new connections and metering activities from the E.ON UK Central Networks business and the home installation activities from the Retail business with the vision of providing customers with all the services they need to connect to energy supplies, to heat their homes and to understand their energy use.

The Company commenced trading on 1 January 2006 and on that date acquired the following net book value of assets and liabilities into the business from the above mentioned parts of the E.ON UK group to enable it to begin its trading activities. These amounts were settled through inter-company accounts.

Company	Net book value of transfer
Central Networks East plc	£55.8m liability
Central Networks West plc	£34.4m liability
Central Networks plc	£9.5m asset
Powergen Retail Limited	£0.8m liability
E.ON UK Technical Services Limited	£1.0m asset
Cell Site Connection Services Limited	Nil
Total net liability transfer	£80.5m liability

The trading activities of Cell Site Connection Services Limited were also transferred to E.ON UK Energy Services on 1 January 2006, however, no assets or liabilities were transferred to the Company.

On 1 January 2006, a total of 2,693 staff were transferred into the Company from other companies within the E.ON UK group.

The first year of trading brought mixed fortunes. The new connections business experienced lower public lighting connection volumes than expected which had a negative impact on profit, predominantly due to an ambitious plan. The metering business performed ahead of expectations with particularly strong performances from the data retrieval part of the business. Within home installations, the volume of Retail led work was below plan levels which had a negative impact on profit, however, growth in the Local Authority and Housing Association work has positioned the business well for future success.

E.ON UK ENERGY SERVICES LIMITED

Report of the directors for the 14 month period ended 31 December 2006 **(continued)**

Fair review of the Company's business (continued)

Both the level of business during the year and the financial position of the Company at the year end were satisfactory and the directors believe that the present level of activity will be sustained in the current year.

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 further competition within the new connections business, the loss of external contracts within the metering business and lower sales volumes for the home installation business. Further discussion of these risks and uncertainties, in the context of the E.ON UK plc consolidated group ('group') as a whole, are 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. An analysis using KPIs of the development, performance and position of the Energy Services division of E.ON UK plc is discussed below.

Domestic Connection numbers

The number of physically completed new domestic connections in the 14 month period ended 31 December 2006 was 33,405. This performance was as expected and was broadly in line with the number of connections last year within the Central Networks business of 34,098.

Metering Final Reconciliation Performance

Final reconciliation performance is an industry set target, measured as a percentage, for actual meter readings obtained and supplied to the customer within settlement periods. The actual figure for the 14 month period ended 31 December 2006 was in line with target at 96.5%. There is no relative prior year comparison for this measure.

Revenue

In the 14 month period ended 31 December 2006, the total revenue was £374 million.

Profit before interest and tax.

In the 14 month period ended 31 December 2006, the profit before interest and tax was £7.5 million which was £2.1 million below target, predominantly due to lower public lighting volumes.

Results and dividends

The Company's profit after tax for the 14 month period ended 31 December 2006 was £5.6 million. No dividends were paid within the period.

E.ON UK ENERGY SERVICES LIMITED

Report of the directors for the 14 month period ended 31 December 2006 **(continued)**

Directors and their interests

The directors who held office during the 14 month period ended 31 December 2006 and subsequent to the period end are given below:

N R Carr	(appointed 16 November 2005)
P Westwood	(appointed 16 November 2005)
D A Leiper	(appointed 16 November 2005)
J C Glasgow	(appointed 15 March 2007)
C D Badger	(appointed 16 November 2005 - resigned 26 January 2007)
J Crackett	(appointed 16 November 2005 – resigned 4 July 2007)
E ON UK Directors Limited	(appointed 8 November 2005 - resigned 16 November 2005)

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.

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 period

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 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, in which case there should be supporting assumptions or qualifications as necessary.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and to 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

E.ON UK ENERGY SERVICES LIMITED

Report of the directors for the 14 month period ended 31 December 2006
(continued)

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

PricewaterhouseCoopers LLP were appointed auditors of the Company on 16 November 2005. On 23 May 2007, 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



Neal Carr
Director
E ON UK Energy Services Limited
Westwood Way
Westwood Business Park
Coventry
CV4 8LG

3 September 2007

E.ON UK ENERGY SERVICES LIMITED

Independent auditor's report to the members of E.ON UK Energy Services Limited

We have audited the financial statements of E.ON UK Energy Services Limited for the 14 month period ended 31 December 2006 which comprises the Profit and Loss Account, Balance Sheet and 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 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 2006 and of its profit for the 14 month period 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

4 September 2007

E.ON UK ENERGY SERVICES LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE 14 MONTH PERIOD ENDED 31 DECEMBER 2006

		14 Month period to 31 December 2006
	Note	£000
Turnover	2	373,575
Cost of sales		<u>(294,574)</u>
Gross profit		79,001
Operating expenses	3	<u>(71,523)</u>
Operating profit	4	7,478
Interest receivable and similar income	7	<u>2,017</u>
Profit on ordinary activities before taxation		9,495
Tax on profit on ordinary activities	8	<u>(3,874)</u>
Retained profit for the financial period	15	<u>5,621</u>

There are no material differences between the profit on ordinary activities before taxation and the retained profit for the period 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 8 to 18 form part of these financial statements

E.ON UK ENERGY SERVICES LIMITED

BALANCE SHEET
AS AT 31 DECEMBER 2006

	Note	At 31 December 2006 £000
Fixed assets		
Tangible assets	9	29,734
		29,734
Current assets		
Stock	10	102,572
Debtors amounts falling due within one year	11	132,290
Cash at bank and in hand		2,636
		237,498
Creditors: amounts falling due within one year	12	(260,611)
Net current liabilities		(23,113)
Total assets less current liabilities		6,621
Net Assets		6,621
Capital and reserves		
Called-up share capital	14	1,000
Profit and loss reserve	15	5,621
Total shareholders' funds	16	6,621

The financial statements on pages 6 to 18 were approved by the Board of Directors on 3 September 2007 and were signed on its behalf by:

NR Carr

Neal Carr
Director

3 September 2007

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

E.ON UK ENERGY SERVICES LIMITED

Notes to the financial statements **for the 14 month period ended 31 December 2006**

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

Change in accounting policy

For the first quarter of 2006, all meter installation costs were expensed through the profit and loss account. Following a full review and interpretation of recent regulatory guidance it was deemed more appropriate to capitalise these costs and depreciate them over seven years to match these costs with their associated revenue streams. This policy was adopted from 1 April 2006. The total value of capitalised installation costs for the 9 month period to 31 December 2006 was £15.5 million. Had this policy been adopted from 1 January 2006 the impact would have been an increase in fixed assets and a reduction in cost of sales by a further £5.5 million.

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 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.

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. Company policy is to commence depreciation in the year following acquisition. The estimated useful economic lives used for the principal categories of fixed assets are as follows:

Categories of tangible fixed assets	Life in years
Meters	20
Meter installation	7
Tools and equipment	4
Fixtures and fittings	4
Motor vehicles	3-5
Information system equipment	3

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.

E.ON UK ENERGY SERVICES LIMITED

Notes to the financial statements **for the 14 months ended 31 December 2006 (continued)**

1 Accounting policies (continued)

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. 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.

Long term contracts

The amount of long term contracts, at costs incurred, net of amounts transferred to cost of sales, after deducting foreseeable losses and payments on account not matched with turnover, is included in stocks as work in progress along with all other new connections contract costs. The amount by which payments on account exceed turnover is shown under creditors as deferred income. The amount by which recorded turnover is in excess of payments on account is included in debtors as amounts recoverable on contracts. The amount by which provisions or accruals for foreseeable losses exceed costs incurred, after transfers to cost of sales, is included in provisions for liabilities or creditors, as appropriate.

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 has accounted for its contribution to the group pension scheme as if the scheme was a defined contribution scheme and accounts for contributions payable to the group pension scheme in the accounting period in which they fall due.

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' (FRS 19). 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.

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 ENERGY SERVICES LIMITED

Notes to the financial statements **for the 14 months ended 31 December 2006 (continued)**

1 Accounting policies (continued)

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

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 represents the value of the sales from the connection of external customers to the electricity distribution system, providing metering services to Retail and external customers, and providing home installation services to Retail and external customers

Turnover on long term contracts of the new connections business is recognised according to the stage reached in the contract by reference to the value of work done. A prudent estimate of the profit attributable to work completed is recognised once the outcome of the contract can be assessed with reasonable certainty. Turnover on all other new connections projects is only recognised once both the work done and costs are fully complete.

All of the Company's turnover arises in the United Kingdom and excludes Value Added Tax.

3 Operating expenses

	14 month period to 31 December 2006 £000
Administration and other costs	68,493
Distribution costs	3,030
	<hr/> 71,523 <hr/>

E.ON UK ENERGY SERVICES LIMITED

Notes to the financial statements **for the 14 months ended 31 December 2006 (continued)**

4 Operating profit

Operating profit is stated after charging

	14 month period to 31 December 2006 £000
Depreciation of tangible fixed assets:	
Owned Assets	2,842
Operating lease charges	
Vehicle leases	2,833

Auditors' remuneration is borne by the immediate parent undertaking E ON UK plc and not recharged

5 Directors' emoluments

	14 month period to 31 December 2006 £000
Aggregate emoluments	1,255
	1,255

During the year two directors exercised Stock Appreciation Rights over shares in the ultimate parent company, E.ON AG, that they were awarded for services to the E ON UK Group

Highest paid director

	14 month period to 31 December 2006 £000
Total amount of emoluments and amounts (excluding shares) receivable under long-term incentive schemes	537
Defined benefit pension scheme.	
Accrued pension at end of period	98

E.ON UK ENERGY SERVICES LIMITED

Notes to the financial statements
for the 14 months ended 31 December 2006 (continued)

6 Employee information

The average monthly number of persons (including executive directors) employed by the Company during the year was

By activity	14 month period to 31 December 2006 No. of employees
Metering	1,951
Home Installations	298
New Connections	852
Support	125
	3,226

The salaries and related costs of employees, including directors, were

	14 month period to 31 December 2006 £000
Wages and salaries	65,810
Social security costs	6,058
Other pension costs	5,032
	76,900

7 Interest receivable and similar income

	14 month period to 31 December 2006 £000
Interest receivable from group undertakings	1,961
Other interest receivable	56
Total interest receivable and similar income	2,017

E.ON UK ENERGY SERVICES LIMITED

Notes to the financial statements **for the 14 months ended 31 December 2006 (continued)**

8 Tax on profit on ordinary activities

	14 month period to 31 December 2006 £000
Current tax:	
UK corporation tax on profits for the period	4,916
Total current tax	4,916
Deferred tax:	
Origination and reversal of timing differences	(1,440)
Unwinding of deferred tax	398
Total deferred tax benefit	(1,042)
Tax on profit on ordinary activities	3,874

The difference between the tax on the profit on ordinary activities for the 14 month period and the tax assessed on the profit on ordinary activities for the 14 month period assessed at the standard rate of corporation tax in the UK (30%) can be explained as follows

	14 month period to 31 December 2006 £000
Profit on ordinary activities before tax	9,495
Tax on profit on ordinary activities before tax at a standard rate of 30% (2005: 30%)	2,849
Effects of	
Capital allowances in excess of depreciation or vice versa	1440
Expenses not deductible for tax purposes	628
Current tax charge for the period	4,916

The corporation tax payable for the 14 month period has been reduced by £4.9 million because of group relief received from a fellow group undertaking for which a payment of £4.9 million will be made

E.ON UK ENERGY SERVICES LIMITED

Notes to the financial statements **for the 14 month period ended 31 December 2006**

9 Tangible fixed assets

	Meters & Meter Installation £000	Information Systems Expenditure £000	Motor vehicles £000	Fixture & fittings and other £000	Total £000
Cost:					
At 8 November 2005	-	-	-	-	-
Additions	18,824	7,071	-	548	26,443
Transfer in	-	7,422	10,909	1,433	19,764
Disposals	-	(39)	(1,849)	24	(1,864)
At 31 December 2006	18,824	14,454	9,060	2,005	44,343
Accumulated Depreciation:					
At 8 November 2005	-	-	-	-	-
Charge for the period	-	(1,575)	(1,172)	(95)	(2,842)
Transfers in	-	(4,113)	(8,146)	(1,291)	(13,550)
Disposals	-	21	1,775	(13)	1,783
At 31 December 2006	-	(5,667)	(7,543)	(1,399)	(14,609)
Net book value					
At 31 December 2006	18,824	8,787	1,517	606	29,734

On 1 January 2006, a total of £6.2 million of assets at net book value were transferred into the business from other parts of the E.ON UK group and form part of the £80.5 million net liability balance as described within the director's report

E.ON UK ENERGY SERVICES LIMITED

Notes to the financial statements
for the 14 month period ended 31 December 2006

10 Stock

	At 31 December 2006 £000
Raw materials and consumables	831
Work in Progress	101,741
	102,572

11 Debtors: amounts falling due within one year

	At 31 December 2006 £000
Trade debtors	22,817
Amounts owed by group undertakings	24,312
Loan owed by group undertakings	74,453
Prepayments and accrued income	8,266
Other taxation and social security	1,400
Deferred tax asset	1,042
	132,290

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

The loan owed by group undertakings bears an interest rate of LIBOR minus 0.125% and matures on 29 January 2007

12 Creditors: amounts falling due within one year

	At 31 December 2006 £000
Trade creditors	17,015
Other creditors	23
Deferred income	186,318
Accruals	57,255
	260,611

E.ON UK ENERGY SERVICES LIMITED

Notes to the financial statements
for the 14 months ended 31 December 2006 (continued)

13 Deferred Tax

The deferred tax asset comprises

	At 31 December 2006 £000
Accelerated Capital Allowances	1,440
Undiscounted provision for deferred tax asset	1,440
Discount	(398)
Discounted provision for deferred tax asset	1,042

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

	£000
Deferred tax asset at 8 November 2005	-
Deferred tax credit to profit and loss account	1,042
Deferred tax asset at 31 December 2006	1,042

In calculating the deferred taxation asset, the Company has taken into account any group relief available from fellow group undertakings and any charges made for that relief

14 Called up share capital

	At 31 December 2006 £000
Authorised, allotted and fully paid	
1,000,000 ordinary shares of £1 each	1,000

On 8 November 2005, one ordinary share of £1 was allotted to E ON UK plc and on 8 June 2006 a further 999,999 ordinary shares were allotted to E ON UK plc.

E.ON UK ENERGY SERVICES LIMITED

Notes to the financial statements **for the 14 months ended 31 December 2006 (continued)**

15 Reserves

	Profit and loss reserve £000
At 8 November 2005	-
Retained profit for the financial year	5,621
At 31 December 2006	5,621

16 Reconciliation of movement in total equity shareholders' funds

	31 December 2006 £'000
Retained profit for the period	5,621
Allotted share capital	1,000
Net addition to total equity shareholders' funds	6,621
Opening total equity shareholders' funds	-
Closing total equity shareholders' funds	6,621

17 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 2004.

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 £5.0 million. This amount is included within amounts owed to group undertakings being the outstanding contributions to the scheme.

E.ON UK ENERGY SERVICES LIMITED

Notes to the financial statements **for the 14 months ended 31 December 2006 (continued)**

18 Financial commitments

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

	At 31 December 2006 £'000
Within one year	-
Within two to five years	2,008
After five years	22
	<hr/> 2,030 <hr/>

19 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 E ON UK plc, the principal UK trading subsidiary of E ON AG. Copies of E ON AG's accounts are available from the offices of E ON AG at the following address.

E ON AG
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