

E.ON UK Energy Services Limited
REPORT AND FINANCIAL STATEMENTS
for the year ended 31 December 2007

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Registered No: 5615669

E.ON UK ENERGY SERVICES 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 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 E.ON Energy Limited (formerly Powergen Retail Limited) ('E.ON Energy') a fellow E.ON UK group company and external customers; and providing home installation services to both E.ON Energy 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 E.ON Energy 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.

Despite making a loss, the second year of trading finished above expectations. The metering business had a particularly strong year following improved efficiencies within data retrieval. Within home installations, the volume of E.ON Energy led work was below expected levels which had a negative impact on profit.

In January 2008, a strategic decision was taken to focus the Company's activities on technical delivery, moving the responsibility for proactive sales to E.ON Energy. In addition the meter reading and data management elements of the metering business were moved over to the E.ON Energy business, thus allowing E.ON Energy to optimise its service to its customers from meter reading through to billing and cash collection. Meter Reading activity will therefore be refocused to support purely E.ON Energy's business and no work undertaken for third party suppliers. It is intended to honour the existing obligations under the third party contracts and the Company is working with the third party customers to understand the impact of this strategy on each of these contracts. The new connections and home installation businesses were not significantly impacted by this strategic decision.

During 2007, the parent company E.ON UK plc charged out to its subsidiaries a reflective proportion of the central overheads that it had incurred. This charge had not been incurred in previous years but is expected going forward. During the year the Company incurred a total of £31.7m of recharged central overhead charges for information services, accommodation, logistics, procurement, insurance, training and development services.

Both the level of business during the year and the financial position of the Company at the year end were satisfactory. Despite making a loss in the year and having net current liabilities the directors believe that the Company will become profitable in future, due to expected growth within the home installations and metering businesses, and bids being made for a number of Street Lighting PFI contracts. Accordingly the accounts have been prepared on a going concern basis, refer to note 1(a) for further details

E.ON UK ENERGY SERVICES LIMITED

Report of the directors for the year ended 31 December 2007 (continued)

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 slowdown in the housing market also affecting the new connections 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 connections in the year ended 31 December 2007 was 46,405. This performance was as expected and was broadly in line with the number of connections in the 14 month period ended 31 December 2006 which totalled 45,846

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 year ended 31 December 2007 was 0.2% below target at 96.2%. This compares to a figure of 96.5% for the 14 month period ended 31 December 2006.

Turnover

In the year ended 31 December 2007, the total turnover was £411m, some £37m above the 14 month period to 31 December 2006

Loss before interest and tax:

In the year ended 31 December 2007, the loss before interest and tax was £5.0m which was in line with target (for the 14 month period to 31 December 2006. £7.5m profit, £2.1m below target).

Results and dividends

The Company's loss after tax for the year ended 31 December 2007 was £4.9m (14 month period ended 31 December 2006 £5.6m profit). No dividends were paid within the year (2006: nil).

E.ON UK ENERGY SERVICES LIMITED

Report of the directors for the year ended 31 December 2007 (continued)

Directors and their interests

The directors who held office during the year ended 31 December 2007 and subsequent to the period end are given below.

D A Leiper	
J C Glasgow	(appointed 15 March 2007)
C Goulton	(appointed 12 September 2008)
C D Badger	(resigned 26 January 2007)
J Crackett	(resigned 4 July 2007)
P Westwood	(resigned 31 January 2008)
N R Carr	(resigned 12 September 2008)

During the year, no director had an interest in the shares of the Company. At 31 December 2006 and 31 December 2007, 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

- 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 8 days (2006 13 days) of purchases

Post balance sheet events

On 15 January 2008, the Company purchased the entire issued share capital of CHN Group Ltd. The strategic decision behind the acquisition was twofold, to acquire a business that was profitable in its own right, while having the capability of supporting the growth strategy in relation to future E.ON Energy Home Energy Services demand

On 8 August 2008, E.ON UK plc purchased the assets and trade of ABB's Highways Lighting and Staffordshire Street Lighting Private Finance Initiative ('PFI') businesses. The acquisition complements the Company's existing public lighting team with its geographic coverage and the inclusion of a Street Lighting PFI contract. The Energy Services business has assumed operational and managerial control of the acquired assets and trade

The total consideration in respect of the acquisitions was £28.2 million cash and is subject to adjustment following the finalisation of completion accounts in each case.

E.ON UK ENERGY SERVICES LIMITED

Report of the directors for the year ended 31 December 2007 (continued)

Statement of directors' responsibilities in respect of the Annual Report and the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to 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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- d) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the financial statements

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

Information for auditors

In accordance with Section 234ZA(2), in the case of each director in office at the date the directors' report is approved:

- (a) so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- (b) he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

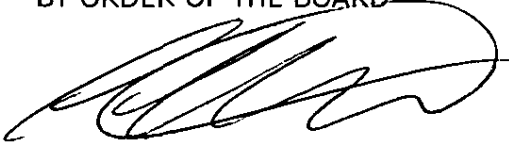
E.ON UK ENERGY SERVICES LIMITED

Report of the directors for the year ended 31 December 2007 (continued)

Auditors

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

A handwritten signature in black ink, appearing to be 'Carl Goulton', written over a horizontal line.

Carl Goulton
Director
E.ON UK Energy Services Limited
Westwood Way
Westwood Business Park
Coventry
CV4 8LG

29 September 2008

E.ON UK ENERGY SERVICES LIMITED

Independent auditors' report to the shareholders of E.ON UK Energy Services Limited

We have audited the financial statements of E.ON UK Energy Services Limited for the year ended 31 December 2007 which comprise the profit and loss account, 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 annual report and 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 other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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 ENERGY SERVICES LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2007

		Year ended 31 December 2007	14 Month period to 31 December 2006
	Note	£'000	£'000
Turnover	2	411,080	373,575
Cost of sales		(319,990)	(294,574)
Gross profit		91,090	79,001
Operating expenses	3	(96,127)	(71,523)
Operating (loss)/profit	4	(5,037)	7,478
Interest receivable and similar income	7	1,271	2,017
(Loss)/profit on ordinary activities before taxation		(3,766)	9,495
Tax on (loss)/profit on ordinary activities	8	(1,114)	(3,874)
(Loss)/profit for the financial period	15	(4,880)	5,621

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

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

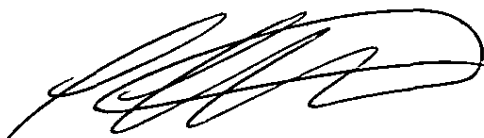
All the above amounts relate to continuing operations.

The accounting policies and the notes on pages 9 to 19 form part of these financial statements

E.ON UK ENERGY SERVICES LIMITED
BALANCE SHEET AS AT 31 DECEMBER 2007

	Note	At 31 December 2007 £'000	At 31 December 2006 £'000
Fixed assets			
Tangible assets	9	80,080	29,734
		80,080	29,734
Current assets			
Stock	10	123,331	102,572
Debtors: amounts falling due within one year	11	139,044	132,290
Cash at bank and in hand		-	2,636
		262,375	237,498
Creditors: amounts falling due within one year	12	(340,714)	(260,611)
Net current liabilities		(78,339)	(23,113)
Net assets		1,741	6,621
Capital and reserves			
Called-up share capital	14	1,000	1,000
Profit and loss reserve	15	741	5,621
Total shareholders' funds	16	1,741	6,621

The financial statements on pages 7 to 19 were approved by the Board of Directors on 29 September 2008 and were signed on its behalf by



Carl Goulton
Director

29 September 2008

The accounting policies and the notes on pages 9 to 19 form part of these financial statements

E.ON UK ENERGY SERVICES LIMITED

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

(a) Going concern

Notwithstanding the fact that the Company is loss making and 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.

(b) Tangible fixed assets

Tangible fixed assets are stated at their purchase or production cost less accumulated depreciation. Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight-line basis over their useful economic lives. 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

(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) 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.

E.ON UK ENERGY SERVICES LIMITED

Notes to the financial statements **for the year ended 31 December 2007 (continued)**

1 Accounting policies (continued)

(e) Long term contracts

Long term contracts are measured at cost net of amounts transferred to cost of sales after deducting foreseeable losses and payments on account not matched with turnover. These contracts are included in stock 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.

(f) 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.

(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. 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 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.

(i) 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.

E.ON UK ENERGY SERVICES LIMITED

Notes to the financial statements **for the year ended 31 December 2007 (continued)**

2 Turnover

Turnover represents the value of the sales from the connection of external customers to the electricity distribution system, providing metering services to E.ON Energy and external customers; and providing home installation services to E.ON Energy 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.

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

3 Operating expenses

	Year ended 31 December 2007	14 month period to 31 December 2006
	£'000	£'000
Administration costs	93,060	68,493
Distribution costs	3,067	3,030
	96,127	71,523

4 Operating (loss)/profit

Operating (loss)/profit is stated after charging

	Year ended 31 December 2007	14 month period to 31 December 2006
	£'000	£'000
Depreciation of tangible fixed assets:		
Owned assets	8,808	2,842
Operating lease charges:		
Vehicle leases	3,935	2,833

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

E.ON UK ENERGY SERVICES LIMITED

Notes to the financial statements **for the year ended 31 December 2007 (continued)**

5 Directors' emoluments

The directors received no emoluments from the Company during the year (2006: £nil). The directors' aggregate emoluments borne by other companies within the E ON UK plc group and recharged to the Company during the year was £1,096,000 (2006: £1,255,000).

During the year two (2006: 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

6 Employee information

The average monthly number of persons (including executive directors) employed by the immediate parent undertaking E ON UK plc and associated companies in respect of the Company during the year was:

By activity	Year ended 31 December 2007 No. of employees	14 month period to 31 December 2006 No of employees
Metering	2,333	1,951
Home Installations	312	298
New Connections	964	852
Support	157	125
	3,766	3,226

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

	Year ended 31 December 2007 £'000	14 month period to 31 December 2006 £'000
Wages and salaries	88,560	65,810
Social security costs	8,050	6,058
Other pension costs	7,294	5,032
	103,904	76,900

E.ON UK ENERGY SERVICES LIMITED

Notes to the financial statements
for the year ended 31 December 2007 (continued)

7 Interest receivable and similar income

	Year ended 31 December 2007	14 month period to 31 December 2006
	£'000	£'000
Interest receivable from group undertakings	1,271	1,961
Other interest receivable	-	56
Total interest receivable and similar income	1,271	2,017

8 Tax on (loss)/profit on ordinary activities

	Year ended 31 December 2007	14 month period to 31 December 2006
	£'000	£'000
Current tax:		
UK corporation tax on (loss)/profit for the period	135	4,916
Adjustments in respect of previous periods	1,481	-
Total current tax	1,616	4,916
Deferred tax:		
Origination and reversal of timing differences	(1,105)	(1,440)
Unwinding of discount on deferred tax	386	398
Impact of rate change	189	-
Adjustments in respect of previous periods	28	-
Total deferred tax benefit	(502)	(1,042)
Tax on (loss)/profit on ordinary activities	1,114	3,874

E.ON UK ENERGY SERVICES LIMITED

Notes to the financial statements
for the year ended 31 December 2007 (continued)

8 Tax on (loss)/profit on ordinary activities (continued)

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

	Year ended 31 December 2007	14 month period to 31 December 2006
	£'000	£'000
(Loss)/profit on ordinary activities before tax	(3,766)	9,495
Tax on (loss)/profit on ordinary activities before tax at a standard rate of 30% (2006 30%)	(1,130)	2,848
Effects of:		
Capital allowances in excess of depreciation or vice versa	428	1,440
Expenses not deductible for tax purposes	160	628
Other timing differences	677	-
Adjustments in respect of previous periods	1,481	-
Current tax charge for the period	1,616	4,916

The corporation tax payable for the year has been reduced by £135,000 because of group relief received from a fellow group undertaking for which a payment of £135,000 will be made.

E.ON UK ENERGY SERVICES LIMITED

Notes to the financial statements
for the year ended 31 December 2007 (continued)

9 Tangible fixed assets

	Meters & meter installation £'000	Information systems expenditure £'000	Motor vehicles £'000	Fixture & fittings and other £'000	Total £'000
Cost:					
At 31 December 2006	18,824	14,454	9,060	2,005	44,343
Additions	48,532	10,113	-	553	59,198
Disposals	-	-	(1,708)	-	(1,708)
At 31 December 2007	67,356	24,567	7,352	2,558	101,833
Accumulated Depreciation:					
At 31 December 2006	-	(5,667)	(7,543)	(1,399)	(14,609)
Charge for the period	(5,254)	(2,604)	(788)	(162)	(8,808)
Disposals	-	-	1,664	-	1,664
At 31 December 2007	(5,254)	(8,271)	(6,667)	(1,561)	(21,753)
Net book value:					
At 31 December 2006	18,824	8,787	1,517	606	29,734
At 31 December 2007	62,102	16,296	685	997	80,080

10 Stock

	At 31 December 2007 £'000	At 31 December 2006 £'000
Raw materials and consumables	1,612	831
Work in progress	121,719	101,741
	123,331	102,572

E.ON UK ENERGY SERVICES LIMITED

Notes to the financial statements
for the year ended 31 December 2007 (continued)

11 Debtors: amounts falling due within one year

	At 31 December 2007 £'000	At 31 December 2006 £'000
Trade debtors	17,450	22,817
Deferred tax asset (see note 13)	1,544	1,042
Amounts owed by group undertakings	103,117	24,312
Loan owed by group undertakings	-	74,453
Prepayments and accrued income	13,931	8,266
Other taxation and social security	3,002	1,400
	139,044	132,290

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

The loan owed by group undertakings in 2006 incurred an interest rate of LIBOR minus 0.125% and matured on 29 January 2007.

12 Creditors: amounts falling due within one year

	At 31 December 2007 £'000	At 31 December 2006 £'000
Trade creditors	5,746	17,015
Loan owed to group undertakings	65,250	-
Other creditors	161	23
Deferred income	193,335	186,318
Accruals	75,280	57,255
Bank loans and overdraft	942	-
	340,714	260,611

The loan owed to group undertakings bears an interest rate of LIBOR plus 0.5% and matures on 30 November 2012. The bank overdraft does not have a fixed maturity and is interest free

E.ON UK ENERGY SERVICES LIMITED

Notes to the financial statements **for the year ended 31 December 2007 (continued)**

13 Deferred tax

The deferred tax asset comprises:

	At 31 December 2007 £'000	At 31 December 2006 £'000
Other timing differences	2,042	-
Accelerated Capital Allowances	609	1,440
Undiscounted provision for deferred tax asset	2,651	1,440
Discount	(1,107)	(398)
Discounted provision for deferred tax asset	1,544	1,042

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

	£'000
Deferred tax asset at 31 December 2006	1,042
Deferred tax credit to profit and loss account	502
Deferred tax asset at 31 December 2007	1,544

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 reduce the deferred tax asset provided at 31 December 2007 by £788,000 in 2007. This £788,000 decrease in deferred tax asset would increase the loss for the year by £788,000. This decrease 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.

E.ON UK ENERGY SERVICES LIMITED

Notes to the financial statements
for the year ended 31 December 2007 (continued)

14 Called up share capital

	At 31 December 2007 £'000	At 31 December 2006 £'000
Authorised, allotted and fully paid		
1,000,000 ordinary shares of £1 each	1,000	1,000

15 Reserves

	Profit and loss reserve £'000
At 31 December 2006	5,621
Loss for the financial year	(4,880)
At 31 December 2007	741

16 Reconciliation of movement in total equity shareholders' funds

	31 December 2007 £'000	31 December 2006 £'000
(Loss)/profit for the period	(4,880)	5,621
Allotted share capital	-	1,000
Net (reduction)/addition to total equity shareholders' funds	(4,880)	6,621
Opening total equity shareholders' funds	6,621	-
Closing total equity shareholders' funds	1,741	6,621

E.ON UK ENERGY SERVICES LIMITED

Notes to the financial statements **for the year ended 31 December 2007 (continued)**

17 Financial commitments

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

	At 31 December 2007 £'000	At 31 December 2006 £'000
Within one year	298	-
Within two to five years	4,190	2,008
After five years	22	22
	<u>4,510</u>	<u>2,030</u>

18 Post balance sheet events

On 15 January 2008, the Company purchased the entire issued share capital of CHN Group Ltd. This consisted of 2,439 ordinary £1 shares with a nominal value of £2,439. The CHN Group wholly owns five trading subsidiaries, CHN Contractors Limited, CHN Electrical Services Limited, CHN Gas Service and Maintenance Limited, CHN Special Projects Limited and Industry Development Services Limited. These companies are all located within the West Midlands. Their primary activities are to provide installation, service, maintenance and repair of plumbing, heating and electrical systems, primarily through business to business contracts with local authorities and housing associations.

On 8 August 2008, E.ON UK plc purchased the assets and trade of ABB's Highways Lighting and Staffordshire Street Lighting Private Finance Initiative ('PFI') businesses. The acquisition complements the Company's existing public lighting team with its geographic coverage and the inclusion of a Street Lighting PFI contract. The Energy Services business has assumed operational and managerial control of the acquired assets and trade.

The total consideration in respect of the acquisitions was £28.2 million cash and is subject to adjustment following the finalisation of completion accounts in each case.

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
E.ON-Platz 1
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