E.ON UK PLC

(formerly Powergen UK plc)

GROUP REPORT AND ACCOUNTS

for the year ended 31 December 2004

Registered No: 2366970

E.ON UK PLC
(formerly Powergen UK plc)

Directors' report for the year ended 31 December 2004

The directors present their report and the audited accounts of E.ON UK plc ('the Company') and its subsidiaries ('the Group' or 'E.ON UK') for the year ended 31 December 2004.

Principal activities, review of business and future developments

The Group's principal activities are electricity generation and distribution, and energy trading and retailing. E.ON UK's aim is to maintain its position as a leading integrated player in the UK's electricity and gas markets. E.ON UK's strategy in the UK is to build on this, to sustain and develop its distribution and generation asset businesses and build competitive trading and retail businesses. Both the level of business and financial position of the Group at 31 December 2004 were satisfactory and the Directors believe the present levels of activity in the UK will be sustained in the current year.

On 16 January 2004 E.ON UK completed the acquisition of the distribution business of Midlands Electricity from Aquila Sterling Holdings LLC for £1,173 million (comprising cash consideration £36 million, net debt on acquisition £1,135 million and acquisition costs £2 million). This effectively doubled the size of E.ON UK's distribution business, which will be operated as a single business unit under the name Central Networks.

E.ON UK also acquired a number of other businesses in the transaction. These include an electrical contracting operation and an electricity and gas metering business in the UK as well as minority equity stakes in companies operating three generation plants located in the UK, Turkey and Pakistan. E.ON UK agreed to sell its interest in Uch Power Limited, which owns and operates a gas fired power station in Pakistan in March 2004 and completed the sale in February 2005 and its minority stake in Teesside Power Limited during 2005. E.ON UK has also disposed of the non core elements of the contracting business.

A description of the development of the business during the financial year under report and the outlook for the future is given below. The following section includes information about the Group's research and development ('R&D') activities.

UK Operations

The Group is one of the UK's leading integrated electricity and gas companies with a business built on:

- Marketing electricity, gas, telephony and other services to domestic and business customers;
- Asset management in electricity production and distribution; and
- Energy trading to support these activities.

Retail

E.ON UK sells electricity, gas, fixed line telecommunications and other services to three customer segments: residential, business and large industrial customers throughout Britain. At 31 December 2004, E.ON UK supplied 8.8 million customer accounts, of which 8.7 million were residential and small and medium sized business customer accounts and 0.1 million industrial customer accounts. There was an increase of 0.1 million customers during the year, primarily in the fourth quarter following the announcement of price rises by competitors. E.ON UK continues to focus on reducing the costs of its retail business through efficiency improvements, more economical procurement of services and the utilisation of lower cost sales channels.

On 5th July 2004 E.ON UK switched from supplying its business and large industrial customers under the Powergen brand to E.ON Energy. Residential customers continue to be supplied under the Powergen brand.

Residential and small and medium sized business customers

66 per cent of E.ON UK's residential customer accounts are electricity customers, 33 per cent are gas customers and 1 per cent are fixed line telephone customers. Individual retail customers who buy more than one product (i.e. electricity, gas or fixed line telephone services) are counted as having a separate account for each product, although they may choose to receive a single bill for all E.ON UK-provided services.

E.ON UK targets residential and small and medium sized business customers through national marketing activity such as media advertising (including print, television and radio), targeted direct mail, public relations and online campaigns under its Powergen brand. E.ON UK also seeks to continue to exploit the high level of national awareness of its brand and has taken steps to enhance the strength of its brand, including the sponsorship of high profile national sports competitions such as the Powergen Cup in both Rugby Union and Rugby League. E.ON UK is also the main sponsor for Ipswich Town, a football team playing in The Championship.

In an environment of rising wholesale energy prices and increasing environmental costs, E.ON UK and its competitors implemented a number of electricity and gas price increases affecting residential and small and medium sized business users in 2004. At the same time E.ON UK has also implemented a package of measures to limit the effects of rising wholesale costs on its most vulnerable customers, including free cavity wall insulation for customers aged 60 or older, halving the surcharge paid by prepayment electricity customers and maintaining the former prices for Age Concern Energy Services customers.

The acquisition of the TXU Group's UK retail business in 2002 more than doubled the size of Powergen's retail business. Powergen has completed the integration of the former TXU operations with its own retail activities and has rebranded the former TXU services under the E.ON Energy and Powergen brands. The integration process was successfully completed in 2004, with full migration of customer accounts to E.ON UK systems during the first half of 2005.

Industrial & Commercial

In the industrial and commercial sector, E.ON UK sold 26.5TWh of electricity and 39.5 TWh of gas in 2004, as compared with 34.6TWh of electricity and 35.6TWh of gas in 2003. The focus of this area of the business remains in acquiring and retaining the most profitable contracts in the market.

Energy Wholesale

During 2004, E.ON UK's power generation and energy trading businesses were merged into a single business called "Energy Wholesale". This change was designed to provide a greater strategic focus in the management of E.ON UK's generation and trading activities and reinforce the close operational ties between the two businesses. For example, the energy trading business is responsible for purchasing the fuel burned in power stations that are managed by the generation business. The energy trading business also decides whether E.ON UK should generate or purchase electricity to cover its retail obligations, depending upon the prevailing market price of electricity. However for the purposes of describing the business activities of E.ON UK the two businesses are described separately since they each cover distinct areas of activity.

Generation

E.ON UK focuses on maintaining a low cost, efficient and flexible electricity generation business in order to compete effectively in the wholesale electricity market. At 31 December 2004, E.ON UK owned either wholly, or through joint ventures, power stations in the UK with an attributable registered generating capacity of 9,265 MW, including 587 MW of Combined Heat and Power ('CHP') plants and 50 MW of hydroelectric plant, while its attributable portfolio of operational wind capacity stood at 183 MW. The modest decrease in E.ON UK's generation capacity during the year reflected the mothballing of the Killingholme plants, partially offset by the acquisition of the outstanding 50 percent interest in Cottam Development Centre Limited ('CDC'), making E.ON UK the sole owner of the plant.

E.ON UK's share of the generation market in England and Wales remained relatively stable in 2004 at approximately 10 per cent.

E.ON UK generates electricity from a diverse portfolio of fuel sources. In 2004, approximately 62 per cent of E.ON UK's electricity output (excluding CHP) was fuelled by coal and approximately 37 per cent by gas, with the remaining 1 per cent being generated from hydroelectric, wind and oil-fired plants. E.ON UK is continuing its effort to secure a balanced and diverse portfolio of fuel sources, giving it the flexibility to respond to market conditions and to minimise costs.

E.ON UK regularly monitors the economic status of its operational and mothballed plant in order to respond to changes in market conditions. This flexibility was demonstrated during 2004, when E.ON UK shut down two oil fired units at Grain for the summer, and then returned these two units for winter use later in the year. Work also commenced at Killingholme to bring both modules back to service at full capacity during 2005. Both actions were in response to increasing market prices which made the resumed operation of both plants economically attractive.

Renewable Energy

E.ON UK plans to grow its renewable generation business in response to recent UK government and regulatory initiatives. E.ON UK is already one of the UK's leading developers and owner/operators of wind farms, with interests in 20 operational onshore and offshore wind farms in the UK and Ireland with total capacity of 197 MW, of which 183 MW is attributable to E.ON UK.

During 2004, E.ON UK completed construction of a large offshore windfarm site with a capacity of 60 MW at Scroby Sands off the coast of East Anglia. Further onshore wind projects totalling 16 MW are currently under construction and 755 MW of wind schemes are in the development phase. In order to maximise its renewables capacity and optimise its development focus, E.ON UK is now concentrating on wind projects with a capacity of over 15 MW, rather than small wind and hydro projects.

In addition to the wind portfolio E.ON UK is evaluating dedicated biomass developments and has obtained permission from the Environment Agency to co-fire biomass materials at Kingsnorth, Ironbridge and Ratcliffe power stations which in total generated 39 GWh of renewables output during 2004.

As a part of its balanced approach, E.ON UK seeks to fulfil its renewables obligation through a combination of its own generation, renewable energy purchased from other tradable Renewable Obligation Certificate ('ROC') generators under contract and direct payment of any residual obligation into the buyout fund. During the period April 2003 to March 2004, E.ON UK achieved its 4.3% renewable obligation.

CHP

E.ON UK also operates large-scale CHP schemes. CHP is an energy efficient technology which recovers heat from the power generation process and uses it for industrial processes such as steam generation, product drying, fermentation, sterilizing or heating. E.ON UK's total operational CHP electricity capacity is 587 MW with clients ranging across a number of sectors, including pharmaceuticals, chemicals, paper and oil-refining.

Directors' report for the year ended 31 December 2004 (continued)

Energy Trading

E.ON UK's energy trading unit engages in asset-based energy marketing in gas and electricity markets to assist E.ON UK in commercial risk management and the optimisation of its UK gross margin. The energy trading unit plays a key role in E.ON UK's integrated electricity and gas business in the United Kingdom by acting as the 'commercial hub' for all energy transactions. It manages price and volume risks and seeks to maximise the integrated value from E.ON UK's generation and customer assets.

E.ON UK also engages in a controlled amount of proprietary trading in gas, power, coal and oil markets in order to take advantage of market opportunities and maintain the highest levels of market understanding required to support optimization and risk management activities. In 2004, proprietary trading gross volumes totalled 41.8TWh in power (2003 40.4TWh) and 173.1TWh of gas (2003 307.5TWh). Proprietary gas trading volumes decreased significantly in 2004 as risk restraints limited trading, reflecting both higher prices and higher volatility in the gas market in 2004.

In its energy trading operations, E.ON UK uses a combination of bilateral contracts, forwards, futures and options contracts and swaps traded over-the-counter or on commodity exchanges. E.ON UK also undertakes relatively low levels of trading in other commodities, including ROCs and weather derivatives. All of E.ON UK's energy trading operations, including its limited proprietary trading, are subject to E.ON UK's risk management policies for energy trading.

E.ON UK has in place a portfolio of fuel contracts of varying volume, duration and price, reflecting market conditions at the time of commitment. Coal contracts with a variety of suppliers within the United Kingdom and overseas ensure that supplies are secured for E.ON UK's coal-fired plants, while maintaining enough flexibility to minimize the cost of generation across the total generation portfolio. E.ON UK's coal import facilities at Kingsnorth power station and Gladstone Dock, Liverpool, provide secure access to international coal supplies.

The supply of gas for E.ON UK's Combined Cycle Gas Turbine ('CCGT') and CHP plants is sourced through non-interruptible long-term gas supply contracts with gas producers (certain of which contain take or pay provisions), and through purchases on the forward and spot markets. As of October 1, 2004, E.ON Ruhrgas became a significant supplier of natural gas to E.ON UK pursuant to a long-term supply contract between the parties. The agreed framework for the E.ON Ruhrgas contract is essentially that of a 'take or pay' arrangement. Risk management arrangements in respect of the volume and price risks associated with E.ON UK's gas supply contracts are conducted through trading on the spot, over-the-counter and bilateral markets.

Distribution

Central Networks East plc (formerly East Midlands Electricity Distribution plc and henceforth referred to as 'CNE') and the newly-acquired Central Networks plc (formerly Midlands Electricity plc and henceforth referred to as 'Midlands Electricity'), both wholly owned subsidiaries of E.ON UK plc, own, manage and operate two electricity distribution networks servicing the East and West Midlands areas of England, respectively. The combined service areas cover approximately 11,312 square miles, extending from the Welsh border in the West to the Lincolnshire coast in the East and from Chesterfield in the North to the northern outskirts of Bristol in the South and containing a resident population of approximately 10 million people. The networks distribute electricity to approximately 4.8 million homes and businesses in the combined service areas, and virtually all electricity supplied to consumers in the service areas (whether E.ON UK's retail business or by other suppliers) is transported through the CNE or Midlands Electricity distribution network.

E.ON UK has begun an integration process for the CNE and Midlands Electricity distribution businesses which it expects to result in more efficient operations as well as cost savings. E.ON UK has combined the two distribution networks in a single business, called Central Networks. This combined business is managed by a centralised management team and uses the same network management methodologies and staff to operate both networks but maintains the current, separate distribution licences.

The results of the Electricity Price Control Review (DR4) were announced in November 2004, setting out the allowed income for investing in and operating the network, as well as five-year performance targets. The new price controls run from 1 April 2005 until March 2010. E.ON UK accepted Ofgem's final proposals in principle in December 2004.

Other activities

The UK Services business provides a single shared service function delivering IT, facilities management, HR, procurement, insurance, property and finance support for all of E.ON UK's UK operations.

E.ON UK's engineering and scientific development activities, carried out at its Powertechnology Centre, are focused on supporting the Company's strategic business objectives and technology challenges in the UK through delivery of R&D programmes, providing innovative services and products and growing profitable new income streams.

Asian Asset Management

In December 2004, E.ON UK continued with the divestment of its Asian asset management business, divesting of its 35 percent interest in PT Jawa Power, owner of a 1,220 MW plant at Paiton in Indonesia, and 100 per cent of the associated operating and maintenance company.

Midlands Electricity Non–Distribution Assets

E.ON UK also acquired a number of non-distribution businesses in the Midlands Electricity transaction. These include an electrical contracting operation and an electricity and gas metering business in the UK, as well as minority equity stakes in companies operating three electricity generation plants. These consisted of a 26.7 percent interest in Teeside Power Ltd ('TPL'), which owns and operates a 1,700 MW CCGT plant in England, a 40.0 percent interest in Uch Power Ltd, which owns and operates a 586 MW CCGT plant in Pakistan, and a 31.0 percent interest in Trakya Electric Uretin ve Ticaret A.S., which owns and operates a 478 MW CCGT plant in Turkey.

E.ON UK agreed to sell its interest in Uch Power to International Power plc in March 2004, and completed such sale on 9 February 2005. On December 22, 2004, E.ON UK sold its 7.5 percent indirect interest in TPL to Enron Europe Power 3 Ltd, TPL's majority shareholder and on 27 April 2005 completed the sale of its remaining 19.2 percent direct interest in TPL.

E.ON UK has decided to retain the electricity and gas metering services business within Central Networks, as well as core parts of the contracting business, but has decided to close or sell the non-core parts of the contracting business.

Results and dividends

The profit attributable to shareholders for the financial year to 31 December 2004 was £278 million (year ended 31 December 2003 £189 million profit).

The directors do not recommend payment of a final dividend (year ended 31 December 2003 £nil). During the year, no interim dividends were paid (year ended 31 December 2003 £nil).

Directors and their interests

The following directors served on the Board during the year:

	Date of appointment*
Dr Paul Golby	
Graham Bartlett	
Dr Burckhard Bergmann	10/12/2004
Dr Wulf Bernotat	01/01/2004
Anthony Cocker	01/01/2004
Nicholas Horler	01/01/2004
Jarri Sandstrom	01/01/2004
Dr Erhard Schipporeit	10/12/2004
Robert Taylor	01/01/2004

* If during the year

Information on directors' emoluments is given in Note 4 to the Accounts, on pages 35 and 36.

No director had, at any time during the period under report, any interest in the shares of the Company or any subsidiary undertaking. At 31 December 2004 and 31 December 2003 no director had any interest requiring disclosure in these accounts.

Employees

The Company provides an environment in which communication is open and constructive. There are well-established arrangements for communication and consultation with employees and their representatives at local and Company level which covers a wide range of business and employment issues including those considered by the E.ON A.G. European Works Council, which provides a forum for consultation on major issues affecting E.ON A.G. Group companies in Europe.

The Group is committed to offering equal opportunities to both current and prospective employees. The Group continues to review and develop best practices and procedures to ensure that all staff are treated fairly in all aspects of employment. It also strives for a diverse environment that is supportive of all staff. Individual differences which do not relate to job performance such as gender, marital status, sexual orientation, race, colour, ethnic origin, nationality, religion, age or disability are respected.

The Group believes in ensuring that disabled people can compete fairly for job opportunities, training and development, through the promotion and development of best practices. Links and contacts with external disability networks and organisations are maintained to identify best practices in the employment of people with disabilities and to provide work experience placements for disabled people. In the event of existing employees becoming disabled, the Group will seek to maintain their employment through training, redeployment and adjustments to the job role and workplace, where it is reasonable and practicable to do so.

Training and development of staff remains a key priority in achieving the UK growth strategy and ensuring that all staff perform at the highest level.

Contributions for political and charitable purposes

Donations to charitable organisations during the financial year by the Company and its subsidiaries amounted to £409,793. The increase from the prior year value of £41,418 is primarily due to a significant donation made to the DEC Tsunami Appeal Fund. No political donations were made.

Policy on payment of creditors

Where appropriate in relation to specific contracts, the Group'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 relevant terms in the contracts; and
c) pay in accordance with its contractual and other legal obligations.

The Group supports the Better Payments Practice Code, and has in place well developed arrangements with a view to ensuring that this is observed in all other cases. Group companies operating overseas are encouraged to adopt equivalent arrangements by applying local best practices. The average number of days taken to pay the Group's trade suppliers calculated in accordance with the requirements of the Companies Act is 33 days (31 December 2003 45 days).

Going Concern

Not withstanding the fact that the Group and Company have net current liabilities, the directors have prepared the financial statements on the going concern basis. The directors have received confirmation from Powergen Limited, the intermediate parent undertaking, of its intention to financially support the Group and Company such that they can meet their obligations as they fall due for a period of at least twelve months from the date of the directors approval of these financial statements.

The Board has reviewed the Group's budget and cash flow forecasts for the year ended 31 December 2005 and the outline projections for the two subsequent years. The directors confirm that they have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis in preparing the Company's consolidated financial statements.

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 Group and of the profit or loss of the Group for that year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departure disclosed and explained in the financial statements; and
- 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 proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and Group 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 Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The directors confirm that they have fulfilled their responsibilities.

Auditors

A resolution to reappoint the auditors, PricewaterhouseCoopers LLP, and to authorise the directors to fix their remuneration will be proposed at the forthcoming Annual General Meeting.

By order of the Board

Fiona Stark

Fiona Stark
Company Secretary
E.ON UK plc
Westwood Way
Westwood Business Park
Coventry
CV4 8LG
20 July 2005

E.ON UK PLC
(formerly Powergen UK plc)

Financial review for the year ended 31 December 2004

This review is designed to give further financial information concerning the E.ON UK results for the year.

Overview

2004 was a year of further expansion for the Group, with the acquisition of Midlands Electricity for £1,173 million (including net debt and acquisition costs) on the 16th January 2004, which enabled E.ON UK to become the second largest UK electricity distributor in terms of customer numbers. During 2004, E.ON UK combined its generation and energy trading operations into a new operational business unit, Energy Wholesale, to ensure optimisation of the electricity and gas portfolio. On the 5th July 2004 Powergen was renamed E.ON UK and its industrial & commercial business was rebranded as E.ON Energy. E.ON UK continues to operate in the consumer and small and medium enterprise segment of the UK energy market under the Powergen brand.

Accounting Policies

There have been no significant changes in accounting policies during the year.

Group financial results

Profit before tax and exceptional items for the year ended 31 December 2004 was £391 million, compared to £348 million for the same period last year. The profit before tax was £281 million compared with £233 million for the previous twelve months.

Turnover

Group turnover grew by £243 million during the year to £7,015 million, an increase of 4 percent. Turnover in the UK primarily increased due to the inclusion of Midlands Electricity from 16 January 2004. Retail sales electricity sales volumes declined 9.5TWh to 82TWh, principally due to an 8TWh reduction in industrial & commercial sales reflecting the focus on securing margins rather than volume. In sales value terms, these lower volumes were partly compensated by retail price rises.

Turnover is further analysed below:

	Year ended 31 December 2004 £m	Year ended 31 December 2003 £m
UK Operations		
Electricity and gas – wholesale and trading	**2,258**	2,282
Electricity – distribution	**639**	303
Electricity and gas – retail	**4,280**	4,324
Internal charges from distribution to retail	**(162)**	(137)
	7,015	6,772

Financial review for the year ended 31 December 2004 (continued)

Operating Costs

Details of the Group's operating costs are set out in note 2 to the financial statements. The figures are summarised below.

	Year ended 31 December 2004 £m	Year ended 31 December 2003 £m
Fuel costs	**460**	**369**
Power purchases and other costs of sales	**4,807**	**5,041**
Staff costs	**376**	**225**
Depreciation	**276**	**160**
Software amortisation	**3**	**2**
Goodwill amortisation	**193**	**181**
Other operating charges, including restructuring costs	**548**	**640**
	6,663	**6,618**

Fuel costs rose substantially in 2004 due to significant increases in coal and gas purchase costs. Average day ahead gas prices in the UK for 2004 were 24 pence per therm, 21% higher than during 2003. Generation volumes were 1TWh lower than 2003 at 35TWh.

Power purchase and other costs of sales reduced slightly due to lower wholesale power purchase volumes required to back the lower industrial and consumer sales more than offsetting the increase in wholesale prices.

Staff costs at £376 million were 67 per cent higher than in the previous year due to the acquisition of Midlands Electricity in January 2004 and a significantly increased SSAP 24 pension charge based on the latest actuarial valuation of the pension schemes at 31 March 2004. Staff numbers at 31 December 2004 totalled 10,397 and all except 6 were based in the UK.

The depreciation charge increased from £160 million in 2003 to £276 million in 2004 and goodwill amortisation rose from £181 million in 2003 to £193 million in 2004. The increases were primarily due to the acquisition of Midlands Electricity and impairment charges on CHP plant.

Other operating charges included the costs of running the UK businesses and the supporting corporate infrastructure. Major business costs included maintenance and overhaul costs at power stations, business rates and insurance costs. The 2004 figure of £548 million includes £60 million relating to additional costs from the acquisition of Midlands Electricity in January 2004 and £2 million relating to the acquisition of TXU (2003: £123 million). See note 3 to the accounts.

Operating income

Other operating income was £94 million this year compared with £112 million in the year to 31 December 2003. The 2004 figure includes £40 million of deferred warranty income as part of the disposal arrangements for Fiddler's Ferry and Ferrybridge C power stations in July 1999. The warranty income is recognised as E.ON UK agreed to provide services associated with a major parts warranty in respect of future operations, capability and maintenance of each station. The comparable figure in 2003 was £100 million. The warranty expired in July 2004.

Exceptional items

The Group's results include a number of exceptional items totalling a £110 million charge (year ended 31 December 2003 £115 million charge) that are disclosed in note 3 to the financial statements. These exceptionals fell into three main categories:

- UK business integration costs, primarily for Midlands Electricity (£62 million);
- International and UK business disposals and write downs (£26 million); and
- CHP impairment charges (£22 million).

Operating profits

A more detailed analysis of operating profits and reconciliation to profit before tax, is set out below:

	Year ended 31 December 2004 £m	Year ended 31 December 2003 £m
UK Operations		
Electricity and gas – wholesale and trading	**115**	(19)
Electricity – distribution	**323**	155
Electricity and gas – retail	**384**	421
Lease and other income and charges	**13**	26
	835	583
Asian Asset Management	**46**	58
Intra-group foreign exchange differences	**-**	9
Goodwill amortisation	**(193)**	(181)
Corporate costs	**(85)**	(13)
Operating profit before exceptional items	**603**	456
Interest costs	**(212)**	(108)
Profit before exceptional items	**391**	348
Exceptional items	**(110)**	(115)
Profit before tax	**281**	233

Financial review for the year ended 31 December 2004 (continued)

Operating profits including share of associates and joint ventures, but excluding exceptional items, totalled £603 million for the year compared with £456 million in the same period to 31 December 2003.

Within UK Operations, operating profits increased by £252 million to £835 million. Within this total, wholesale and trading profits increased by £134 million to a £115 million, largely due to the impact of rising electricity prices more than offsetting higher fuel costs.

Distribution profits more than doubled from £155 million to £323 million, primarily reflecting the acquisition of Midlands Electricity on 16th January 2004.

Within the retail business, profits reduced by £37 million to £384 million as higher power and gas input costs more than offset the benefits from retail price rises and savings from the integration of the TXU supply business acquired during 2002.

Profits from Asian Asset Management totalled £46 million, compared with £58 million in the year to 31 December 2004. Profits were lower due to the sale of E.ON UK's interests in operating plants in India and Australia during 2003. In December 2004, E.ON UK divested its 35 percent interest in PT Jawa Power, owner of a 1,220 MW plant at Paiton in Indonesia, and 100 percent of the associated operating and maintenance company.

Goodwill amortisation increased by £12 million to £193 million mainly due to the acquisition of Midlands Electricity in January 2004 and the £216m of additional goodwill generated from this transaction.

Interest costs

Interest costs comprise group interest costs and interest costs for associates and joint ventures. E.ON UK's interest costs increased by £104 million to £212 million due to the interest costs from the additional debt taken on from other E.ON AG Group companies to finance the Midlands acquisition and higher interest rates to E.ON AG.

Treasury management

E.ON UK, 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.

Financial review for the year ended 31 December 2004 (continued)

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

E.ON AG's central financing strategy

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 treasury team employs a continuous forecasting and monitoring process to ensure that the Group complies with all its banking and other 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 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 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.

The year end position described in more detail below is representative of the Group's current position in terms of its objectives, policies and strategies. These will continue to evolve as the Group's business develops, in line with the requirements, objectives, policies and strategies of E.ON AG as the parent company of the Group.

Foreign exchange risk management

E.ON UK's principal currency exposure is to the US dollar. E.ON UK operates within the framework of E.ON AG 's guidelines for foreign exchange risk management. E.ON UK has local policies dealing with transaction exposures (typically trading cash flows and foreign currency denominated debt which impact the profit and loss account) and translation exposures (the value of foreign currency liabilities and assets in the balance sheet). E.ON UK's policy is to hedge all contractually committed transaction exposures, as soon as the commitment arises. E.ON UK will also hedge less certain cash flows if this is appropriate.

E.ON UK's policy towards translation exposures is to hedge these exposures where practicable, with the intention of protecting the Sterling net asset value. These hedges are normally achieved through a combination of borrowing in local currency, forward currency contracts or foreign currency swaps.

Where the foreign currency transaction exposure is hedged, the value of the exposure is translated into Sterling at the exchange rate achieved in the associated hedging contracts. Details of the Group's foreign exchange contracts and swaps are set out in note 27 to the accounts.

Interest rate risk management

E.ON UK operates within the E.ON AG framework for interest rate risk management. E.ON AG requires subsidiaries to maintain a fixed and floating ratio between 20 per cent and 80 per cent. The Group has a significant portfolio of debt, and is exposed to movements in interest rates. This exposure is to both Sterling and US Dollar interest rates, and E.ON UK manages these interest rate movements primarily through the use of fixed and floating rate borrowings and interest rate swaps.

Liquidity planning, trends and risks

E.ON UK has sufficient committed borrowing facilities to meet planned liquidity needs, through facilities provided by its parent company E.ON AG at a lower cost than E.ON UK could achieve externally. Movements in energy prices have some impact on operating cash flows, and as electricity generation and distribution is a capital intensive business, planned capital spending remains at significant levels. The level of operating cash is affected by the performance of the business, and market prices and margins amongst other things. Some of these factors are outside the Company's control.

Most of E.ON UK's capital market bond financings do not have financial covenants, but a fall in the credit rating below investment grade could, in some circumstances, require repayment of these bonds.

Credit rating

E.ON UK's long term credit rating is unchanged over the year, at A- by Standard & Poor's and A3 by Moody's.

Borrowings and facilities

Details of the Group's borrowing facilities are set out in note 18 to the accounts.

At 31 December 2004, the Group had total borrowings of £3,464 million (31 December 2003 £2,396 million) including £1,814 million of long-term loans and £1,650 million of short-term loans and overdrafts.

At 31 December 2004, the Group had £33 million of cash and short-term investments (31 December 2003 £41 million). E.ON UK's policy is to place any surplus funds on short-term deposit with approved banks and financial institutions. Strict limits governing the maximum exposure to these banks and financial institutions are applied. These limits are co-ordinated across the E.ON AG Group.

The Group's net borrowing position at 31 December 2004 was therefore £3,431 million, compared to £2,355 million at 31 December 2003. The average interest rate for the year, when compared to average net borrowings, was 5.7 per cent compared with 3.7 per cent in the previous year. This increase is attributable to higher interest rates from the E.ON AG Group.

Gearing (net debt as a percentage of net assets plus net debt) was 56 per cent at 31 December 2004 compared with 49 per cent at the end of 2003.

Commodity risk management

As part of its operating activities, E.ON UK engages in asset based energy marketing in the gas, electricity, coal and oil markets. This activity is primarily focused around the commercial risk management and optimisation of both UK electricity and gas assets and to manage the price and volume risks associated with its UK retail business, but also encompasses limited proprietary trading in the UK and some European energy markets.

All of E.ON UK's energy trading operations are subject to E.ON UK's and E.ON AG's risk management policies. These include value and profit at risk, credit limits, segregation of duties and an independent risk reporting system. To achieve its portfolio optimisation E.ON UK uses fixed price bilateral contracts, futures and option contracts traded on commodity exchanges and swaps and options traded in over-the-counter financial markets.

Taxation

The pre-exceptional tax charge amounted to £26 million for the year compared with £54 million charge for the same period to 31 December 2003. The effective rate before exceptional items was 6 per cent compared with 16 per cent in the year to 31 December 2003. The main reason for the decrease in the effective rate was the adjustment to current and deferred tax provisions in respect of prior year items, as set out in note 7 to the accounts.

Dividends

No dividends were paid or payable during the year ended 31 December 2004.

Independent auditors' report to the members of E.ON UK plc (formerly Powergen UK plc)

We have audited the financial statements which comprise the profit and loss account, the group and company balance sheets, the statement of group total recognised gains and losses and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards 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 United Kingdom Auditing Standards issued by the Auditing Practices Board. 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 in to 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 if, in our opinion, the directors' report is not consistent with the financial statements, if 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 transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report and the financial review.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards 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 judgements 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.

Independent auditors' report to the members of Powergen UK plc (continued)

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 of the state of affairs of the Company and the Group at 31 December 2004 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
20 July 2005

E.ON UK PLC
(formerly Powergen UK plc)
CONSOLIDATED PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2004

	Note	Year ended 31 December 2004 Before exceptional items £m	Exceptional items (note 3) £m	Total £m	Year ended 31 December 2003 Before exceptional items £m	Exceptional items (note 3) £m	Total £m
Turnover (including share of joint ventures and associates)							
Continuing operations before acquisitions		6,904	-	6,904	6,915	-	6,915
Group's share of associates' and joint ventures' turnover		(233)	-	(233)	(143)	-	(143)
Total continuing operations		6,671	-	6,671	6,772	-	6,772
Acquisitions		344	-	344	-	-	-
Total Group turnover	1	7,015	-	7,015	6,772	-	6,772
Operating costs	2,3	(6,579)	(84)	(6,663)	(6,495)	(123)	(6,618)
Other operating income	2	94	-	94	112	-	112
Continuing operations		384	(31)	353	389	(123)	266
Acquisitions		146	(53)	93	-	-	-
Group operating profit/(loss) – continuing activities	2	530	(84)	446	389	(123)	266
Group's share of associates' and joint ventures' operating profit	6	73	-	73	67	-	67
Profits less losses on disposal of investments / businesses (including provisions)	3	-	(26)	(26)	-	8	8
Net interest payable							
– Group	5	(195)	-	(195)	(84)	-	(84)
– associates and joint ventures		(17)	-	(17)	(24)	-	(24)
Profit/(Loss) on ordinary activities before taxation	6	391	(110)	281	348	(115)	233
Tax on profit/(loss) on ordinary activities	7	(26)	23	(3)	(54)	10	(44)
Profit/(Loss) on ordinary activities after taxation		365	(87)	278	294	(105)	189
Minority interest	25	-	-	-	-	-	-
Profit/(Loss) attributable to shareholders		365	(87)	278	294	(105)	189
Dividends		-	-	-	-	-	-
Retained profit for the year	24			278			189

STATEMENT OF GROUP TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 31 December 2004

	Year ended 31 December 2004 £m	Year ended 31 December 2003 £m
Profit attributable to shareholders	278	189
Revaluation transfer	1	-
Currency translation differences on foreign currency net investments	(1)	(5)
Total recognised gains for the year	278	184

The accounting policies and the notes on pages 24 to 66 form part of these financial statements.

E.ON UK PLC
(formerly Powergen UK plc)

BALANCE SHEETS
as at 31 December 2004

	Note	The Group 31 December 2004 £m	The Group 31 December 2003 (restated) £m	The Company 31 December 2004 £m	The Company 31 December 2003 (restated) £m
Fixed assets					
Intangible assets					
Goodwill		**2,696**	2,673	**28**	30
Negative goodwill		**(9)**	-	**-**	-
		2,687	2,673	**28**	30
Other		**6**	8	**-**	-
Total intangible assets	10	**2,693**	2,681	**28**	30
Tangible assets	11	**3,926**	2,553	**1,024**	954
Investments					
Interest in joint ventures					
Share of gross assets		**80**	146	**-**	-
Share of gross liabilities		**(48)**	(101)	**-**	-
		32	45	**-**	-
Loans to joint ventures		**-**	32	**-**	-
		32	77	**-**	-
Investments in associates		**17**	98	**2**	47
Investments in subsidiaries		**-**	-	**3,337**	2,888
Other		**26**	16	**24**	15
Total investments	12	**75**	191	**3,363**	2,950
		6,694	5,426	**4,415**	3,934
Current assets					
Stocks	13	**153**	90	**132**	80
Debtors: amounts falling due after more than one year	14	**6**	10	**-**	10
Debtors: amounts falling due within one year	15	**1,453**	1,234	**2,193**	1,968
Cash and short-term deposits		**33**	41	**8**	13
		1,645	1,375	**2,333**	2,071
Creditors: amounts falling due within one year					
Loans and overdrafts	16	**(1,650)**	(1,317)	**(994)**	(254)
Trade and other creditors	17	**(1,404)**	(1,393)	**(2,895)**	(2,479)
Net current liabilities		**(1,409)**	(1,335)	**(1,556)**	(662)
Total assets less current liabilities		**5,285**	4,091	**2,859**	3,272

E.ON UK PLC
(formerly Powergen UK plc)

BALANCE SHEETS (continued)
as at 31 December 2004

Creditors: amounts falling due after more than one year					
Long-term loans	18	**(1,814)**	(1,079)	**(820)**	(821)
Other creditors	19	**(283)**	(129)	**(1)**	(405)
Provisions for liabilities and charges	21	**(188)**	(211)	**(62)**	(83)
Deferred tax	22	**(260)**	(218)	**(77)**	(101)
Net assets		**2,740**	2,454	**1,899**	1,862
Capital and reserves					
Called-up share capital	23	**325**	325	**325**	325
Share premium account	24	**97**	97	**97**	97
Capital reserve	24	**474**	474	**474**	474
Revaluation reserve	24	**23**	15	**-**	-
Capital redemption reserve	24	**85**	85	**85**	85
Profit and loss account	24	**1,732**	1,454	**918**	881
Equity shareholders' funds	26	**2,736**	2,450	**1,899**	1,862
Equity minority interests	25	4	4	**-**	-
		2,740	2,454	**1,899**	1,862

Approved by the Board on 20 July 2005

G Bartlett

Graham Bartlett
Director

The accounting policies and the notes on pages 24 to 66 form part of these financial statements

Notes to the financial statements for the year ended 31 December 2004

Nature of operations

The Group has two classes of business; UK Operations and Asian Asset Management. The principal business in the UK is the generation, distribution and sale of electricity and the sale of gas. The principal business overseas is the generation of electricity and associated energy-related businesses.

Basis of preparation of accounts

The financial statements are prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards and the Companies Act 1985 except for the accounting policies for commodity instruments (see financial instruments below) and customer contributions (see tangible fixed assets below) and accounting for subsidiaries which were previously accounted for as associated undertakings where the true and fair over-ride has been used as required by Financial Reporting Standard 2 'Accounting for Subsidiary Undertakings' as set out in note 9 to the accounts. There have been no changes in accounting policies during the year with the exception of the reclassification of software costs as outlined below.

There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated on the face of the consolidated profit and loss account and their historical cost equivalents except as set out in the note on commodity instruments on page 28. Values of assets and liabilities vested in the Company on 31 March 1990 under the Transfer Scheme made pursuant to the Electricity Act 1989 (the Transfer Scheme) are based on their historical cost to the Central Electricity Generating Board (CEGB).

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting year. Actual results can differ from those estimates.

Change of accounting policy

The Group has reclassified all capitalised software costs from tangible fixed assets to intangible fixed assets in these accounts, as the directors consider this reclassification more appropriate. This reclassification, which is treated as a change in accounting policy under FRS 18, does not have any effect on profits or retained earnings. Prior year comparatives have been restated, see note 10 to the accounts.

Going concern

Not withstanding the fact that the Group and Company have net current liabilities, the directors have prepared the financial statements on the going concern basis. The directors have received confirmation from Powergen Limited, the intermediate parent undertaking, of its intention to financially support the Group and Company such that they can meet their obligations as they fall due for a period of at least twelve months from the date of the directors approval of these financial statements.

Basis of consolidation

The consolidated accounts include the financial statements of the Company and all of its subsidiary undertakings, together with the Group's share of the results and net assets of associated undertakings and joint ventures. The results of subsidiaries sold or acquired are included in the consolidated profit and loss account up to, or from, the date on which control passes. Intra-group sales, profits, and balances are eliminated on consolidation.

Associated undertakings and joint ventures

The Group's share of profits less losses of associated undertakings and joint ventures is included in the consolidated profit and loss account. The results of associates and joint ventures sold or acquired are included in the consolidated profit and loss account up to, or from, the date on which significant influence passes. These amounts are taken from the latest audited financial statements of the relevant undertakings, except where the accounting reference date of the undertaking is not coterminous with the parent company, where management accounts are used.

The accounting reference dates of associated undertakings and joint ventures are set out in note 12. Where the accounting policies of associated undertakings and joint ventures do not conform to those of the Group, adjustments are made on consolidation where the amounts involved are material to the Group.

Turnover

Turnover within the United Kingdom comprises trading and wholesale of electricity; revenue from the distribution of electricity; revenue from the sale of electricity and gas to industrial and commercial customers and sales of electricity and gas to domestic customers. Turnover excludes Value Added Tax.

Revenue from the sale of electricity and gas to industrial, commercial and domestic customers is recognised when delivered and reflects the value of units supplied, including an estimated value of units supplied to customers between the date of their last meter reading and the year end.

Revenues from the trading and wholesale of electricity to external customers is recognised when the commodity is delivered on the basis of the agreed volumes and rates within the sales contracts.

Revenues relating to the distribution of electricity represent 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.

Depreciation

Provision for depreciation of generating and other assets is made so as to write off, on a straight-line basis, the cost (less residual value) of tangible fixed assets. Assets are depreciated over their estimated useful lives or, in the case of leased assets, over the lease term if shorter. Estimated useful lives are reviewed periodically. No depreciation is provided on freehold land or assets in the course of construction.

The estimated useful lives for the other principal categories of fixed assets are:

Asset	*Life in years*
Generating assets	25-45
Distribution and transmission networks	40-60
Other assets	3-40

Overhaul of generation plant

Major periodic overhaul costs on generation plant are capitalised as part of generating assets and depreciated on a straight-line basis over their estimated useful life, typically the period until the next major overhaul. That period is usually four years.

Provisions

Provisions are recognised in the balance sheet when a Group 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.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced to those affected by it.

A provision and related fixed asset, for decommissioning generating assets is recognised in respect of the estimated total discounted cost of decommissioning generating assets. The resulting fixed asset is depreciated on a straight-line basis, and the discount is amortised over the useful life of the associated power stations.

Future operating costs are not provided for.

Foreign exchange

Assets and liabilities expressed in foreign currencies, including those of subsidiaries, associated undertakings and joint ventures are translated to Sterling at rates of exchange ruling at the end of the financial year. The results of foreign subsidiaries, associated undertakings and joint ventures are translated to Sterling using average exchange rates.

Transactions denominated in foreign currencies are translated to Sterling at the exchange rate ruling on the transaction date unless related or matching forward foreign exchange contracts have been entered into when the rate specified in the contract is used. Differences on exchange arising from the re-translation of the opening net investment in, and results of, subsidiaries, associated undertakings and joint ventures are taken to reserves and, where the net investments are hedged, are matched with differences arising on the translation of related foreign currency borrowings and forward exchange contracts. Any differences arising are reported in the statement of total recognised gains and losses. All other realised foreign exchange differences are taken to the profit and loss account in the year in which they arise.

Deferred income

Amounts received in advance in respect of the provision of services under warranty arrangements are taken to deferred income and recognised in operating income on a straight line basis over the period to which the warranty cover relates.

Financial instruments

The Group uses a range of derivative instruments, including interest rate swaps, cross-currency swaps and energy-based options and futures contracts and foreign exchange contracts and swaps. Derivative instruments are used for hedging purposes, apart from energy-based options and futures contracts, which are used for trading purposes. The accounting policy for each instrument is set out below. Interest differentials on derivative instruments are charged to the profit and loss account as interest costs in the period to which they relate. Accounting for foreign currency transactions is described in the foreign exchange policy set out above. Changes in the market value of options and futures trading contracts are reflected in the profit and loss account in the period in which the change occurs.

Debt instruments

Following the issue of Financial Reporting Standard 4 'Capital Instruments' (FRS4) all borrowings are initially stated at the fair value of consideration received after deduction of issue costs. The issue costs and interest payable on bonds are charged to the profit and loss account at a constant rate over the life of the bond. Any premium or discount arising on the early repayment of borrowings is written off to the profit and loss account as incurred.

Interest rate swaps

Interest rate swap agreements are used to manage interest rate exposures. Amounts payable or receivable in respect of these agreements are recognised as adjustments to interest expense over the period of the contracts.

Forward currency contracts

The Group enters into forward currency contracts for the purchase and/or sale of foreign currencies in order to manage its exposure to fluctuations in currency rates. With the exception of contracts used for translation hedging purposes, unrealised gains and losses on currency contracts are not accounted for until the maturity of the contract. The cash flows from forward purchase currency contracts are classified in a manner consistent with the underlying nature of the hedged transaction.

Currency swaps

Currency swap agreements are used to manage foreign currency exposures and are accounted for using hedge accounting. In order to qualify for hedge accounting the instrument must be identified to a specific foreign currency asset or liability and must be an effective hedge. Foreign currency loans, where the repayment of principal is hedged by currency swaps, are included in the balance sheet at the Sterling equivalent of the hedged rate. Interest on the loan is charged to the profit and loss account at the hedged rate.

Commodity Instruments

The Group makes use of energy trading derivative financial instruments, a certain proportion of which relate to proprietary trading activities. The instruments relating to these activities are traded in an established and liquid market place. The Companies Act states that these contracts should be held at the lower of cost or net realisable value. The directors consider that this would not give a true and fair view and consider it appropriate to mark the open derivative positions to market through operating costs since the marketability of these instruments enables management to decide whether to hold or sell the instruments. The effect of this departure from the historical cost convention on the financial statements for the year is a decrease of £5.4 million in operating profits (year ended 31 December 2003 £8 million decrease) and an increase of £7 million (31 December 2003 £1 million increase) in net assets and are included within trade debtors on the balance sheet.

Intangible fixed assets

Goodwill (including negative goodwill)
Goodwill arising on consolidation represents the excess or shortfall of the fair value of the consideration given compared to the fair value of the identifiable assets and liabilities acquired. Purchased goodwill is capitalised in the balance sheet and amortised on a straight-line basis through the profit and loss account over its estimated useful economic life of 20 years. Goodwill relating to associates and joint ventures is included within 'investments' in the consolidated balance sheet. Goodwill arising on overseas acquisitions is regarded as a currency asset and is re-translated at each period end at the closing rate of exchange.

Software costs
Software purchased from third parties is capitalised and amortised over a 3 year period on a straight line basis. All other software costs are expensed.

Tangible fixed assets
Tangible fixed assets are stated at original cost, net of customer contributions, less accumulated depreciation and any provision for impairment. Impairment losses and any subsequent reversals are recognised in the period in which they are identified. In the case of assets constructed by the Company and its subsidiaries, directly related overheads and commissioning costs are included in cost.

Major assets in the course of construction are included in tangible fixed assets on the basis of expenditure incurred at the balance sheet date. Where borrowings are specifically financing the construction of a major capital project with a long period of development, interest payable, not exceeding the actual amount incurred during the relevant period of construction, is capitalised as part of the cost of the asset and written off over the economic useful life of the asset.

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. The contributions are deducted from the cost of the fixed assets. This is a departure from the Companies Act 1985 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. The amortised value of customer contributions included within tangible fixed assets at 31 December 2004 was £710 million (31 December 2003 £405 million) and the reduction in depreciation charge during the year was £24 million (year ended 31 December 2003 £12 million).

Operating leases

Rents payable under operating leases are charged to the profit and loss account evenly over the term of the lease. Income from operating leases is included within other operating income in the profit and loss account. Income is recognised on a straight-line basis except where income receipts vary with output or other factors. Any variable element is recognised as earned.

Fixed asset investments

The Group's share of the net assets of associated undertakings and joint ventures is included in the consolidated balance sheet. Other fixed asset investments are stated at cost less any provision for impairment in value. Investments in subsidiary undertakings are stated in the balance sheet of the parent company at cost, less any provision for impairment in value.

Fuel stocks and stores

Fuel stocks and general and engineering stores are stated at the lower of cost and net realisable value. In general, stocks are recognised in the profit and loss account on a weighted average cost basis. The Companies Act 1985 requires stocks to be categorised between raw materials, work in progress and finished goods. Fuel stocks and stores are raw materials under this definition.

Cash and short-term deposits

Short-term deposits include cash at bank and in hand, and certificates of tax deposit.

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.

Pensions

The Group provides pension benefits through both defined benefit and defined contribution schemes. Defined benefit pension scheme costs are charged to the profit and loss account so as to spread the cost of pensions over employees' remaining working lives. The regular cost, and any variation from regular cost which is identified as a result of actuarial valuations, is amortised over the average expected remaining service lives of members. Details of these actuarial valuations, including the frequency and methodology, are set out in note 20. Differences between the amounts funded and the amounts charged to the profit and loss account are treated as either creditors or debtors in the balance sheet. Payments to defined contribution schemes are charged against profits as incurred.

The Group has adopted the transitional disclosure provisions of Financial Reporting Standard 17 'Retirement benefits' (FRS 17) in these accounts. In accordance with the transitional arrangements under FRS 17 full implementation of the standard has been deferred. The transitional disclosures are set out in note 20 to the accounts.

Cash flow statement

The Company is a wholly owned subsidiary undertaking of E.ON AG, the ultimate parent undertaking of the E.ON AG 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).

Related party transactions

The Company is exempt under the terms of Financial Reporting Standard 8 from disclosing related party transactions with entities that are part of the E.ON AG Group or investees of the E.ON AG Group.

Notes to the financial statements for the year ended 31 December 2004

1 Turnover

Turnover is analysed as follows:

	Year ended 31 December 2004 £m	Year ended 31 December 2003 £m
UK Operations		
Electricity and gas – wholesale and trading	**2,258**	2,282
Electricity – distribution	**639**	303
Electricity and gas – retail	**4,280**	4,324
Internal charges from distribution to retail	**(162)**	(137)
	7,015	6,772

The Group's share of associates' and joint ventures' turnover is analysed as follows:

	Year ended 31 December 2004 £m	Year ended 31 December 2003 £m
UK Operations	**107**	50
Asian Asset Management	**126**	93
	233	143

Turnover analysed by geographic destination is not materially different from the analysis by origin shown above. The increase in Distribution turnover relates to the acquisition of Midlands Electricity plc.

2 Operating costs

Operating costs were as follows:

	Year ended 31 December 2004 £m	Year ended 31 December 2003 £m
Fuel costs	**460**	**369**
Power purchases and other costs of sales	**4,807**	**5,041**
Staff costs (note 4)	**376**	**225**
Depreciation, including exceptional charges	**276**	**160**
Goodwill amortisation	**193**	**181**
Software amortisation	**3**	**2**
Other operating charges, including restructuring costs	**548**	**640**
Operating costs, after exceptional items	**6,663**	**6,618**

Operating costs, before exceptional items	**6,579**	**6,495**
Exceptional operating charges (note 3)	**84**	**123**

The directors believe that the nature of the Group's business is such that the analysis of operating costs as set out in the Companies Act 1985 is not appropriate. As required by the Act, the directors have therefore adopted the presented format so that operating costs are disclosed in a manner appropriate to the Group's principal activities.

2 Operating costs (continued)

£1 million of foreign exchange losses were recognised in the profit and loss account (year ended 31 December 2003 £4 million losses).

Operating costs also include:	Year ended 31 December 2004 £m	Year ended 31 December 2003 £m
Repairs and maintenance costs	**104**	103
Research and development costs	**3**	2
Operating leases	**19**	24
(Gain) / loss on disposal of fixed assets	**(1)**	9
Auditors' remuneration for:		
Statutory audit	**1.2**	1.0
Audit related regulatory reporting	**0.2**	0.2
Further assurance services	**0.2**	0.5
Tax services	**0.1**	0.3

Auditors' remuneration in respect of the Company was £0.3 million for each of the two years ended 31 December 2004.

Other operating income includes £40 million (year ended 31 December 2003 £100 million) of deferred income in respect of the provision of services under warranty arrangements associated with the disposal of Fiddlers Ferry and Ferrybridge C power stations to Edison Mission Energy during 1999 which expired during the year. Other income in 2004 also included PowerTech consulting income of £17 million.

3 Exceptional items

Exceptional items comprise:

	Year ended 31 December 2004 £m	Year ended 31 December 2003 £m
Charged against operating profit	**(84)**	(123)
Profits less losses on disposal of investments / businesses (including provisions)	**(26)**	8
Exceptional items before taxation	**(110)**	(115)
Tax on exceptional items	**23**	10
Exceptional items after taxation	**(87)**	(105)

3 Exceptional items (continued)

Charged against operating profit

Year ended 31 December 2004

UK Operations

Following the acquisition of Midlands Electricity in January 2004, an integration programme was implemented to merge the Midlands Electricity distribution business into the existing East Midlands Electricity distribution business, the combined business being renamed Central Networks. Additionally certain group functions and services were integrated into E.ON UK's UK Services business unit. £60 million was charged during the year in respect of that programme in both the Midlands Electricity and existing Distribution businesses, which primarily comprises committed severance and related payments to approximately 600 employees and costs relating to the rationalisation of IT systems and business locations. A tax credit of £17 million arose as a result of this charge.

In addition to the integration of the Midlands Electricity business E.ON UK charged a further £2 million in respect of the reorganisation and restructuring of the business acquired from TXU in 2002. A tax credit of £1 million arose as a result of this charge.

During the year certain CHP plants were impaired by £22 million. A tax credit of £5 million arose as a result of this charge.

Year ended 31 December 2003

UK Operations

Following the acquisition of TXU in October 2002, the UK Operations undertook a detailed review of its UK Operations and established a business reorganisation and restructuring programme. £123 million was charged during the year in respect of that programme, which primarily comprises committed severance and related payments to approximately 1,200 employees, together with costs in respect of rationalisation of IT systems and related infrastructure costs. A tax credit of £10 million arose as a result of this charge.

Profit less losses on disposal of investments / businesses (including provisions)

Year ended 31 December 2004

Asian Asset Management

As part of E.ON UK's ongoing strategy to withdraw from the international markets, E.ON UK disposed of its 35% investment in PT Jawa Power for proceeds of £66 million. Net assets disposed of totalled £88 million (comprising £76 million investment and £12 million loan) and costs of disposal were £2 million, giving rise to an exceptional loss of £24 million. No tax credit arose as a result of this disposal.

During the period the investments in associates acquired as part of the acquisition of Midlands Electricity were impaired by £2 million in anticipation of their disposal. No tax credit arose as a result of this disposal.

3 Exceptional items (continued)

Year ended 31 December 2003

Asian Asset Management

As part of Powergen's ongoing strategy to withdraw from the international markets, indicative bids were received for the 35% investment in PT Jawa Power. As a result of these bids, the carrying value of that investment was reviewed and impaired by £25 million. No tax credit arose as a result of this impairment.

On 16 April 2003, Powergen completed the sale of its remaining indirect 18.4% interest in Yallourn power station in Australia to CLP International (CLP) for proceeds of £41 million. Net assets disposed of totalled £16 million giving rise to an exceptional profit of £25 million. No tax charge arose as a result of this disposal.

On 11 June 2003, Powergen completed the sale of its remaining investment in CLP Powergen India Limited (CPIL) to CLP for proceeds of £28 million. Net assets disposed, together with related disposal costs totalled £20 million giving rise to a profit on disposal of £8 million. No tax charge arose as a result of this disposal.

4 Employee information, including directors' remuneration

The average number of persons employed by the Group, including executive directors, analysed by activity was:

	Year ended 31 December 2004	Year ended 31 December 2003
UK Operations (including Corporate Centre)	**10,135**	6,397
Asian Asset Management	**334**	320
	10,469	6,717

Notes to the financial statements
for the year ended 31 December 2004 (continued)

4 Employee information, including directors' remuneration (continued)

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

	Year ended 31 December 2004 £m	Year ended 31 December 2003 £m
Wages and salaries	**298**	206
Social security costs	**27**	19
Other pension costs (note 20)	**83**	13
	408	238
Capitalised in fixed assets	**(32)**	(13)
Charged in profit and loss account as staff costs	**376**	225

The total remuneration of the Company's directors, together with details of the individual remuneration of the highest paid director are as follows:

All directors	Year ended 31 December 2004 £	Year ended 31 December 2003 £
Aggregate emoluments	**2,313,999**	888,848

Retirement benefits are accruing to four (31 December 2003 two) directors under a defined benefit pension scheme. During the year no (2003 no) directors exercised options over shares they were awarded for services to the E.ON UK Group.

Highest paid director	Year ended 31 December 2004 £	Year ended 31 December 2003 £
Total emoluments, excluding gains on the exercise of share options and benefits under long-term incentive schemes	**911,003**	550,295
Defined benefit pension scheme:		
- Accrued pension at end of year	**88,830**	71,000

Notes to the financial statements for the year ended 31 December 2004 (continued)

5 Net interest payable – Group

	Year ended 31 December 2004 £m	Year ended 31 December 2003 £m
Interest receivable		
From associates and joint ventures	**2**	6
From fellow E.ON group undertakings	**2**	5
Other	**5**	5
Group interest receivable and similar items	**9**	16
Interest payable		
Loans from fellow E.ON group undertakings	**(170)**	(31)
Other loans	**(31)**	(66)
Group interest payable and similar items	**(201)**	(97)
Net interest payable before unwinding of discount	**(192)**	(81)
Unwinding of discount in provisions	**(3)**	(3)
Net group interest payable	**(195)**	(84)
Interest payable – associates and joint ventures	**(17)**	(24)
Net interest payable	**(212)**	(24)

6 Profit on ordinary activities before taxation

	Year ended 31 December 2004 £m	Year ended 31 December 2003 £m
UK Operations		
Electricity and gas – wholesale and trading	**115**	**(19)**
Electricity – distribution	**323**	**155**
Electricity and gas – retail	**384**	**421**
Lease and other income and charges	**13**	**26**
Goodwill amortisation – UK Operations	**(193)**	**(181)**
	642	**402**
Asian Asset Management	**46**	**58**
Intra-group foreign exchange differences	**-**	**9**
Corporate costs	**(85)**	**(13)**
Net interest payable – Group	**(195)**	**(84)**
– Associates and joint ventures	**(17)**	**(24)**
	391	**348**
Exceptional items (note 3)	**(110)**	**(115)**
	281	**233**

6 Profit on ordinary activities before taxation (continued)

The Group's share of associates' and joint ventures' operating profit can be analysed as follows:

	Year ended 31 December 2004 £m	Year ended 31 December 2003 £m
UK Operations	**33**	10
Asian Asset Management	**40**	57
	73	67

The net assets of the Group are analysed as follows:

	At 31 December 2004 £m	At 31 December 2003 £m
UK Operations	**6,168**	4,702
Asian Asset Management	**3**	89
Unallocated net liabilities	**(3,431)**	(2,337)
	2,740	2,454

The profits and net assets analysed by geographic destination is not materially different from the analyses by origin shown above.

7 Tax on profit on ordinary activities

	Year ended 31 December 2004 £m	Year ended 31 December 2003 £m
Current tax:		
United Kingdom Corporation tax at 30%	**103**	43
Under / (over) provision in prior year	**19**	(14)
Overseas taxation	**1**	1
Total current tax charge	**123**	30
Deferred tax:		
Origination and reversal of timing differences	**(8)**	7
Increase in discount	**(1)**	(6)
Over provision in prior period	**(123)**	-
Total deferred tax (credit)/charge (note 22)	**(132)**	1
Associates and joint ventures	**12**	13
Tax charge on profit on ordinary activities	**3**	44

The effective tax rate is expected to increase in future periods as a result of the conclusion of the period covered by the major parts warranty given to the purchaser on the disposal of Fiddler's Ferry and Ferrybridge C power stations in 1999. Part of the proceeds on the disposal was deferred and is recognised in the profit and loss account over the period covered by the warranty. This deferred income was subject to tax when actually received and is therefore not subject to tax when recognised

7 Tax on profit on ordinary activities (continued)

in the profit and loss account. The effective rate of tax will increase in 2005 and subsequent periods as a result of the warranty period coming to an end.

The difference between the current 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 in the UK (30%) can be explained as follows:

	Year ended 31 December 2004 £m	Year ended 31 December 2003 £m
Profit on ordinary activities before tax	**281**	**233**
Tax charge on profit on ordinary activities at 30%	**84**	**70**
Effects of:		
Prior year adjustment	**19**	**(14)**
Origination and reversal of timing differences	**7**	**(22)**
Expenses not deductible for tax purposes	**40**	**57**
Non-taxable income	**(14)**	**(46)**
Net effect of different rates of tax in overseas businesses	(1)	(2)
Associates and joint ventures	**(12)**	**(13)**
	123	**30**

The tax impact of exceptional items is given in note 3.

The £123m credit in respect of deferred tax over provided in prior periods includes a £85m credit in respect of the creation of a deferred tax asset for advance corporation tax previously written off and a £51m credit in respect of the release of a deferred tax provision for tax on the gain arising on the disposal of the Midlands supply business in 2000.

8 Profit of the Company

The profit attributable to shareholders for the financial year of the Company is £37 million (year ended 31 December 2003 £106 million profit). The Company is not publishing a separate profit and loss account as permitted by Section 230 of the Companies Act 1985.

9 Acquisitions and revisions to provisional fair values

On 16 January 2004, E.ON UK acquired Aquila Sterling Limited (Midlands Electricity), a Company based in the UK, from Aquila Sterling Holdings LLC. The consideration paid by E.ON UK totalled £38 million (including acquisition costs). The amount of goodwill that arose as a consequence of this transaction which has been acquisition accounted was £216 million.

Details of the acquisition are set out as follows:

	Book value £m	Revaluation [1] £m	Fair value to the E.ON UK Group £m
Net assets acquired:			
Tangible fixed assets	1,114	100	1,214
Investments	14	2	16
Pensions	-	(102)	(102)
Working capital	(169)	13	(156)
Net debt	(1,171)	21	(1,150)
	(212)	34	(178)
Goodwill arising			216
Consideration, including costs of acquisition			38

(1) Revaluation adjustments principally comprise valuation adjustments to the distribution network assets and the pension scheme at fair value

The profits after tax for the year ended 31 December 2003 for the Aquila Sterling Group were £11 million and the profit for the period from 1 January 2004 to 15 January 2004 was £2 million.

On 26 January 2004, E.ON UK acquired the 50% interest in Cottam Development Centre Ltd that it did not already own. The consideration paid by E.ON UK totalled £13 million (including net debt acquired and acquisition costs) and the fair value of the net assets acquired was £22 million. The amount of negative goodwill that arose as a consequence of this transaction which has been acquisition accounted was £9 million.

Details of the acquisition are set out as follows:

	Book value £m	Revaluation [1] £m	Fair value to the E.ON UK Group £m
Net assets acquired:			
Tangible fixed assets	99	21	120
Working capital	(11)	(2)	(13)
Net debt	(63)	-	(63)
	25	19	44
Share of net assets acquired (50%)			22
Goodwill arising			(9)
Consideration, including costs of acquisition			13

(1) Revaluation adjustments principally relate to adjustments to the value of the property, plant and equipment.

9 Acquisitions and revisions to provisional fair values (continued)

Prior to becoming a subsidiary undertaking, Cottam Development Centre Ltd was accounted for as an associated undertaking. In accordance with Financial Reporting Standard 2 'Accounting for Subsidiary Undertakings', and in order to give a true and fair view, purchased goodwill has been calculated as the sum of the goodwill arising on each separate purchase of shares in Cottam Development Centre Ltd. Goodwill arising represents the difference at the date of each purchase between the fair value of the consideration given and the fair value of the identifiable assets and liabilities attributable to the interest purchased. This represents a departure from the statutory method, under which goodwill is calculated as the difference between cost and fair value on the date that Cottam Development Centre Ltd became a subsidiary undertaking. The statutory method would not give a true and fair view because it would result in the Group's share of Cottam Development Centre Ltd retained reserves, during the period that it was an associated undertaking, being re-characterised as goodwill. The effect of this departure is to create a revaluation reserve of £9 million and to increase purchased goodwill by £9 million, but there was no impact on retained earnings.

10 Intangible fixed assets

The Group	Negative Goodwill	Goodwill	Software	Total
	£m	£m	£m	£m
Cost				
At 31 December 2003 (restated)	-	3,171	44	3,215
Additions	(9)	216	1	208
At 31 December 2004	**(9)**	**3,387**	**45**	**3,423**
Amortisation				
At 31 December 2003 (restated)	-	498	36	534
Charge for the year	-	193	3	196
At 31 December 2004	**-**	**691**	**39**	**730**
Net book value at 31 December 2004	**(9)**	**2,696**	**6**	**2,693**
Net book value at 31 December 2003 (restated)	-	2,673	8	2,681

The Company	**Goodwill**
	£m
Cost	
At 31 December 2003 and at **31 December 2004**	**32**
Amortisation	
At 31 December 2003	2
Charge for the year	2
At 31 December 2004	**4**
Net book value at 31 December 2004	**28**
Net book value at 31 December 2003	30

11 Tangible fixed assets

The Group	Generating assets £m	Distribution and transmission networks £m	Other operating and short-term assets £m	Total £m
Cost				
At 31 December 2003 (restated)	3,106	1,793	709	5,608
Additions	104	188	27	319
Acquisitions	191	1,857	106	2,154
Disposals	(10)	(10)	(16)	(36)
At 31 December 2004	**3,391**	**3,828**	**826**	**8,045**
Depreciation				
At 31 December 2003 (restated)	2,007	652	396	3,055
Acquisitions	52	706	62	820
Charge for the year	147	82	47	276
Disposals	(7)	(7)	(18)	(32)
At 31 December 2004	**2,199**	**1,433**	**487**	**4,119**
Net book value at 31 December 2004	**1,192**	**2,395**	**339**	**3,926**
Net book value at 31 December 2003 (restated)	1,099	1,141	313	2,553

Group assets include freehold land and buildings with a net book value of £128 million (31 December 2003 £126 million) and assets in the course of construction at a cost of £nil (31 December 2003 £33 million).

11 Tangible fixed assets (continued)

The Company	Generating assets £m	Other assets £m	Total £m
Cost			
At 31 December 2003	2,900	150	3,050
Additions	65	5	70
Group transfers	126	34	160
Disposals	(9)	(3)	(12)
At 31 December 2004	**3,082**	**186**	**3,268**
Depreciation			
At 31 December 2003	**1,969**	**127**	**2,096**
Charge for the year	99	11	110
Group transfers	17	30	47
Disposals	(6)	(3)	(9)
At 31 December 2004	**2,079**	**165**	**2,244**
Net book value at 31 December 2004	**1,003**	**21**	**1,024**
Net book value at 31 December 2003	**931**	**23**	**954**

Company assets include freehold land and buildings with a net book value of £95 million (year ended 31 December 2003 £97 million).

12 Fixed asset investments

Group	Net assets		Loans			
	Joint ventures £m	Associates £m	Joint ventures £m	Associates £m	Other investments £m	**Total £m**
Net assets excluding goodwill						
At 31 December 2003	**39**	**85**	**32**	**13**	**16**	**185**
Acquisitions	-	17	-	-	10	27
Additions	-	2	44	-	-	46
Dividends received	(5)	(41)	-	-	-	(46)
Retained profits	6	38	-	-	-	44
Foreign exchange movements	-	(9)	-	-	-	(9)
Disposals	(13)	(76)	(76)	(12)	-	(177)
At 31 December 2004	**27**	**16**	**-**	**1**	**26**	**70**
Goodwill						
At 31 December 2003	6	-				6
Amortisation	(1)	-				(1)
At 31 December 2004	**5**	**-**	**-**	**-**	**-**	**5**
At 31 December 2004 – Net assets and goodwill	**32**	**16**	**-**	**1**	**26**	**75**
At 31 December 2003 – Net assets and goodwill	**45**	**85**	**32**	**13**	**16**	**191**

Company	Subsidiary investment		Associate investment		Other	Total
	Equity £m	Loans £m	Equity £m	Loans £m	Investments £m	£m
At 31 December 2003	**2,888**	**-**	**12**	**35**	**15**	**2,950**
Additions	449	-	-	43	10	502
Disposals	-	-	(10)	(78)	(1)	(89)
At 31 December 2004	**3,337**	**-**	**2**	**-**	**24**	**3,363**

12 Fixed asset investments (continued)

Interests in Group subsidiary undertakings

Details of the Group's principal investments in subsidiary undertakings are set out below. Principal subsidiaries are those which in the opinion of the directors significantly affect the amount of profit and assets and liabilities shown in these accounts. The directors consider that those companies not listed are not significant in relation to the Group as a whole.

Name	Class of share capital	Proportion of nominal value of issued equity shares and voting rights held by the Group or the Company %	Country of incorporation or registration	Principal business activities
Central Networks East plc + (formerly East Midlands Electricity plc)	Ordinary shares	100	England and Wales	Distribution of electricity
Central Networks West plc * (formerly Aquila Networks plc)	Ordinary shares	100	England and Wales	Distribution of electricity
Central Networks plc * (formerly Midlands Electricity plc)	Ordinary shares	100	England and Wales	Holding company for distribution activities
Powergen International Limited *	Ordinary shares	100	England and Wales	Holding company for international activities
E.ON UK CHP Limited (formerly Powergen CHP Limited)*	Ordinary and preference shares	100	England and Wales	Sale of energy services involving the construction of CHP plant
E.ON UK Cogeneration Limited (formerly Powergen Cogeneration Limited)*	Ordinary shares	100	England and Wales	Sale of energy services involving the construction of CHP plant
Powergen Gas Limited *	Ordinary shares	100	England and Wales	Transportation and marketing of gas in the UK
Powergen Retail Limited +	Ordinary shares	100	England and Wales	Supply of electricity and supply, trading and shipping of gas in the UK
Powergen Renewables Holdings Limited *	Ordinary shares	100	England and Wales	Holding company for renewable activities

* direct interest + indirect interest

12 Fixed asset investments (continued)

Associates and joint ventures

Details of the Group's principal investments in associates and joint ventures are as follows:

	Accounting reference date	Country of incorporation or registration	Shares held	Percentage of capital held directly or indirectly by the Company
Uch Power Limited	31 December	Pakistan	Ordinary shares	40%
Trakya Electric Uretin ve Ticaret A.S.	31 December	Turkey	Ordinary shares	31%
Teesside Power Limited	31 December	England and Wales	Ordinary shares	19.2%
Corby Power Limited *	30 September	England and Wales	Ordinary shares	50%

* treated as joint ventures in the Group's accounts

The principal activities of these associates and joint ventures are:

Uch Power Limited	-	Owner and operator of gas fired power station in Pakistan
Trakya Electric Uretin ve Ticaret A.S.	-	Owner and operator of gas fired power station in Turkey
Teesside Power Limited	-	Owner and operator of gas fired power station in the UK
Corby Power Limited	-	Generation and sale of electricity from gas-fired power station in the UK

On 28 January 2004, E.ON UK acquired the remaining issued share capital of Cottam Development Centre Limited, giving the Group 100% ownership. This transaction involved the reversing of the impairment of the investment carrying value of CDC and fully consolidating it from the date of acquisition (see note 9). On 9 February 2005 E.ON UK disposed of its investment in Uch Power Limited and by 27 April 2005 had disposed of all of its interests in Teesside Power Holdings Limited.

Group share of balance sheet and results of associates and joint ventures held at year end

	At 31 December 2004		At 31 December 2003	
	Joint ventures £m	**Associates £m**	Joint ventures £m	Associates £m
Share of assets:				
Share of fixed assets	**63**	**279**	128	277
Share of current assets	**17**	**134**	18	76
	80	**413**	146	353
Share of liabilities:				
Amounts falling due within one year	**(13)**	**(93)**	(18)	(15)
Amounts falling due after more than one year	**(35)**	**(304)**	(83)	(253)
	(48)	**(397)**	(101)	(268)
Share of net assets	**32**	**16**	45	85
Turnover	**24**	**133**	48	95
Operating profit	**12**	**49**	9	58

13 Stocks

	The Group		The Company	
	At 31 December 2004 £m	At 31 December 2003 £m	**At 31 December 2004 £m**	At 31 December 2003 £m
Fuel stocks	**110**	61	109	60
Stores	**43**	29	23	20
	153	90	132	80

14 Debtors: amounts falling due after more than one year

	The Group		The Company	
	At 31 December 2004 £m	At 31 December 2003 £m	**At 31 December 2004 £m**	At 31 December 2003 £m
Other debtors	**6**	10	**-**	10
	6	10	**-**	10

15 Debtors: amounts falling due within one year

	The Group		The Company	
	At 31 December 2004 £m	At 31 December 2003 £m	**At 31 December 2004 £m**	At 31 December 2003 £m
Trade debtors	**1,177**	998	396	397
Other debtors	**87**	111	50	101
Prepayments and accrued income	**84**	57	60	35
Amounts due from fellow group undertakings	**105**	68	1,687	1,435
	1,453	1,234	2,193	1,968

16 Loans and overdrafts

	The Group		The Company	
	At 31 December 2004 £m	At 31 December 2003 £m	**At 31 December 2004 £m**	At 31 December 2003 £m
Bank overdrafts	**17**	43	98	105
Short term loans from E.ON Group companies	**1,592**	1,274	868	149
Loan notes 2007	**2**	-	-	-
Other short-term loans	**39**	-	28	-
	1,650	1,317	994	254

Short-term funding is provided through inter-company facilities. The weighted average interest rate on all short-term loans during the year was 3.9% (year ended 31 December 2003 1.9%). The 2007 loan notes were repaid during March 2005.

17 Trade and other creditors falling due within one year

	The Group		The Company	
	At 31 December 2004 £m	At 31 December 2003 £m	**At 31 December 2004 £m**	At 31 December 2003 £m
Trade creditors	**789**	930	**510**	585
Amounts owed to parent undertaking and fellow subsidiaries	**187**	105	**140**	95
Amounts owed to subsidiaries	**-**	-	**1,920**	1,549
Corporation tax	**74**	58	**74**	58
Other taxation and social security	**1**	9	**3**	6
Accruals and other creditors	**353**	251	**248**	146
Deferred income	**-**	40	**-**	40
	1,404	1,393	**2,895**	2,479

Notes to the financial statements
for the year ended 31 December 2004 (continued)

18 Long term loans

	The Group		The Company	
	At 31 December 2004 £m	At 31 December 2003 £m	**At 31 December 2004 £m**	At 31 December 2003 £m
Amounts owed to external debt holders				
8.5% Sterling Bond 2006	**44**	250	**44**	250
7.45% US Dollar Yankee Bond 2007	**90**	237	**-**	-
Intra-Group swaps	**15**	19	**-**	-
	105	256	**-**	-
Loan notes 2007	**-**	2	**-**	-
7.375% Sterling Bond 2007	**1**	-	**-**	-
5% Euro Eurobond 2009	**187**	326	**187**	326
Intra-Group swaps	**(15)**	-	**(15)**	-
	172	326	**172**	326
6.25% Sterling Eurobond 2024	**3**	245	**3**	245
	325	1,079	**219**	821
Amounts owed to fellow group undertakings				
8.5% Sterling Bond 2006	**206**	-	**206**	-
7.125% Sterling Bond 2006	**350**	-	**-**	-
7.45% US Dollar Yankee Bond 2007	**124**	-	**-**	-
Intra-Group swaps	**6**	-	**-**	-
	130	-	**-**	-
7.375% Sterling Bond 2007	**158**	-	**-**	-
7.05% US Dollar Yankee Bond 2007	**117**	-	**-**	-
Intra-Group swaps	**8**	-	**-**	-
	125	-	**-**	-
6.46% US Dollar Yankee Bond 2008	**117**	-	**-**	-
Intra-Group swaps	**8**	-	**-**	-
	125	-	**-**	-
5% Euro Eurobond 2009	**167**	-	**167**	-
Intra-Group swaps	**(13)**	-	**(13)**	-
	154	-	**154**	-
6.25% Sterling Eurobond 2024	**241**	-	**241**	-
	1,489	-	**601**	-
	1,814	1,079	**820**	821

18 Long term loans (continued)

None of the bonds outstanding at 31 December 2004 has any financial covenants.

The maturity profile of the financial liabilities, including overdrafts and short-term loans, is as follows:

	At 31 December 2004 £m	At 31 December 2003 £m
Group		
In one year or less, or on demand	**1,650**	1,317
In more than one year but not more than two years	**600**	-
In more than two years but not more than five years	**970**	508
In more than five years	**244**	571
	3,464	2,396
Company		
In one year or less, or on demand	**994**	254
In more than one year but not more than two years	**250**	-
In more than two years but not more than five years	**326**	250
In more than five years	**244**	571
	1,814	1,075

At 31 December 2004 there were £559 million of undrawn committed borrowing facilities available to the Group, all of which were inter-company facilities which did not contain any material covenant restrictions and, with the exception of the Powergen Limited facility, expire within 12 months from the balance sheet date. These facilities comprise:

Facility	Total facility £m	Amount undrawn at 31 December 2004 £m	Expiry date	Fees
E.ON UK plc – committed facility from E.ON AG *	450	311	January 2005	10bps
E.ON UK plc – committed facility from Powergen Limited	950	231	July 2008	19bps
E.ON UK plc – committed facility from Raab Karcher Electronic Systems plc	20	17	October 2005	-
	1,420	**559**		

* This facility was extended to July 2005 with lower commitment fees (8bps).

19 Other creditors falling due after more than one year

	The Group		The Company	
	At 31 December 2004 £m	At 31 December 2003 £m	**At 31 December 2004 £m**	At 31 December 2003 £m
Accruals and other creditors	**283**	129	1	86
Amounts due to subsidiary undertakings	**-**	-	-	319
	283	129	1	405

20 Pension scheme arrangements

At 31 December 2004, E.ON UK had both statutorily approved defined benefit pension schemes and several smaller statutorily approved defined contribution schemes.

E.ON UK participates in the UK industry-wide scheme, the Electricity Supply Pension Scheme (ESPS), for the majority of its UK based employees. This is a funded scheme of the defined benefit type, with assets invested in separate trustee administered funds. At 31 December 2004, the Group has four separate funds with the ESPS: the Powergen fund, the East Midlands Electricity fund, the TXU fund and the Midlands Electricity Fund. An actuarial valuation of the ESPS is normally carried out every three years by the Scheme's independent, professionally qualified actuary, who recommends the rates of contribution payable by each group participating in the scheme. In intervening years the actuary reviews the continuing appropriateness of the rates.

20 Pension scheme arrangements (continued)

The latest published actuarial valuation of the ESPS was at 31 March 2004. Particulars of this actuarial valuation are shown below. The 2004 valuation revealed a combined deficit across all four schemes of £729 million. Details of the market value of assets implicit in these valuations, and the major assumptions used in the preparation of these valuations were:

	Powergen fund	East Midlands Electricity fund	TXU fund	Midlands Electricity fund	Total
Valuation deficit	£229m	£93m	£282m	£125m	£729m
Market value of assets	£1,250m	£817m	£793m	£841m	£3,701m
Funding level	84.5%	90%	74%	87.1%	79%

All the schemes were valued using the same assumptions which are as follows	
– average nominal rate of return on investments (pre-retirement)	6.2%
– average nominal rate of return on investments (post-retirement)	5.2%
– average nominal rate of annual increase in salaries	3.9%
– average nominal rate of annual increase in pensions	3.0%
Inflation rate	2.9%
Method of valuation used	Projected unit

The funding policy differs from the accounting policy in that it uses a more conservative basis for valuation.

Pension costs for the Group

In the financial year ended 31 December 2004, the normal pension cost for the Group amounted to £83 million (year ended 31 December 2003 £13 million). Surpluses and deficits are spread as a fixed percentage of total pensionable salaries over the average remaining service lives of members. At 31 December 2004, the Group had a SSAP 24 creditor of £283 million (31 December 2003 £132 million).

20 Pension scheme arrangements (continued)

Impact of FRS 17

SSAP 24 disclosure and measurement principles have been applied in accounting for pensions and post-retirement benefits in these financial statements. However, FRS 17 'Retirement benefits' introduces additional disclosure requirements.

The aim of FRS 17 is to move to a market-based approach in valuing the assets and liabilities arising from an employer's retirement benefit obligations and any associated funding. The changes in accounting required to move from a SSAP 24 basis to a market value basis are substantial, and consequently FRS 17 allows a phased implementation of these changes. The disclosures required which are designed to illustrate the entries which would have been made if the measurement principles of FRS 17 have been applied are set out below. Under UK Generally Accepted Accounting Practice the measurement principles of FRS 17 are to be regarded as standard for accounting periods beginning on or after 1 January 2005.

In calculating these disclosures, the figures shown for liabilities have been measured by updating valuations which were performed at 31 March 2004. The updates were performed by independent, professionally qualified actuaries.

The major assumptions used in these calculations of liabilities were:

	31 December 2004	31 December 2003	31 December 2002	31 December 2001
Average nominal rate of annual increase in salaries	4.00%	4.00%	3.75%	4.00%
Average nominal rate of annual increase in pensions	2.80%	2.50%	2.25%	2.50%
Discount rate	5.30%	5.50%	5.75%	5.50%
Inflation rate	2.80%	2.50%	2.25%	2.50%

20 Pension scheme arrangements (continued)

The fair market value of the assets of the main defined benefit schemes together with the liabilities calculated in accordance with FRS 17 at 31 December were:

	2004	2003	2002	2001
Bonds and gilts	**1,609**	1,093	865	424
Equities	**2,045**	1,562	1,563	1,831
Property	**212**	196	179	107
Other	**52**	41	42	51
Total market value of assets	**3,918**	2,892	2,649	2,413
Present value of scheme liabilities	**(4,700)**	(3,432)	(3,151)	(2,285)
Deficit in the schemes	**(782)**	(540)	(502)	128
Related deferred tax asset	**235**	91	81	(38)
Net pension liability	**(547)**	(449)	(421)	90

The long-term rates of return assumed on these assets were as follows:

	31 December 2004 %	31 December 2003 %	31 December 2002 %	31 December 2001 %
Bonds and gilts	**5.00**	5.18	5.20	5.00
Equities	**7.75**	7.75	8.25	7.00
Property	**6.75**	7.75	8.25	-
Other	**4.25**	3.75	4.00	4.00

If FRS 17 had been adopted in the financial statements, the Group's net assets and profit and loss reserve would be as follows:

	2004 £m	2003 £m
Net assets at 31 December	**2,740**	2,454
SSAP 24 pension liabilities (net of tax)	**219**	107
Net assets excluding SSAP 24 liabilities	**2,959**	2,561
Pension and other post-retirement benefit liability under FRS 17	**(547)**	(449)
Net assets including pension liability under FRS 17	**2,412**	2,112
Profit and loss reserve as at 31 December	**1,732**	1,454
SSAP 24 pension liabilities (net of tax)	**219**	107
Profit and loss reserve excluding SSAP 24 liabilities	**1,951**	1,561
Pension and other post-retirement benefit liability under FRS 17*	**(547)**	(449)
Profit and loss reserve including pension liability under FRS 17	**1,404**	1,112

20 Pension scheme arrangements (continued)

If FRS 17 had been adopted in the financial statements, the following would have been included in the Group's profit and loss account:

	Year ended 31 December 2004 £m	Year ended 31 December 2003 £m
Operating profit		
Current service cost	**34**	19
Past service cost	**30**	53
Total operating charge	**64**	72
Other finance income		
Expected return on pension scheme assets	**245**	186
Interest on pension scheme liabilities	**(236)**	(177)
Net return	**9**	9

If FRS 17 had been adopted in the financial statements, the following would have been included in the Group's STRGL for the years ended 31 December:

	2004 £m	2003 £m
Actual return less expected return on pension scheme assets	**109**	208
Experience losses arising on the scheme liabilities	**35**	-
Gains / (losses) resulting from changes in assumptions underlying the present value of the scheme liabilities	**(284)**	(260)
Actuarial loss recognised in the STRGL	**(140)**	(52)

The movement in the deficit during the year is analysed as follows:

	Year ended 31 December 2004 £m	Year ended 31 December 2003 £m
Deficit at the beginning of the year	**(540)**	(502)
Fair value on acquisition of Midlands Electricity	**(102)**	-
Current service cost	**(34)**	(19)
Employer contributions	**55**	77
Past service costs	**(30)**	(53)
Other finance income	**9**	9
Actuarial loss recognised in the STRGL	**(140)**	(52)
Deficit in the schemes at the end of the year	**(782)**	(540)

20 Pension scheme arrangements (continued)

The details of experience gains and losses under FRS 17 for the years ended 31 December are as follows:

	2004	2003	2002
Differences between the expected and actual return on scheme assets:			
Amount	**£109m**	£208m	£(539)m
Percentage of scheme assets at year end	**3%**	7%	(20)%
Experience gains and losses of scheme liabilities:			
Amount	**£35m**	-	£(66)m
Percentage of the present value of the scheme liabilities at the year end	**1%**	-	(2)%
Total amount recognised in the statement of total recognised gains and losses:			
Amount	**£(140)m**	£(52)m	£(427)m
Percentage of the present value of the scheme liabilities at the year end	**3%**	(2)%	(14)%

Contributions in the year ended 31 December 2004 were £55 million (year ended 31 December 2003 £77 million). The Trustees of all of the E.ON UK Group ESPS Pensions Schemes agreed to merge the Pension Schemes on 1 April 2005. An actuarial valuation of the pension schemes was undertaken as at 31 March 2004 and a deficit of £729 million was identified. In order to make good this deficit and as part of the subsequent merger of the different schemes, E.ON UK plc agreed with the Trustees and the actuary to make a special payment of £420 million into the schemes on 1 April 2005 and to make annual payments of £53 million from 1 April 2008 to 31 March 2018.

21 Provisions for liabilities and charges

Movements on provisions comprise:

The Group	31 December 2003 £m	Charged / (released) to the profit and loss account £m	Amortisation of discount £m	Provisions utilised £m	**31 December 2004 £m**
Liability and damage claims	**12**	-	-	-	**12**
Restructuring	**-**	60	-	(37)	**23**
Contract provisions	**125**	-	-	(30)	**95**
Decommissioning	**74**	(14)	3	(5)	**58**
	211	46	3	(72)	**188**

At 31 December 2004, the provisions in the Company's accounts were as follows:

The Company	31 December 2003 £m	Released to the profit and loss account £m	Transfer from Group companies £m	Amortisation of discount £m	Provisions utilised £m	**31 December 2004 £m**
Liability and damage claims	**12**	-	-	-	-	**12**
Contract provisions	**5**	-	-	-	(2)	**3**
Decommissioning	**66**	(17)	-	3	(5)	**47**
	83	(17)	-	3	(7)	**62**

The liability and damage claims provision includes reserves in respect of potential claims for pension rationalisation costs. Given the inherent uncertainty surrounding the timing of any potential claims, it is not possible to estimate when these amounts will crystallise.

Contract provisions include two items. The first of these relates to out of money electricity purchase contracts, acquired on the purchase of CNE, and will be utilised over the period to 2008, when the contracts terminate. The second contract provision was established on the purchase of TXU and relates to an out of money outsourced retail service contract arrangement.

Decommissioning provisions comprise amounts set aside for the estimated costs of terminating power station grid connections, decommissioning power stations and subsequent site restoration costs at UK power stations which will be utilised as each power station closes.

Restructuring provisions relate to the acquisition of Midlands Electricity and subsequently merging it with CNE.

22 Deferred tax

An analysis of the full provision and discounted provision for deferred tax recognised at 31 December 2004 is as follows:

The Group	At 31 December 2004 £m	At 31 December 2003 £m
Accelerated capital allowances	**656**	418
Other timing differences	**(171)**	(64)
Undiscounted provision for deferred tax	**485**	354
Discount	**(225)**	(136)
Discounted provision for deferred tax	**260**	218
Provision at start of year	**218**	172
Acquisitions	**174**	-
Revisions to provisional fair values	**-**	45
Deferred tax charge for year (note 7)	**(132)**	1
Provision at end of year	**260**	218

The Company	At 31 December 2004 £m	At 31 December 2003 £m
Accelerated capital allowances	**197**	195
Other timing differences	**(67)**	(45)
Undiscounted provision for deferred tax	**130**	150
Discount	**(53)**	(49)
Discounted provision for deferred tax	**77**	101

The undiscounted liability in respect of accelerated capital allowances and other timing differences is calculated at 30% in both periods.

23 Share capital

The share capital of the Company comprises:

	At 31 December 2004 £m	At 31 December 2003 £m
Authorised		
1,050,000,002 ordinary shares of 50p each	**525**	525
Allotted, called-up and fully paid		
649,241,799 ordinary shares of 50p each	**325**	325

24 Reserves

The Group	Share premium account £m	Special capital reserve £m	Revaluation reserve £m	Capital redemption reserve £m	Profit and loss account £m
At 31 December 2003	97	474	15	85	1,454
Currency translation differences on foreign currency net investments	-	-	-	-	(1)
Revaluation on acquisition of CDC	-	-	9	-	-
Revaluation transfer	-	-	(1)	-	1
Retained profit for the year	-	-	-	-	278
At 31 December 2004	**97**	**474**	**23**	**85**	**1,732**

The Company	Share premium account £m	Special capital reserve £m	Capital redemption reserve £m	Profit and loss account £m
At 31 December 2003	97	474	85	881
Profit for year	-	-	-	37
At 31 December 2004	**97**	**474**	**85**	**918**

The share premium account, special capital reserve and capital redemption reserve are not available for distribution. The special capital reserve was determined in accordance with the Transfer Scheme made pursuant to the Electricity Act 1989, under which the CEGB's net assets were vested in its successor companies.

The revaluation reserve has arisen as a result of the step acquisitions of the renewable business and CDC.

25 Equity minority interests

The Group	**31 December 2004 £m**	31 December 2003 £m
Opening equity minority interests	**4**	4
Profit and loss account	**-**	-
Closing equity minority interests	**4**	4

26 Reconciliation of movements in shareholders' funds

	31 December 2004 £m	31 December 2003 £m
Profit for the financial year	**278**	189
Currency translation differences on foreign currency net investments	**(1)**	(5)
Revaluation reserve arising on acquisition	**9**	-
Net increase in shareholders' funds for the year	**286**	184
Opening shareholders' funds	**2,450**	2,266
Closing shareholders' funds	**2,736**	2,450

27 Financial instruments

Financial instruments and risk management

As part of the financing of its normal operating activities, the Group holds a variety of financial instruments including swaps, futures, forwards and options. These may be assets, liabilities or related commitments depending on requirements. These instruments are denominated in Sterling or foreign currencies and have various maturities and interest rates. The Group is exposed to movements in market interest rates and foreign currency exchange rates. Active steps are taken to manage these risks, both by management of the portfolio of financial instruments themselves, and by the use of derivative financial instruments.

The objectives, policies and strategies connected with the use of financial instruments are discussed in the 'Treasury management' section of the Financial Review.

The Group may be exposed to credit related loss in the event of non-performance by counter-parties under these instruments. However, the Group does not anticipate any non-performance given the high credit rating of the established banks and financial institutions that form these counter-parties.

27 Financial instruments (continued)

The Group controls this credit risk through credit approvals, strict exposure limits, monitoring procedures and specific controls depending on the size of individual transactions.

There are no significant concentrations of credit risk. The Group does not usually require collateral or other security to support financial instruments with credit risks.

Foreign exchange risk management

The Group enters into foreign exchange contracts in accordance with its hedging policies. These policies are discussed under 'Foreign exchange risk management' in the Financial Review. The net Sterling notional amounts of each foreign currency the Group has contracted to purchase (or sell) are as follows:

	At 31 December 2004 £m	At 31 December 2003 £m
US Dollars	**18**	95
Euros	**19**	8
	37	103

Some contracts involve purchases or sales of US Dollars against other, non-Sterling currencies. The Sterling equivalent notional amounts of these contracts are as follows:

	At 31 December 2004 £m	At 31 December 2003 £m
Euros	**1**	-
	1	-

The weighted average time to maturity of foreign exchange contracts is nine months (31 December 2003 seven months).

The notional amounts of foreign currency swaps are as follows:

	At 31 December 2004 £m	At 31 December 2003 £m
Foreign currency swaps into Sterling	**828**	582

27 Financial instruments (continued)

There are no material monetary assets or liabilities of the Group that are not denominated in the functional currency of the entity concerned, other than certain non-Sterling borrowings which have either been swapped back into sterling or treated as hedges of net investments in overseas operations.

Interest rate risk management

The Group has a portfolio of fixed and floating interest rate debt and, in order to mitigate interest rate risk, arranges interest rate hedges to achieve a desired mix of fixed and floating interest rates, with a range of different maturities, as described in the Financial Review. The notional amounts of these instruments used can be summarised as follows:

	At 31 December 2004 £m	At 31 December 2003 £m
Interest rate swap contracts	**754**	797

The weighted average time to maturity of interest rate swap contracts is 3.0 years. (31 December 2003 4.0 years).

Interest rate risk profile of financial liabilities

	Total £m	Floating rate financial liabilities £m	Fixed rate financial liabilities £m	Fixed rate financial liabilities Weighted average interest rate %	Fixed rate financial liabilities Weighted average period for which rate is fixed Years
At 31 December 2004					
Sterling	**2,892**	**1,889**	**1,003**	**8.1**	**5.5**
Euros	**48**	**48**	**-**	**-**	**-**
Dollars	**524**	**39**	**485**	**7.1**	**2.7**
	3,464	**1,976**	**1,488**	**7.8**	**4.5**
At 31 December 2003					
Sterling	2,396	1,552	844	5.7	7.3

The figures in the above table are stated after taking account of relevant interest rate swap contracts.

The floating rate financial liabilities bear interest at variable rates. The floating rates are determined with reference to Sterling LIBOR.

In addition to the above, the Group's provisions include £95 million (31 December 2003 £125 million) for contract provisions (see note 21) which meet the definition of financial liabilities under Financial reporting Standard 13 'Derivatives and other financial instruments'. These financial liabilities are considered to be floating rate liabilities as, in establishing the provisions, the cash flows have been

27 Financial instruments (continued)

discounted. The discount rate is re-appraised at each reporting date to ensure that it reflects current market assessments of the time value of money and the risks specific to the liability.

At 31 December 2004, the Group held £32 million (31 December 2003 £40 million) of financial assets in the form of Sterling bank deposits, and £1 million (31 December 2003 £1 million) in other currency deposits. These deposits earn interest at floating rates, fixed in advance for periods up to three months, by reference to Sterling LIBID .

Fair value

Translation hedging instruments are recorded at fair value in these accounts. The estimated fair values of the Group's financial assets and liabilities are as follows:

		31 December 2004		31 December 2003	
	Note	**Carrying amount £m**	**Fair value £m**	Carrying amount £m	Fair Value £m
Primary financial instruments held or used to finance the groups operations:					
Short term debt	1,8	**(1,650)**	**(1,650)**	(1,317)	(1,317)
Long term debt	2,8	**(1,814)**	**(1,964)**	(1,079)	(1,164)
Cash and short term deposits	3	**33**	**33**	41	41
Investments	4	**26**	**26**	16	16
Long term debtors	5	**6**	**6**	10	10
Instruments held to manage the interest rate and currency profile:					
Foreign currency contracts	6	**-**	**(18)**	-	(14)
Foreign currency swaps	6	**-**	**(21)**	-	11
Interest rate swaps	6	**-**	**25**	-	23
Investments held for financial energy trading purposes:					
Energy derivatives held for trading	7	**7**	**7**	1	1
Derivatives held to manage the financial profile	9	**-**	**22**	-	11

1. The fair value of short term debt approximates to the carrying value due to the short maturity of these loans.
2. The fair value of the long-term debt has been stated at quoted market value, except for the bonds held by other E.ON undertakings which have been calculated by discounting expected cashflows at 7%, the Groups weighted average cost of capital.
3. The fair value of short-term deposits approximates to carrying value due to the short maturity of instruments held.
4. The fair value of investments listed on a recognised stock exchange is stated at quoted market value.
5. The fair value of long term debtors approximates to book value as discounting would be immaterial.
6. The fair value of instruments held to manage the interest rate and currency profile are based on the estimated amounts E.ON UK would receive or pay to terminate the contracts at the year end based on market values and reflect current unrealised gains / (losses) on all open contracts.
7. The fair value of energy derivatives are based on quoted market value.
8. The fair values shown for short and long-term debt do not take account of the fair values of cross currency swaps shown above.
9. Derivatives held to manage financial profile relate to oil swaps valued at quoted market value.
10. Short term debtors and creditors are not included in this analysis as the fair value approximates to the carrying value due to the short maturities of these financial instruments.

27 Financial instruments (continued)

The movement in unrecognised gains and losses on instruments used for hedging is as follows:

	Gains £m	Losses £m	Total net gains/ (losses) £m
Unrecognised gains/(losses) on hedges at 31 December 2003	51	(31)	20
(Gains)/Losses on hedges arising in previous periods that were recognised during the year	(2)	13	11
Gains/(Losses) on hedges arising before 31 December 2003 that were not recognised during the year	49	(18)	31
Gains/(Losses) on hedges arising during 2004 that were not recognised during the year	5	(50)	(45)
Unrecognised gains/(losses) on hedges at 31 December 2004	**54**	**(68)**	**(14)**
Of which:			
Gains/(Losses) expected to be recognised in 2005	1	(15)	(14)
Gains/(Losses) expected to be recognised in 2006 or later	53	(53)	-

No gains or losses on instruments used for hedging have been deferred (2003: £ nil).

28 Commitments and contingent liabilities

a) At 31 December 2004, the Group had commitments contracted but not provided of £12 million (31 December 2003 £41 million) for capital expenditure.

b) The Group is aware of claims in respect of current and former employees, including former employees of the CEGB, and contractors in respect of industrial illness and injury and other potential claims which involve or may involve legal proceedings against the Group.

The directors are of the opinion, having regard to legal advice received, the Group's insurance arrangements and provisions held, as appropriate, that it is unlikely that the matters referred to above will have a material effect on the Group's financial position, results of operations or liquidity.

28 Commitments and contingent liabilities (continued)

c) Complaints were made to the European Commission by the National Association of Licensed Opencast Operators (NALOO) and the South Wales Small Mines Association (SWSMA) against, amongst others, the Company and National Power plc in 1990 (NALOO and SWSMA) and 1994 (NALOO only). The complaints alleged breaches of EU law by the Central Electricity Generating Board in its coal purchasing practices prior to 1990. Under the arrangements for electricity privatisation, it is possible that either or both of the Company and National Power plc (through its successor companies) could be liable to pay any compensation that may ultimately arise. The Commission rejected both complaints, on legal grounds, in 1998, which decisions were appealed by NALOO and, separately, by some former members of SWSMA. In 2003, the Court of Justice of the European Communities found in favour of NALOO, overturning the Commission's rejection of the complaint and whilst judgement has not yet been given in the appeal by the former SWSMA members all of the parties have agreed that this has now become devoid of purpose, in the light of the NALOO decision. Powergen has commented on representations made to the Commission by NALOO following the Court of Justice's decision. It is not practicable to estimate legal costs, or the risk or amount of possible compensation, at this stage.

d) The Group has in place a portfolio of fuel contracts of varying volume, duration and price, reflecting market conditions at the time of commitment. These contracts are with UK and international suppliers of coal and are backed by transport contracts for rail, road, canal and sea movements. At 31 December 2004 the Group's future commitments for the supply of coal under all its contractual arrangements totalled £333 million (31 December 2003 £53 million).

The Group also has purchase contracts for peat to burn in Edenderry power station. At 31 December 2004 the Group's future purchase commitment totalled £17 million (31 December 2003 £17 million).

The Group is also committed to purchase gas under various long term gas supply contracts including the supply of gas to the Group's three UK power stations. At 31 December 2004 the estimated minimum commitment for the supply of gas under all these contracts totalled £1,687 million (31 December 2003 £1,178 million).

The Group is also committed to power purchase contracts for the supply of electricity. At 31 December 2004 the total contractual commitment for the group was £435 million (31 December 2003 £978 million).

e) In the normal course of business the Group gives certain other indemnities and guarantees which are not considered to be material in the context of these financial statements and on which no losses are anticipated to arise.

28 Commitments and contingent liabilities (continued)

f) At 31 December 2004 the Group had the following operating lease commitments:

	31 December 2004		31 December 2003	
	Property £m	**Other assets £m**	Property £m	Other assets £m
Annual commitments expiring under non-cancellable operating leases expiring:				
Within one year	**1**	**6**	-	3
Within two to five years	**5**	**14**	-	5
After five years	**24**	**-**	-	-
	30	**20**	-	8

29 Ultimate holding company

The immediate parent undertaking is Powergen Group Investments (formerly Powergen Group Investments Limited). The ultimate parent undertaking and controlling party is E.ON AG, which is the parent company of the largest and smallest group to consolidate these financial statements. Copies of E.ON AG's Annual Report are available from the offices of E.ON AG at E.ON AG, E.ON-Platz 1, D-40479, Düsseldorf, Germany.

30 Post balance sheet events

On 9 February 2005, the Group disposed of its investment in Uch Power Limited for £5 million. On 27 April 2005, the Group disposed of its interest in Teesside Power Limited for £4 million.

During the first quarter of 2005 the Pension Scheme valuations for all the ESPS defined benefit pension schemes was finalised and a combined deficit across all four pensions schemes of £729 million identified. As part of the plan agreed with the Trustees and the Actuary to make good this deficit and in conjunction with a merger of the four ESPS pension schemes, the Company made a special payment of £420 million into the newly merged scheme.

On 5 May 2005 the group acquired Enfield Power Limited, a company that owns a 392 MW CCGT plant for £84 million. On 17 June 2005 the Group completed the acquisition of Economy Power Limited for a total consideration of £37 million. This adds approximately 40,000 small and medium sized customers to the Retail business.

During the first half of 2005 the Group renegotiated its contract for the provision of services to its Retail customers with Vertex. The impact of this was, on 30 June 2005, to release the provision of £53 million being held in respect of this contract.