E.ON UK PLC

ANNUAL REPORT AND ACCOUNTS

for the year ended 31 December 2008

Registered No: 2366970

Directors' report for the year ended 31 December 2008

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 2008.

Principal activities, review of business and future developments

The Group's principal activities are electricity generation, distribution, energy trading and retailing. E.ON UK's aim is to maintain its position as a leading player in the UK's electricity and gas markets. E.ON UK's strategy in the UK is to build on this position, to sustain and develop its generation and distribution asset businesses and to further build a competitive retail business. On 1 January 2009, the Company disposed of its trading business (E.ON Energy Trading) to another E.ON AG Group company, E.ON Energy Trading AG ("EET AG"). EET AG is an entity established by E.ON AG to merge all of its European trading businesses. The trading business has been reclassified to discontinued operations and prior year comparatives restated.

The underlying level of the business during the year was in line with directors' expectations, with continuing operations being broadly similar to the prior year after taking into account the impact of the change in transfer pricing income from E.ON Energy Trading. The profit from continuing activities of £457 million for the year, compared to a loss for the prior year of £452 million, is largely driven by transfer pricing income received by the Generation business from E.ON Energy Trading following a change in the transfer pricing methodology in 2008 in anticipation of the disposal. In 2007, the Generation business did not receive any significant transfer pricing income from E.ON Energy Trading as the two business units were operated as one.

The loss for the year of £108 million (2007: profit of £744 million) is primarily driven by a £896 million net loss on valuation of derivative contracts caused by lower forward gas and power prices.

The Group's funding is substantially through loans from the parent undertaking, E.ON AG and other financing entities within the E.ON AG group. The majority of this funding matures after one year, however, some of these facilities mature within one year and as a result this contributes to the Group continuing to hold net current liabilities at the year end. It is intended that these facilities will be refinanced with further loan facilities or other financing provided directly or indirectly by E.ON AG.

As noted above, on 1 January 2009, the Company sold its E.ON Energy Trading business to EET AG. The formation of EET AG, headquartered in Düsseldorf, Germany, and the disposal of the trading business to it was part of the fulfilment of the new strategic direction set out by the E.ON AG Board on 31 May 2007.

In addition to the disposal of the trading business, E.ON UK also disposed of its Engineering business (primarily the UK research and development facility) to E.ON Engineering Limited and also

Holford Gas Storage Limited (a company developing a gas storage facility in the UK) to E.ON Gas Storage UK Limited. E.ON UK also disposed of Rheidol, a hydro-electric power station in Wales, to Statkraft as part of an E.ON AG Group asset swap with Statkraft. The impact from the disposals of the Engineering business, Holford Gas Storage Limited and Rheidol is not significant on the Group's business.

The E.ON AG Group has consolidated all of its renewable power assets and operations within a newly formed market unit called E.ON Climate & Renewables ("EC&R"). The E.ON UK element of EC&R will remain legally owned by E.ON UK and, in line with the E.ON AG Group, a newly formed segment is reported with comparatives.

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

- Marketing electricity, gas and other services to domestic and business customers;
- Asset management in electricity production, including renewables activities;
- Network asset management in distribution; and
- Providing services to customers to get connected to energy supplies, heat their homes and understand their energy use.

Retail

E.ON UK sells electricity, gas and other energy-related products to residential, business and industrial customers throughout Great Britain. As of 31 December 2008, E.ON UK supplied approximately 8.1 million (2007: 8.0 million) customer accounts, of which 7.5 million (2007: 7.4 million) were residential customer accounts and 0.6 million (2007: 0.6 million) were small and medium-sized business and industrial customer accounts. During the year, there was a net increase in the total number of customer accounts of approximately 0.1 million. 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.

During 2008, the directors agreed to transfer a section of the meter reading business from the Energy Services business to the Retail business, in order to improve customer service and increase efficiencies.

Residential Customers

The residential business had approximately 7.5 million customer accounts as of 31 December 2008. Approximately 63 percent of E.ON UK's residential customer accounts are electricity customers and 37 percent are gas customers. Individual retail customers who buy more than one product (*i.e.* electricity, gas or other energy-related products) 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. In the residential customer sector, E.ON UK sold 24.4 TWh of electricity and 49.4 TWh of gas in 2008, as compared with 24.6 TWh of electricity and 48.3 TWh of gas in 2007. The increased gas volumes reflect both higher customer numbers and colder weather.

E.ON UK targets residential customers through national marketing activities such as media advertising (including print, television and radio), targeted direct mail, public relations and online campaigns. The E.ON brand has been used exclusively since December 2007, following the transition from Powergen. E.ON UK seeks to create significant national brand awareness through high profile sponsorships under its E.ON brand. This includes the sponsorship of the FA Cup, England's most historic football competition, which commences each year in August.

Late 2007 and early 2008 saw an environment of increasing wholesale energy prices, which drove increases in electricity and gas retail prices across the industry, although the magnitude of specific increases varied by supplier. In February 2008, E.ON UK increased average gas and electricity prices for customers by 15 percent and 9.7 percent, respectively. Continued rapid increases in wholesale prices led to further price increases in August 2008 of 26 percent for gas and 16 percent for electricity. Approximately one million customers eligible for price protection and/or fixed price products were unaffected by this second price increase. E.ON UK also implemented a package of measures designed to limit the effects of rising wholesale costs on consumers, by offering subsidised energy efficient products including cavity wall and loft insulation to a significant proportion of its customers. Some of these initiatives contribute to the UK Government's Carbon Emissions Reduction Targets, which was increased by 20 percent during 2008. Other measures to protect vulnerable customers have been taken, including delayed price increases and the commitment to new social tariffs and expenditures.

Small and Medium-Sized Business and Industrial and Commercial Customers

In this sector, E.ON UK sold 26.7 TWh of electricity and 28.4 TWh of gas in 2008, as compared with 27.9 TWh of electricity and 30.6 TWh of gas in 2007. The lower electricity volumes are due to a mix of weather and customer portfolio. The reduced gas volumes reflect both price sensitivity and energy efficiency measures. The initial impact of the economic slowdown at the end of 2008 also served to reduce electricity and gas volumes. E.ON UK's focus in this area remains on acquiring and retaining the most profitable contracts available.

Generation

During 2008, E.ON UK's power generation, renewables and energy trading activity previously grouped together as "Energy Wholesale", were separated to form the "Generation" business in the UK, "E.ON Climate & Renewables" and "E.ON Energy Trading", the latter two now operated as Pan-European businesses and separate market units within the E.ON AG group.

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. As of 31 December 2008, E.ON UK owned either wholly, or through joint ventures, power stations in the UK with an attributable registered generating capacity of 10,330 MW, including 359 MW of combined heat and power ("CHP") plants. As noted previously, on 31 December 2008 the 50 MW hydroelectric plant was sold as part of a wider E.ON Group transaction. E.ON UK's share of the generation market in Great Britain remained relatively stable in 2008 at approximately 10 percent.

E.ON UK generates electricity from a diverse portfolio of fuel sources. In 2008, approximately 49.4 percent of E.ON UK's electricity output was fuelled by coal and approximately 49 percent by gas, of which approximately 5.1 percent was from CHP schemes, with the remaining 1.6 percent 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 also regularly monitors the economic status of its plant in order to respond to changes in market conditions.

E.ON UK is progressing with significant investments to improve its generation capacity. This is partly to replace capacity which will be taken out of production in coming years due to applicable environmental regulations. In 2007, E.ON UK started construction of one of the largest gas fired CHP stations in the UK at the Isle of Grain in Kent. The scheme is expected to generate 1,275 MW of power and export up to 340 MW of heat and is planned to be commissioned in 2010. Progress was also made on consents to build two new highly efficient coal-fired units at Kingsnorth power station in Kent. The new supercritical coal-fired units would be built next to the existing four units. The initial planning application has been approved by the local authority and has been submitted to the UK Government for its approval.

E.ON Climate & Renewables

The EC&R market unit was formed in January 2008, which brought together the climate and renewable activities from across the E.ON AG Group. EC&R UK forms part of this new market unit and pulls together the renewable operational assets, development and construction and renewables trading activities previously managed within the Generation business within E.ON UK. The UK activities of EC&R remain legally owned by E.ON UK and, in line with the E.ON AG Group, a newly formed segment is reported with comparatives.

EC&R UK is one of the leading developers and owner/operators of renewable electricity in the UK. It currently has 21 operational onshore and offshore wind farms. In 2008, EC&R commissioned its first dedicated biomass plant (44MW) at Steven's Croft, near Lockerbie in southwest Scotland. The EC&R business has a total generating capacity of 245MW, which will increase to 425MW when the third offshore wind farm, Robin Rigg, located in the Solway Firth is commissioned in 2009. There is also over 2,000MW of wind and biomass projects in the development phase.

As part of the staged approach towards developing the potential of marine energy, EC&R is buying, installing and testing a wave power device in UK waters. The initial test programme will be with a single 750kW Pelamis device that is currently being built in Edinburgh which will be installed and tested at the European Marine Energy Centre in Orkney.

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 generators under tradeable Renewable Obligation Certificate ("ROC") contracts, and direct payment of any residual obligation into the buy-out fund. For the period from 1 April 2007 to 31 March 2008, E.ON UK achieved 71 percent of its renewables obligation through own generation and purchases.

Central Networks

The electricity distribution business in the UK is effectively a natural monopoly within the area covered by the existing network, due to the cost of providing an alternative distribution network. Accordingly, it is highly regulated. However, new distribution licenses are available for network developments, including for those areas already covered by an existing distribution license, and electricity distribution could also face indirect competition from alternative energy sources such as gas.

Within the UK there are 14 licensed distribution network operators ("DNO"), each responsible for a distribution services area. E.ON UK's Central Networks business owns and manages two DNO licenses through Central Networks East plc and Central Networks West plc. The combined service area covers 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 contains a resident population of about 10 million people. The networks distribute electricity to approximately 5 million homes and businesses in the combined service area and transport virtually all electricity supplied to consumers in the service area (whether by E.ON UK's retail business or by other suppliers). Separate distribution licenses are issued for the operation of the two networks but the combined business is managed by a centralised management team and uses the same methodology and staff to operate both networks.

Distribution charges are billed on the basis of published tariffs and adhere to Ofgem's (the UK regulator) price control formulas. The current price controls that run from April 2005 until March 2010 were agreed with Ofgem in December 2004. The price controls incorporate an allowed rate of return for investing in and operating the network, as well as a five year performance target. Central Networks is currently negotiating with Ofgem the next set of price controls that covers the period from April 2010 to March 2015. Final proposals are due to be published in December 2009.

Central Networks continued to increase its capacity to safely deliver a reliable electricity network across Central England. To meet the challenge of a larger capital work program (which in the current five-year price control review period is 60 percent higher in the East and 44 percent higher in the West than in the previous period), our internal workforce has been supplemented by re-trainees, apprentices and graduate trainees.

Energy Services

During 2008, the Energy Services business included the new connections, metering and home installation activities with the vision of providing customers with all the services they need to get connected to energy supplies, heat their homes and understand their energy use.

In January 2008, it was announced that during 2008, all meter reading activities for Retail customers would transfer on a phased basis from Energy Services to Retail. Existing meter reading contracts for third party customers will either be exited or honoured to their conclusion.

During September 2008, following a strategic review of its organisational structure driven by external market forces, Energy Services announced a major change programme resulting in a headcount reduction of 400. In January 2009, the regulated New Connections activities moved to Central Networks, with the goal of improving the competitiveness of the remaining business. Metering installation, which remains within Energy Services, continues to be an important part of the business as E.ON UK works with the Government to achieve a nationwide roll-out of smart meters over the next decade. The Home Energy Services and Sustainable Energy Solutions activities will become self contained end to end businesses.

Other activities

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

E.ON UK acquired minority equity stakes in companies operating electricity generation plants in England, Pakistan and Turkey as part of its Midlands Electricity acquisition. Following disposals in 2004 and 2005, the only remaining generation stake is a 31 percent interest in Trakya Electric Uretin ve Ticaret A.S., which owns and operates a 478 MW CCGT plant in Turkey.

E.ON Energy Trading (discontinued operation)

During 2008, E.ON UK's energy trading unit engaged in asset-based energy trading in gas and electricity markets to assist E.ON UK in commercial risk management and the optimisation of its UK gross margin.

As noted earlier, E.ON AG has established a new market unit to centralise all of its European trading operations. The performance of the E.ON UK trading business was included in the results of the Group throughout 2008. The E.ON UK trading business migrated to Düsseldorf during September 2008 and was legally transferred to EET AG on 1 January 2009. The legal sale resulted in the financial disposal at fair value of some balance sheet items (e.g. coal at ports), contract novations and new back to back arrangements replicating the economic benefit of the original trades or contracts associated with the UK trading business.

The Energy Trading business also engages in a controlled amount of proprietary trading in gas, power, coal, oil and CO_2 emission certificates markets in order to take advantage of market opportunities and maintain the highest levels of market understanding required to support its optimisation and risk management activities. The following table sets forth E.ON UK's electricity and gas proprietary trading volumes for 2008 and 2007:

Proprietary Trading Volumes	2008 Electricity billion kWh[1]	2007 Electricity billion kWh	2008 Gas billion kWh[1]	2007 Gas billion kWh
Energy bought	**70.4**	32.3	**179.1**	127.4
Energy sold	**70.4**	32.3	**179.1**	127.4
Gross volume	**140.8**	64.6	**358.2**	254.8

[1] The increase in proprietary trading volumes was to take advantage of market opportunities and support risk management activities.

In its energy trading operations, E.ON UK uses a combination of bilateral contracts, forwards, futures, 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, environmental products and weather derivatives. All of E.ON UK's energy trading operations, including its limited proprietary trading, are subject to E.ON AG's risk management policies for energy trading. From 1 January 2008, day-to-day management responsibility for these activities was transferred to EET AG.

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 UK and overseas ensure that supplies are secured for E.ON UK's coal-fired plants, while maintaining enough flexibility to minimise 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. Since October 2004, E.ON Ruhrgas has been 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.

Directors' report for the year ended 31 December 2008 (continued)

Results and dividends

The loss attributable to the equity shareholder and balance transferred to reserves for the financial year to 31 December 2008 was £112 million (2007: profit of £738 million).

The directors do not recommend the payment of a final dividend (2007: £nil). No interim dividend was paid during the year (2007: £240 million).

Events after the balance sheet date

On 1 January 2009, the Group sold its E.ON Energy Trading business to EET AG as part of the overall strategy to combine all of the European energy trading operations.

On 14 January 2009, the Group announced its intention to create a joint venture with RWE npower with plans to build new nuclear power stations in the UK. The Group and RWE npower will each have a 50 percent stake in the joint venture, which will focus long-term on seeking to secure sites being sold by the Nuclear Decommissioning Authority and taking them through the consents process to building and operating new nuclear power stations.

Directors

The following directors served on the Board during the year and after the year end:

Dr Paul Golby	
Graham Bartlett	
John Crackett	
Brian Tear	(appointed 18 March 2008)
Maria Antoniou	(appointed 1 October 2008)
Jarri Sandstrom	(resigned 31 March 2008)
Robert Taylor	(resigned 1 October 2008)

Information on directors' emoluments is given in Note 3 to the parent company financial statements.

Employees

The Group 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 AG European Works Council, which provides a forum for consultation on major issues affecting E.ON AG 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.

The Group believes it is important that employees understand the link between their own contribution and the overall performance of the business. Therefore all eligible employees are able to participate in the E.ON UK Share Incentive Plan. This is a share incentive plan that enables employees to develop a greater involvement in E.ON AG, through share ownership. Share schemes of this kind help to reinforce that link and give employees the opportunity to share in the success of the company they work for.

Contributions for political and charitable purposes

Donations to charitable organisations during the financial year by the Group amounted to £141,459 (2007: £130,055). It is the Group's policy not to make cash donations to any political party. However, the Group does undertake activities, such as event sponsorship, which are not designed to support or influence support for any particular political party; which are covered under *The Political Parties, Elections and Referendums Act 2000* and must be disclosed. During the year, the Group sponsored an event at the Labour party conference. The total cost required to be disclosed as political donations was £10,000 (2007: £10,000).

Policy on payment of creditors

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

- settle the terms of payment with the supplier when agreeing the terms of each transaction;
- ensure that those suppliers are made aware of the terms of payment by inclusion of relevant terms in the contracts; and
- pay in accordance with its contractual and other legal obligations.

The Company and 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 12 days (2007: 20 days).

Going concern

Notwithstanding the fact that the Group has net current liabilities and has made a loss for the year, the directors have prepared the financial statements on the going concern basis. The directors have put in place sufficient committed borrowing facilities such that the Group and the Company 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. Borrowing facilities are shown in Notes 19 and 20.

The directors have reviewed the Group's budget and cash flow forecasts for the year ended 31 December 2009 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.

Auditors

Each of the directors at the date when this report was approved confirms that:

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

This confirmation is given and should be interpreted in accordance with the requirements of s234ZA(2) of the Companies Act 1985.

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

Brian Tear
Director
E.ON UK plc
Westwood Way
Westwood Business Park
Coventry
CV4 8LG

28 April 2009

Financial review for the year ended 31 December 2008

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

Overview

E.ON UK and its associated companies are involved in electricity generation and distribution, and gas and electricity retail and trading. As of 31 December 2008, E.ON UK owned or through joint ventures had an attributable interest in 10,330 MW of generation capacity, including 359 MW of CHP plants and 245 MW of operational wind capacity. On 31 December 2008, the hydroelectric plant (with attributable capacity of 50 MW) was disposed. E.ON UK served approximately 8.1 million electricity and gas customer accounts at 31 December 2008 and its Central Networks business served 5.0 million customer connections. Energy Services visited more than 12 million households and carried out work in around 600,000 homes.

Principal risks and uncertainties

In the normal course of business, the Group is subject to a number of risks that are inseparably linked to the operation of its businesses. To manage these risks, the Group uses a comprehensive risk management system that is embedded within the business and decision making process. The risk management system is designed to enable management to recognise risks early and take the necessary countermeasures. The process is continuously reviewed to ensure it remains effective and efficient.

The key business risks affecting the Group are set out below.

Competition

The electricity and gas markets within which the Group operates are subject to strong competition in both the retail and wholesale sectors. There is competition from both new market entrants and existing participants. This highly competitive market could lead to depressed margins. The Group uses a comprehensive sales management system and intensive customer management to minimise these risks.

Commodity prices

A significant portion of the Group's expenses comprise of fuel costs which are heavily influenced by prices in the world market for oil, natural gas, fuel oil and coal. The prices for such commodities have historically been volatile and there is no guarantee that prices will remain within projected levels. Increases in fuel costs could have an adverse effect on the Group's operating results or financial condition. To limit commodity price risks the Group utilises derivatives financial instruments that are commonly used in the market place. The Group mainly use electricity, gas, coal, carbon emission and oil price hedging transactions to limit the exposure to risks resulting from price fluctuations, to optimise systems and load balancing and to lock in margins. The Group also engages in proprietary commodity trading in accordance with detailed guidelines and within narrowly defined limits.

Credit risk – financial instruments

The Group is at risk if a counterparty is unable to meet its obligations resulting in potential losses. E.ON UK is subject to the E.ON AG Group finance policy which sets a credit limit for every financial institution with which the Group does a significant amount of business. The creditworthiness of the institutions with which the Group does business is established by the ratings they receive from Moody's and Standard & Poor's. In addition, other counterparty credit risk is subject to the E.ON AG Group Credit Risk Management policy supported by individual business unit policies to establish internal ratings for limit setting. Credit risk assessment involves quantitative and qualitative criteria including ratings by independent rating agencies where these are available.

Credit risk – customer/debtors

There is a risk that bad debts will exceed the directors' expectations. There is also an additional risk to the value of unbilled debt which could lead to write offs.

There are a number of initiatives underway to mitigate against this risk. These include credit vetting and systems investment.

Weather

Gas and electricity sales volumes and commodity prices are affected by temperature and other weather factors. The demand for gas and electricity is seasonal with the Group generally experiencing higher demand during the colder months of October through to March and lower demand during the warmer months of April through September. Revenues and results of the Group can therefore be negatively affected by periods of unseasonably warm weather.

To manage the price risk, the Group has a flexible portfolio. It makes use of storage, LNG, fuel switching for generation and demand management to mitigate weather risk.

Asset performance

If power outage or shutdowns involving the Group's electricity operations occur, the Group's business and results of operations could be negatively affected.

In order to minimise the impact of reduced asset performance, the Group undertakes regular facility and network maintenance and adopts good maintenance practice.

Key performance indicators ("KPIs")

Non-financial KPIs for each of the business units are shown below:

KPIs	Results 2008	Results 2007	Commentary
UK Business			
Safety LTIFR (The Lost Time Injury Frequency Rate is measured by the number of lost time injuries per 1,000,000 hours worked)	4.08	3.66	The LTIFR was worse than 2007 despi te the business working hard to reduce the number of accidents. The safety of people is of vital importance to the business and is a key business priority for 2009.
Total Gas volumes sold/used (TWh)	222	206	Gas volumes can be segmented into Retail sales, market sales and gas utilised at power stations. The increase is primarily driven by an increase in market sales as a result of the competitive environment and changes in demand. Gas utilised at power stations increased due to market conditions and new rules governing generation causing a shift away from coal towards natural gas. Retail sales remain relatively consistent to the previous year.
Total Power volumes sold (TWh)	81	78	The increase is due to market sales as a result of market conditions.

KPIs	Results 2008	Results 2007	Commentary
Generation			
Generating capacity (MW)	10,330	10,380	Generating capacity has decreased from 31 December 2008 due to the sale of Rheidol hydro-electric power station.
Generation production (TWh)	40	41	The decrease in production was primarily due to a reduction in production in coal stations partially offset by an increase in gas stations driven by market conditions.
E.ON Climate & Renewables			
Generating capacity (MW)	245	189	There has been an increase in generating capacity following the opening of Steven's Croft biomass power station in Lockerbie, Scotland.
Generation production (GWh)	656	420	The increase in production was primarily due to the new biomass facility, favourable environmental conditions and excellent availability of wind farms.
E.ON Energy Trading			
Electricity proprietary trading volumes (kWh)	141	65	The increase in proprietary trading volumes was to take advantage of market opportunities and support risk management activities.
Gas propriety trading volumes (kWh)	358	255	The increase in proprietary trading volumes was to take advantage of market opportunities and support risk management activities.

Financial review for the year ended 31 December 2008 (continued)

KPIs	Results 2008	Results 2007	Commentary
Central Networks			
Volumes distributed (TWh)	55.6	56.0	The volume of power distributed remained subdued compared with historic standards and reduced by a further 0.4 percent in 2008 despite the leap year having an extra day. The overall reduction is driven by a decline in power usage from large non residential customers, reflecting the sharp contraction in manufacturing output.
Retail			
Customer numbers (million)	8.1	8.0	Customer numbers have increased slightly compared to the prior year due to strengthening of the Group's competitive position.
Volumes of electricity sold (TWh)	51.1	52.5	Volumes are lower due to a mix of weather, customer portfolio and the initial impact of the economic slowdown.
Volumes of gas sold (TWh)	77.8	78.9	The reduced gas volumes sold reflect price sensitivity, energy efficiency measures of customers and the initial impact of the economic slowdown.
Energy Services			
Domestic connections	31,541	46,405	Lower than annual target and prior year due to the slow down in the housing market.
Meter reading performance	96.4%	96.0%	Performance has slightly improved compared to prior year.

Key financial KPIs within the Group are considered to be revenue and operating profit. These are discussed below within the Group financial results section.

Financial review for the year ended 31 December 2008 (continued)

Group financial results

The profit before tax from continuing operations was £740 million compared with a £587 million loss for the previous twelve months. The Group's profit before tax from continuing operations adjusted for impairment and restructuring costs of £95 million (2007: nil) and profits less losses on disposal of investments/businesses of £5 million (2007: nil) for the year ended 31 December 2008 was £830 million, compared to a loss of £587 million for the same period last year.

Revenue

Group revenue from continuing operations grew by £2,433 million during the year to £9,039 million, an increase of 37 percent. The split of turnover between business units has been distorted during 2008 due to the restructuring and disposal of the E.ON Energy Trading business to EET AG in January 2009 (resulting in the E.ON Energy Trading business being reclassed to discontinued operations and prior year comparatives restated). The external increase in turnover has arisen in the Retail and Distribution businesses. The increase in the Retail business was due to higher average (retail) prices as a result of two price rises that occurred during the year combined with higher customer numbers. External sales in the regulated distribution business increased to £488 million in 2008 from £464 million in 2007. The sales increase was principally attributable to tariff changes. The increase in inter-segment revenue arises due to the way the E.ON Energy Trading business has been separated from the Generation business during 2008 and a new transfer pricing mechanism implemented. During 2007 the two businesses traded as one and therefore obtaining like-for-like comparative data is not possible.

Revenue is further analysed below:

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
UK Operations		
Generation	**150**	93
EC&R	**56**	38
Central Networks	**488**	464
Retail	**6,524**	5,703
Energy Services	**147**	88
External revenue	**7,365**	6,386
Inter-segment revenue to discontinued operations	**1,674**	220
Revenue from continuing operations	**9,039**	6,606

Financial review for the year ended 31 December 2008 (continued)

Operating costs

Details of the Group's operating costs are set out in Note 3 to the financial statements. The figures from continuing operations are summarised below.

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Fuel costs	**15**	-
Power purchases and other costs of sales	**6,601**	5,528
Staff costs	**553**	520
Depreciation, including relevant impairments	**278**	236
Intangible asset amortisation, including relevant impairments	**76**	62
Derivative losses	**108**	53
Other operating charges, including restructuring costs	**843**	715
	8,474	7,114

The disposal of the trading business has resulted in it being reclassed to discontinued activities, meaning that a significant proportion of the fuel costs are not included in the continuing activities of the Group. This has led to an increase in power purchase costs from continuing operations since fuel costs are now recharged from the Trading business via a transfer pricing mechanism. E.ON generated 40.4 billion kWh of electricity at its own power plants, about 2 percent less than in the prior year (41.2 billion kWh). New rules governing the generation of fossil-fired power stations came into effect in 2008. This caused a shift in generation away from coal towards natural gas.

Staff costs at £553 million were 6 percent higher than in the previous year because of headcount increases and restructuring costs. The UK headcount has increased by 5 percent primarily due to an increase in customer facing roles in the Retail business and the acquisition of Empower, a vocational training company. Staff numbers at 31 December 2008 totalled 17,480 all of which were based in the UK.

The depreciation charge increased from £236 million in 2007 to £278 million in 2008. The increase is primarily due to increases in investment in infrastructure over the last year leading to an increase in the depreciation charge. The increase in the intangible asset amortisation is primarily due to a £13 million impairment of goodwill relating to the Energy Services business.

Derivative losses were significantly higher in 2008 due to lower forward gas and power prices (see Note 3) although the majority of this has been reclassified to discontinued operations during 2008.

Other operating charges included the costs of running the UK businesses and supporting corporate infrastructure. Other operating charges have increased during 2008 primarily due to costs of restructuring the Energy Services business (see Note 4).

Financial review for the year ended 31 December 2008 (continued)

Operating income

Other operating income from continuing operations during 2008 was £333 million compared with £137 million in the year to 31 December 2007. Gains from derivatives increased from £85 million in 2007 to £197 million in 2008. This increase in operating income also included gains of £68 million on the disposal of plant and equipment, primarily attributable to the disposal of Rheidol. During 2007 there was consulting income of £12 million and income from engineering services of £14 million, both of which were disposed of during 2008 following the disposal of the Engineering business and included in the profit on disposal of plant and equipment.

Impairment and restructuring costs

Included in operating costs in 2008 were impairment and restructuring costs before tax of £95 million. During 2008, certain CHP assets were impaired by £4 million and an onerous contract provision of £32 million was recorded on CHP contracts. The impairments arose as a result of rising wholesale gas prices resulting in increased costs on CHP contracts that receive a relatively fixed price per unit of output. Following a change in the strategic direction of the Energy Services business, restructuring and onerous contract costs of £34 million were recognised. Goodwill relating to the Energy Services segment was also impaired by £13 million. Restructuring costs of £12 million were also recorded by the Retail business.

Financial review for the year ended 31 December 2008 (continued)

Operating profit/(loss)

A more detailed analysis of operating profit/(loss) and reconciliation to profit/(loss) before tax is set out below:

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
UK Operations		
Generation	**699**	(636)
EC&R	**59**	1
Central Networks	**361**	349
Retail	**(47)**	(17)
Energy Services	**(108)**	(2)
Central/Unallocated	**(66)**	(66)
Group operating profit/(loss) after impairment and restructuring costs	**898**	(371)
Net finance costs	**(168)**	(227)
Share of results of associates after tax	**10**	11
Profit/(loss) before tax	**740**	(587)

Group operating profits from continuing operations totalled £898 million for the year compared with a loss of £371 million in the same period to 31 December 2007. Within this total, Generation profits were £699 million compared to losses of £636 million in 2007, an increase of £1,335 million. This primarily reflects the impact of receiving transfer pricing income from E.ON Energy Trading. In 2007, the Generation business did not receive any significant transfer pricing income from E.ON Energy Trading as the two business units were operated as one.

EC&R's profit increased to £59 million in 2008 due to the impact of Steven's Croft biomass plant which was not operational in 2007 and Stag's Holt windfarm which only became operational in the last quarter of 2007. Recycled benefits and the impact of transfer pricing income from E.ON Energy Trading also contributed to the improved profits.

Central Networks' profits increased from £349 million to £361 million primarily due to higher tariffs and general cost savings.

Within the Retail business, losses increased by £30 million to a loss of £47 million mainly due to the impact of government mandated energy efficiency measures, lower retail volumes and restructuring costs.

Energy Services' losses increased to £108 million from £2 million primarily due to restructuring costs, onerous contract costs and impairment of goodwill.

Central/Unallocated losses are consistent with prior year at £66 million.

Interest costs

E.ON UK's net interest costs decreased from £227 million to £168 million due primarily to lower rates of interest on loans from fellow group undertakings which are linked to LIBOR.

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.

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. The E.ON AG treasury team liaise closely with E.ON UK to ensure that liquidity and risk management needs are met within the requirements of the E.ON AG policies and procedures.

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 more beneficial 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 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 related to their activities. A group-wide cash forecasting and currency exposure reporting process exists which ensures regular reporting into UK 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 weekly, 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 primarily trades in pounds sterling but its principal currency exposures are to the US dollar and the Euro. 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 cash flows arising on trading and construction contracts and foreign currency denominated debt which impact the income statement) 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.

Details of the Group's foreign exchange contracts and swaps are set out in Note 21 to the accounts.

Interest rate risk management

E.ON UK operates within the E.ON AG framework for interest rate risk management. The Group has a significant portfolio of debt and is exposed to movements in interest rates. These interest rate exposures are managed primarily through the use of fixed and floating rate borrowings and interest rate swaps.

Financial review for the year ended 31 December 2008 (continued)

Credit risk management

E.ON UK is subject to the E.ON AG Group Finance policy which sets a credit limit for every financial institution with which the Group does a significant amount of business. The creditworthiness of the institutions with which the Group does business is established by the ratings they receive from Moody's and Standard & Poor's. In addition, other counterparty credit risk is subject to the E.ON AG Group Credit Risk Management policy supported by individual business unit policies to establish internal ratings for limit setting. Credit risk assessment involves quantitative and qualitative criteria including ratings by independent rating agencies where these are available.

Liquidity planning, trends and risks

E.ON UK has sufficient committed borrowing facilities to meet planned liquidity needs, through facilities provided by its ultimate parent company E.ON AG. 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 Group's control.

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 has improved slightly 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 Notes 19 and 20 to the accounts.

At 31 December 2008, the Group had total borrowings of £3,832 million (2007: £3,542 million) including £3,265 million of long-term loans and £567 million of short-term loans and overdrafts.

At 31 December 2008, the Group had £87 million of cash and short-term investments (2007: £46 million). E.ON UK's policy is to repay debt where possible and otherwise 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 2008 was £3,745 million, compared to £3,496 million at 31 December 2007. The weighted average interest rate for the year, when compared to average net borrowings, was 5.9 percent compared with 6.0 percent in the previous year.

Financial review for the year ended 31 December 2008 (continued)

Gearing (net debt as a percentage of net assets excluding net debt) was 46 percent at 31 December 2008 (2007: 46 percent).

Commodity risk management

As part of its operating activities, E.ON UK engages in energy trading in the gas, electricity, coal, carbon permit 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 tax charge from continuing operations amounted to £283 million for the year compared with a £135 million credit for the same period to 31 December 2007. The effective rate on continuing operations was 38 percent compared with 23 percent in the year to 31 December 2007. The main reasons for the effective rate not being 28.5 percent (2007: 30 percent) in the period are adjustments to current and deferred tax provisions in respect of prior year items, non deductible expenses and non taxable income. A further adjustment has been made to deferred tax as a result to the change to capital allowances rates effective 1 April 2008, particularly the loss of industrial buildings allowances from 2011 onwards.

Statement of directors' responsibilities

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

Company law requires the directors to prepare the financial statements for each financial year. Under that law the directors have prepared Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). In preparing the Group financial statements, the directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board (IASB). The Group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

In preparing these 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 that the Group financial statements comply with IFRSs as adopted by the European Union and IFRSs issued by the IASB, and with regard to the parent company financial statements, that applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and Company and to enable them to ensure that the financial statements comply with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. 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 are responsible for the maintenance and integrity of the Group web site, www.eon-uk.com. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Statement of directors' responsibilities

Directors' responsibility statement

We confirm that to the best of our knowledge:

- The Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and loss of the Group; and
- The Directors' Report and Financial Review in the Annual Report includes a fair review of the development and performance of the business and position of the Group, together with a description of the principal risks and uncertainties that it faces.

By order of the Board

Brian Tear
Chief Financial Officer
28 April 2009

Independent auditors' report to the members of E.ON UK plc

We have audited the group financial statements of E.ON UK plc for the year ended 31 December 2008 which comprise the Group Income Statement, the Group Balance Sheet, the Group Cash Flow Statement, the Group Statement of Recognised Income and Expense and the related Notes. These group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of E.ON UK plc for the year ended 31 December 2008.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the statement of directors' responsibilities.

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

We report to you our opinion as to whether the group financial statements give a true and fair view and whether the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the group financial statements.

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

We read other information contained in the Annual Report and consider whether it is consistent with the audited group financial statements. The other information comprises only the Directors' Report and the Financial Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the group 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 group financial statements.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2008 and of its loss and cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the group financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
28 April 2009

GROUP INCOME STATEMENT
for the year ended 31 December 2008

	Note	Year ended 31 December 2008	Year ended 31 December 2007
		£m	£m
Revenue	2	**9,039**	6,606
Operating costs excluding impairment and restructuring costs	3	**(8,379)**	(7,114)
Impairment and restructuring costs	4	**(95)**	-
Total operating costs		**(8,474)**	(7,114)
Other operating income	3	**333**	137
Operating profit/(loss)		**898**	(371)
Finance income	7	**23**	37
Finance costs	7	**(191)**	(264)
Group's share of associates' profit after tax	12	**10**	11
Profit/(loss) before tax		**740**	(587)
Taxation	8	**(283)**	135
Profit/(loss) for the year from continuing operations		**457**	(452)
Discontinued operations			
(Loss)/profit for the year from discontinued operations	9	**(565)**	1,196
(Loss)/profit for year		**(108)**	744
(Loss)/profit attributable to:			
Minority interest	31	**4**	6
Equity shareholder	29	**(112)**	738
		(108)	744

The accounting policies and the Notes on pages 35 to 111 form part of these financial statements.

The prior year comparatives have been restated following the reclassification of the E.ON Energy Trading business to discontinued operations.

GROUP STATEMENT OF TOTAL RECOGNISED INCOME AND EXPENSE
for the year ended 31 December 2008

	Year ended 31 December 2008	Year ended 31 December 2007
	£m	£m
(Loss)/profit for the year	**(108)**	744
Profit attributable to minority interests	**(4)**	(6)
(Loss)/profit attributable to equity shareholder	**(112)**	738
Cash flow hedge fair value gains/(losses)	**11**	(4)
Cash flow hedge losses transferred to the income statement	**-**	147
Available for sale financial assets	**1**	-
Gain on partial disposal	**2**	-
Actuarial gains/(losses) on pension scheme arrangements	**545**	(101)
Tax on items taken directly to equity	**(155)**	(12)
Total recognised income for the year	**292**	768

The accounting policies and the Notes on pages 35 to 111 form part of these financial statements.

E.ON UK PLC

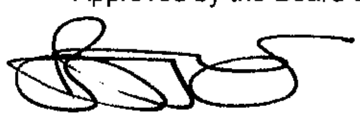
GROUP BALANCE SHEET
as at 31 December 2008

	Note	31 December 2008	31 December 2007
		£m	£m
Non-current assets			
Intangible assets			
Goodwill	10	**2,477**	2,495
Other	10	**487**	409
Total intangible assets		**2,964**	2,904
Property, plant and equipment	11	**5,817**	5,078
Interests in associates	12	**3**	3
Available for sale investments	14	**19**	18
Financial receivables	15	**47**	24
Pension asset	23	**472**	-
		9,322	8,027
Current assets			
Inventories	16	**257**	193
Trade and other receivables	17	**2,133**	1,983
Commodity and other derivative financial instruments	21	**4,279**	1,723
Cash and cash equivalents		**87**	46
		6,756	3,945
Assets of disposal group classified as held-for-sale	9	**235**	-
		6,991	3,945
Total assets		**16,313**	11,972

GROUP BALANCE SHEET
as at 31 December 2008 (continued)

	Note	31 December 2008 £m	31 December 2007 £m
Current liabilities			
Borrowings	19	**567**	1,477
Commodity and other derivative financial instruments	21	**4,910**	1,661
Trade and other payables	18	**1,579**	1,431
Current tax liabilities		**396**	227
Provisions	24	**330**	157
		7,782	4,953
Liabilities of disposal group classified as held-for-sale	9	**134**	-
		7,916	4,953
Non-current liabilities			
Borrowings	20	**3,265**	2,065
Provisions	24	**101**	84
Deferred tax	25	**720**	717
Pension liability	23	**-**	138
		4,086	3,004
Total liabilities		**12,002**	7,957
Shareholders' equity			
Ordinary shares	26	**1,325**	1,325
Share premium	28	**97**	97
Retained earnings	29	**2,302**	2,019
Other reserves	30	**585**	576
Total shareholder equity		**4,309**	4,017
Minority interest in equity	31	**2**	(2)
Total equity		**4,311**	4,015
Total liabilities and equity		**16,313**	11,972

Approved by the Board on 28 April 2009



Brian Tear
Director

28 April 2009

The accounting policies and the Notes on pages 35 to 111 form part of these financial statements.

E.ON UK PLC

GROUP CASH FLOW STATEMENT
for the year ended 31 December 2008

	Note	**Year ended 31 December 2008**	Year ended 31 December 2007
		£m	£m
Cash flows from operating activities			
Cash generated from operations	32	**1,143**	1,332
Interest received		**10**	7
Interest paid		**(184)**	(197)
Tax paid		**(70)**	(46)
Dividends received from associates	12	**22**	16
Net cash from operating activities		**921**	1,112
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		**(1,223)**	(940)
Acquisitions (net of cash acquired)	36	**(50)**	-
Purchase of other financial assets		**(41)**	(40)
Finance lease principal receipts		**23**	10
Receipts from other financial assets		**57**	-
Proceeds from sale of property, plant and equipment		**83**	6
Disposals		**6**	-
Proceeds from sale of investments	5	**3**	-
Net cash used in investing activities		**(1,142)**	(964)
Cash flows from financing activities			
Proceeds from issuance of new shares		**-**	1,000
Proceeds from issue of new borrowings		**2,311**	2,332
Repayment of borrowings		**(2,029)**	(3,208)
Finance lease principal payments		**(18)**	(18)
Dividends paid to minority interests	31	**(2)**	(2)
Dividends paid to equity shareholder	29	**-**	(240)
Net cash from financing activities		**262**	(136)
Net increase in cash and cash equivalents		**41**	12
Cash and cash equivalents at 1 January		**46**	34
Cash and cash equivalents at 31 December		**87**	46

The accounting policies and the Notes on pages 35 to 111 form part of these financial statements.

Notes to the financial statements
for the year ended 31 December 2008

1 Accounting policies

Basis of preparation of accounts

The financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"), International Financial Reporting Interpretations Committee ("IFRIC") interpretations and the Companies Act 1985 applicable to companies reporting under IFRS, except for the accounting policy for customer contributions (see property, plant and equipment below) where an alternative treatment has been adopted in order to present, in the opinion of the directors, a true and fair view. The financial statements are prepared under the historical cost convention, except for derivative financial instruments, available for sale investments, assets and liabilities held-for-sale, share base payment provisions and liabilities of the Group's pension schemes that have been measured at fair value.

The International Accounting Standards Board ("IASB") and the IFRIC have issued standards and interpretations that have been transferred by the EU into European law and whose application is mandatory in the reporting period from 1 January 2008 through 31 December 2008 or which are being voluntarily applied by E.ON:

International Financial Reporting Standards (IFRS/IAS) International Financial Reporting Interpretations Committee (IFRIC)		IAS/IFRS effective date for periods beginning or starting after
IAS 39 (amended) and IFRS 7 (amended)	Reclassification of Financial Assets	1 July 2008
IFRIC 11	IFRS 2 – Group and treasury share transactions	1 March 2007
IFRIC 13	Customer loyalty programmes	1 July 2008
IFRIC 14	IAS 19 – The limit on a defined pension benefit asset, minimum funding requirements and their interaction bind point	1 January 2008

The adoption of these Interpretations has not led to any changes in the Group's accounting policies.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet entered into force, either because their effective date is subsequent to the date of the financial statements or because they had not yet been adopted by the EU.

1 Accounting policies (continued)

The directors anticipate that the adoption of the following Standards and Interpretations in future periods will have no material impact on the financial statements.

International Financial Reporting Standards (IFRS/IAS) and International Financial Reporting Interpretations Committee (IFRIC)		IAS/IFRS effective date for periods beginning or starting after
IFRS 1 (amended) and IAS 27 (amended)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	1 January 2009
IFRS 2 (amended)	Share-based Payment – Vesting Conditions and Cancellations	1 January 2009
IAS 1 (revised 2007)	Presentation of Financial Statements	1 January 2009
IAS 23 (revised 2007)	Borrowing Costs	1 January 2009
IAS 32 (amended) and IAS 1 (amended)	Puttable Financial Instruments and Obligations Arising on Liquidation	1 January 2009
IAS 39	Financial Instruments: Recognition and Measurement – Eligible Hedged Items *(not currently adopted by EU)*	1 July 2009
IFRIC 12	Service Concession Agreements	29 March 2009
IFRIC 15	Agreements for the Construction of Real Estate *(not currently adopted by EU)*	1 January 2009
IFRIC 16	Hedges of a Net Investment in a Foreign Operation *(not currently adopted by EU)*	1 October 2008
IFRIC 17	Distributions of non-cash assets to owners *(not currently adopted by EU)*	1 July 2009

The potential effects to the financial statement arising from the following standards and interpretations are currently being assessed:

International Financial Reporting Standards (IFRS/IAS) and International Financial Reporting Interpretations Committee (IFRIC)		IAS/IFRS effective date for periods beginning or starting after
IFRS 3 (revised 2008)	Business Combinations *(not currently adopted by EU)*	1 July 2009
IAS 27	Consolidated and Separate Financial Statements *(not currently adopted by EU)*	1 July 2009
IFRIC 18	Transferred of Assets from Customers *(not currently adopted by the EU)*	1 July 2009

1 Accounting policies (continued)

Going concern

Notwithstanding the fact that the Group has net current liabilities and has made a loss for the year, the directors have prepared the financial statements on the going concern basis. The directors have put in place sufficient committed borrowing facilities such that the Group and the Company 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. Borrowing facilities are shown in Notes 19 and 20.

Judgement in applying accounting policies and key sources of estimation uncertainty

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. These judgements are based on management's best knowledge of the relevant facts and circumstances, having regard to prior experience, but actual results may differ from the amounts included in the financial statements.

Key sources of estimation that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Impairment of goodwill and indefinite lived intangible assets

The Group performs impairment tests for goodwill and indefinite lived intangible assets at least on an annual basis, or more frequently if events or changes in circumstances indicate that these assets may be impaired. This requires an estimation of the value in use of the cash generating units to which goodwill and indefinite lived intangibles are allocated. When determining the value in use, the Group utilises appropriate valuation techniques, for which the input data is in principle based on the Group's medium term plan. Estimating the value in use requires the Group to make an estimation of the expected future cash flows from the cash generating unit, discounted by an appropriate weighted average cost of capital. Estimated cash flows are based on the Group's medium term planning data for the next three years and projections for the following years are based on an expected growth rate based on industry and internal projections. Further detail on the assumptions used in determining value in use calculations is provided in Note 10.

1 Accounting policies (continued)

Revenue recognition – unread gas and electricity meters

Revenue for energy supply activities includes an assessment of energy supplied to customers between the date of the last meter reading and the year end. Unread gas and electricity is estimated using historical consumption patterns taking into account the industry reconciliation process for total gas and total electricity usage by supplier. The industry reconciliation process is required as differences arise between the estimated quantity of gas and electricity the Group deems to have supplied and billed customers, and the estimated quantity the industry system operator deems the individual suppliers, including the Group, to have supplied to customers.

Determination of fair values of derivatives

Derivative contracts are carried in the Balance Sheet at fair value, with changes in fair value recorded in the Income Statement or Statement of Total Recognised Income and Expense. As quoted market prices for certain derivatives used by the Group are not readily available, the fair values of these derivatives have been calculated using common market valuation methodologies and value influencing market data at the relevant balance sheet date.

The use of valuation models requires the Group to make assumptions and estimates regarding the volatility of derivative contracts at the balance sheet date and actual results could differ significantly due to fluctuations in value influencing market data. Further detail is provided in Note 21.

Pensions and other post-retirement benefits

The Group operates three defined benefit pension schemes, the main scheme being the E.ON UK Group of the Electricity Supply Pension Scheme. The cost of providing benefits under the defined benefit schemes is determined separately for each scheme under the projected unit credit actuarial valuation method. The key assumptions used for the actuarial valuation are based on the Group's best estimate of the variables that will determine the ultimate cost of providing post-employment benefits, on which further detail is provided in Note 23.

1 Accounting policies (continued)

Impairment of the Group's CHP property, plant and equipment and finance lease receivables

Key assumptions used in determining the value in use of the Group's CHP plants, by reference to expected future operating cash flows, for the purposes of the impairment review were as follows:

- Revenues are based on the expected price to be received under the various CHP contracts with customers on an individual site by site basis. These prices are based on the signed contracts for the provision of CHP services.
- Gas purchase price is based on the Group's year end expectation of forward prices.
- Cash flows used in the value in use calculation have been discounted at the Group's weighted average cost of capital.

Areas of judgement that have the most significant effect on the amounts recognised in the financial statements are:

Commodity contracts

Certain commodity contracts that the Group has entered into are not accounted for as derivatives under IAS 39 as they are deemed to be entered into and continue to be held for the purpose or receipt of a non-financial item in accordance with managements' judgement of the entity's expected purchase, sale or usage requirements (the "own use exemption").

Emissions trading scheme

The Group has been subject to the European Emissions Trading Scheme since 1 January 2005. IFRIC 3, Emission Rights was withdrawn by the IASB in June 2005 and has not yet been replaced by definitive guidance. The Group has adopted an accounting policy which recognises a shortfall in emissions rights within provisions. Expenses incurred for the consumption of emission rights and the recognition of a corresponding provision are reported in cost of goods sold. Forward contracts for sales and purchases of allowances are measured at fair value.

Basis of consolidation

The consolidated accounts include the financial statements of the Company and entities controlled by the Company (its subsidiaries), together with the Group's share of the results and net assets of associated undertakings using the equity method of accounting. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. The results of subsidiaries sold or acquired are included in the consolidated income statement up to, or from, the date on which control passes. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies into line with those used by the Group. Intra-group sales, profits, and balances are eliminated on consolidation.

1 Accounting policies (continued)

Business combinations

The Group's share of profits less losses of associated undertakings are included in the consolidated income statement using the equity method of accounting. The results of associates sold or acquired are included in the consolidated profit and loss account up to, or from, the date on which significant influence passed. 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 are set out in Note 12. Where the accounting policies of associated undertakings do not conform to those of the Group, adjustments are made on consolidation where the amounts involved are material to the Group.

Revenue

Revenue comprises revenue from the trading and wholesale of electricity; revenue from the distribution of electricity; and revenue from the sale of electricity and gas to industrial and commercial and domestic customers. Revenue excludes Value Added Tax.

Revenue from the sale of electricity and gas to industrial, commercial and domestic customers is recognised when earned on the basis of a contractual agreement with the customer. It reflects the value of the volume supplied, including an estimated value of the volume 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 are 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.

Segmental reporting

For management purposes, the Group is currently organised into six operating divisions – Generation, EC&R, E.ON Energy Trading, Central Networks, Retail and Energy Services. This represents a change compared to 2007 since the Group's power generation, renewables and energy trading activity, previously reported as the Energy Wholesale segment, were separated from 1 January 2008 to form the Generation, E.ON Climate & Renewables and E.ON Energy Trading businesses. The comparatives for 2007 have been restated.

1 Accounting policies (continued)

Management has chosen these divisions as the basis on which the Group reports its primary segment information, although the EC&R and Energy Services business units do not meet the thresholds requiring disclosure as a segment under IAS 14 'Segment Reporting'.

Under IFRS, segments or material business units that have been sold or are held-for-sale must be reported as discontinued operations. In 2008, this includes E.ON Energy Trading, which is held-for-sale and was legally disposed of to a fellow group undertaking on 1 January 2009 (2007: no discontinued operations). The financial statements for 2008 have been adjusted for all components of discontinued operations (see Note 9). The comparative figures for 2007 have been restated.

All material revenue, profits, liabilities, assets and other segment items arise within the UK. No secondary segments analysed by geographic destination are therefore reported.

Provisions

Provisions are recognised in the balance sheet when the Group 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.

The fair value of a liability arising from the decommissioning of an asset is recognised in the period in which it is incurred and a reasonable estimate of the fair value can be made. When the provision is recorded, the Group capitalises the costs of the provision by increasing the carrying amount of the property, plant and equipment. In subsequent periods, the provision is accreted to its present value and the carrying amount of the asset is depreciated over its useful life. Changes to estimates arise, particularly when there are deviations from original cost estimates or changes to the payment schedule or the level of relevant obligation. The provision must be adjusted in the case of both negative and positive changes to estimates. Such an adjustment is usually effected through a corresponding adjustment to property, plant and equipment and is not recognised in income.

1 Accounting policies (continued)

Future operating costs are not provided for.

Foreign exchange

Items included in the financial information for each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). The Group's consolidated financial information is presented in Sterling, which is the Group's presentational currency.

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

The results of foreign subsidiaries and associa ted undertakings 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.

Differences on exchange arising from the retranslation of the opening net investment in, and results of, subsidiaries and associated undertakings 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 income and expense. All other realised foreign exchange differences are taken to the income statement within operating costs and operating income 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

Primary financial instruments

Primary financial instruments are recognised at fair value on the settlement date when acquired. Unconsolidated equity investments and securities are measured in accordance with IAS 39. E.ON UK classifies financial assets as held for trading, available for sale, or as loans and receivables. Management determines the classification of the financial assets at initial recognition.

1 Accounting policies (continued)

Securities classified as available for sale are carried at fair value on a continuing basis, with any resulting unrealised gains and losses, net of related deferred taxes, reported as a separate component within equity until realised. Realised gains and losses are recorded based on the specific identification method. Unrealised losses previously recognised in equity are recognised in financial results in the case of substantial impairment. Reversals of impairment losses relating to equity instruments are recognised exclusively in equity.

Loans and receivables (including trade receivables) are primary financial assets with fixed or determinable payments that are not traded in an active market. Loans and receivables are reported on the balance sheet under "Trade and other receivables." They are subsequently measured at amortised cost, using the effective interest method. Valuation allowances are provided for identifiable individual risks. If the loss of a certain part of the receivables is probable, valuation allowances are provided to cover the expected loss. Reversals of losses are recognised under "Other operating income".

Primary financial liabilities (including trade payables) within the scope of IAS 39 are measured at amortised cost, using the effective interest method. Initial measurement takes place at fair value plus transaction costs. In subsequent periods, the amortisation and accretion of any premium or discount is included in finance costs/income.

Derivative financial instruments and hedging transactions

Derivative financial instruments and separated embedded derivatives are measured at fair value as of the trade date at initial recognition and in subsequent periods. IAS 39 requires that they be classified as held for trading as long as they are not a component of a hedge accounting relationship. Gains and losses from changes in fair value are immediately recognised in net income.

Instruments commonly used are foreign currency forwards and swaps, as well as interest-rate swaps and cross-currency swaps. In commodities, the instruments used include physically and financially settled forwards and options based on the prices of electricity, gas, coal, oil and emission rights. As part of conducting operations in commodities, derivatives are also acquired for proprietary trading purposes.

1 Accounting policies (continued)

IAS 39 sets requirements for the designation and documentation of hedging relationships, the hedging strategy, as well as ongoing retrospective and prospective measurement of effectiveness in order to qualify for hedge accounting. The Group does not exclude any component of derivative gains and losses from the measurement of hedge effectiveness. Hedge accounting is considered to be appropriate if the assessment of hedge effectiveness indicates that the change in fair value of the designated hedging instrument is 80 to 125 percent effective at offsetting the change in fair value due to the hedged risk of the hedged item or transaction.

For qualifying fair value hedges, the change in the fair value of the derivative and the change in the fair value of the hedged item that is due to the hedged risk(s) are recognised in income. If a derivative instrument qualifies as a cash flow hedge, the effective portion of the hedging instrument's gain or loss is recognised in equity (as a component of other reserves) and reclassified into income in the period or periods during which the transaction being hedged affects income. The hedging result is reclassified into income immediately if it becomes probable that the hedged underlying transaction will no longer occur. For hedging instruments used to establish cash flow hedges, the change in fair value of the ineffective portion is recognised immediately in the income statement. To hedge the foreign currency risk arising from the Group's net investment in foreign operations, derivative as well as non-derivative financial instruments are used. Gains or losses due to changes in fair value and from foreign currency translation are recognised separately within equity as currency translation adjustments.

Changes in fair value of derivative instruments that must be recognised in income are classified as other operating income or expenses. Gains and losses from interest-rate derivatives are netted for each contract and included in interest income. Gains and losses from derivative proprietary trading instruments are shown net as either revenues or cost of materials. Certain realised amounts are, if related to the sale of products or services, also included in revenues or cost of materials.

Unrealised gains and losses resulting from the initial measurement of derivative financial instruments at the inception of the contract are not recognised in income. They are instead deferred and recognised in income systematically over the term of the derivative. An exception to the accrual principle applies if unrealised gains and losses from the initial measurement are verified by quoted market prices, observable prices of other current market transactions or other observable data supporting the valuation technique. In this case the gains and losses are recognised in income.

1 Accounting policies (continued)

Derivatives embedded within other financial instruments or host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value in their entirety.

See Note 21 for additional information regarding the Group's use of derivative instruments.

Intangible fixed assets

Goodwill

Goodwill arising on consolidation represents the excess of the fair value of the consideration given over the Group's share of the fair value of the identifiable assets and liabilities of an acquired subsidiary, associate or joint venture. Purchased goodwill is capitalised on the balance sheet and reviewed for impairment on at least an annual basis and whenever there is an indicator of impairment. If an indication of impairment exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Goodwill relating to associates is included within 'Investments' in the consolidated balance sheet. Goodwill arising on overseas acquisitions is regarded as a currency asset and is retranslated at each period end at the closing rate of exchange.

Software costs

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (three to five years).

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Costs include the software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their estimated useful lives (three to five years).

1 Accounting policies (continued)

Emission allowances

Emission rights held under national and international emissions rights systems are reported as intangible assets. Emission rights are capitalised at their acquisition costs when issued for the respective reporting period as (partial) fulfilment of the notice of allocation from the responsible national authorities, or purchased from third parties. The consumption of emission rights is recognised at average cost based on emissions made. A shortfall in emission rights is recognised within other provisions at cost. The expenses incurred for the consumption of emission rights and the recognition of a corresponding provision are reported under power purchases and other cost of sales.

As part of operating activities, emission rights are also held for proprietary trading purposes. Emission rights held for proprietary trading are reported under 'Other Assets' at fair value.

Other

Other acquired intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the income statement on a straight line basis over the estimated useful lives of intangible assets from the date they are available for use. The estimated useful lives are as follows:

Asset	*Life in years*
Customer Lists	7-10

Emission rights and ROCs generally have maturities of less than one year and are therefore not amortised.

Other intangible assets also include the benefits of land options and development contracts, and capitalised development costs. They will be amortised over the useful economic life of the schemes to which they relate (5 to 25 years).

Research and development

Under IFRS, research and development costs must be allocated to a research phase and a development phase. While expenditure on research is expensed as incurred, development costs must be capitalised as an intangible asset if all the general criteria for recognition specified in IAS 38, as well as certain other specific prerequisites, have been fulfilled.

1 Accounting policies (continued)

Property, plant and equipment

Property, plant and equipment is 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. This accounting treatment represents a departure from the Companies Act 1985 which requires property, plant and equipment 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 assets used in the distribution network. Customers' contributions towards distribution network assets are credited to the profit and loss account over the life of the distribution network assets to which they relate by virtue of a reduction in the depreciation charge.

In the case of assets constructed by the Group, directly related overheads and commissioning costs are included in cost.

Major assets in the course of construction are included in property, plant and equipment on the basis of expenditure incurred at the balance sheet date. Where borrowings are used to finance the construction of a major capital project with a long period of development, interest payable is capitalised as part of the cost of the asset and written off over the economic useful life of the asset. Where specific borrowings are used, the amount capitalised is based on actual interest payable.

Where general borrowings are used, the amount capitalised is based on the weighted average cost of capital of the Group, not exceeding the actual expenditure incurred during the relevant period of construction.

1 Accounting policies (continued)

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 property plant and equipment. Assets are depreciated over their estimated useful lives or, in the case of leased assets, over the lease term if shorter. Estimated useful lives and residual values are reviewed annually. No depreciation is provided on freehold land or assets in the course of construction.

The estimated useful lives for the principal categories of property plant and equipment 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.

Repairs and maintenance that do not constitute significant replacement capital expenditure are expensed as incurred.

Impairment

Impairments of assets are calculated as the difference between the carrying value of the asset and its recoverable amount, if lower. Where an asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is defined as the higher of fair value less costs to sell and estimated value in use at the date the impairment review is undertaken.

Value in use represents the present value of expected future cash flows, discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Impairments are recognised in the income statement and, where material, are disclosed separately.

1 Accounting policies (continued)

Non-current assets held-for-sale

Non-current assets (and disposal groups) are classified as assets held-for-sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

Discontinued operations

A discontinued operation is a component of an entity that has either been disposed of, or satisfies the criteria to be classified as held-for-sale, and represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to disposal.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the asset to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised at their value at the inception of the lease or the present value of minimum lease payments if lower. A corresponding liability is recognised as a finance lease obligation.

Assets leased under finance leases where the Group is the lessor are derecognised at the date that the asset is delivered. A lease receivable is recognised at the present value of minimum lease payments. Lease receipts are apportioned between finance income and the reduction of the lease receivable so as to achieve a constant rate of return on the lease receivable.

Rents payable under operating leases are charged to the income statement evenly over the term of the lease. Income from operating leases is included within other operating income in the income statement. 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.

Inventories

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

1 Accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, deposits with a maturity of three months or less and other short-term liquid investments that are readily convertible to known amounts of cash.

Taxation

The tax expense for the year represents the sum of the current tax and deferred tax.

The tax charge for the year is based on the taxable profits or losses on ordinary activities for the year. Deferred tax is provided in full, using the liability method, on temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction at the time of the transactions that affects neither the tax profit nor the accounting profit.

Deferred tax assets and liabilities are offset when there exists a legal and enforceable right to offset and they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Deferred tax is calculated using the enacted or substantially enacted tax rates that are expected to apply in the period in which the temporary difference is expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognised in income for the period that includes the enactment date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is dealt with in equity.

1 Accounting policies (continued)

Pensions

The Group provides pension benefits through both defined benefit and defined contribution schemes. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, adjusted for past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. Defined benefit pension scheme costs are attributed to the income statement over the period of service of the employee. Past service costs are recognised immediately to the extent that the benefits are already vested, otherwise are amortised on a straight line basis over the vesting period. Actuarial gains and losses are recognised in full on the balance sheet and pass through retained earnings. Actuarial gains and losses are also recognised through the Statement of Total Recognised Income and Expense as incurred. Details of actuarial valuations, including the frequency and methodology, are set out in Note 23.

Payments to defined contribution schemes are charged against profits as incurred.

Equity

IFRS defines equity as the residual interest in the Group's assets after deducting all liabilities. Therefore, equity is the net amount of all recognised assets and liabilities.

Share based payments

Certain directors and senior management personnel participate in cash settled share based payment schemes administered by the ultimate parent company, E.ON AG. Two schemes are currently in operation – the E.ON Stock Appreciation Rights Scheme and the E.ON Share Performance Plan. The Group accounts for these schemes in accordance with IFRS 2 "Share-based payment". The liability is measured initially and at each reporting date, based on fair value, by applying the Monte Carlo option pricing model, taking into account rights granted and service rendered to date. Costs are recognised in the income statement over the expected vesting period.

Dividend distribution

Dividend distribution to the Company's shareholder is recognised as a liability in the Group's financial statements in the period in which the dividends are approved.

2 Segmental reporting

Year ended 31 December 2008	Generation	EC&R	Central Networks	Retail	Energy Services	Central/ Unallocated	Eliminations	Group
	£m	£m	£m	£m	£m	£m	£m	£m
Revenue								
External revenue	150	56	488	6,524	147	-	-	7,365
Inter-segment revenue	-	-	138	23	339	-	(500)	-
Inter-segment revenue - discontinued	1,505	169	-	-	-	-	-	1,674
Total revenue	**1,655**	**225**	**626**	**6,547**	**486**	**-**	**(500)**	**9,039**
Result								
Segment result	699	59	361	(47)	(108)	(66)		898
Finance income								23
Finance costs								(191)
Share of results of associates after tax	-	2	-	-	-	8		10
Profit before tax								740
Tax charge								(283)
Profit for the year from continuing activities								457
Total assets	**12,396**	**689**	**3,645**	**5,251**	**729**	**(6,632)**		**16,078**
Total liabilities*	**9,516**	**586**	**1,133**	**5,495**	**861**	**(5,723)**		**11,868**
Other segment items								
Capital expenditure (including acquisitions)	542	189	347	1	54	9		1,142
Intangible expenditure (including acquisitions)	7	16	-	13	30	11		77
Depreciation	147	11	100	-	13	3		274
Amortisation of intangible assets	4	-	-	58	1	-		63
Goodwill	6	32	308	1,237	22	872		2,477

* Interest and tax liabilities are included within central/unallocated.
See Note 4 for impairments by segment.

2 Segmental reporting (continued)

Year ended 31 December 2007 (restated)	Generation	EC&R	Central Networks	Retail	Energy Services	Central/ Unallocated	Eliminations	Group
	£m	£m	£m	£m	£m	£m	£m	£m
Revenue								
External revenue	93	38	464	5,703	88	-	-	6,386
Inter-segment revenue	-	23	144	26	323	-	(516)	-
Inter-segment revenue - discontinued	72	148	-	-	-	-	-	220
Total revenue	**165**	**209**	**608**	**5,729**	**411**	**-**	**(516)**	**6,606**
Result								
Segment result	(636)	1	349	(17)	(2)	(66)		(371)
Finance income								37
Finance costs								(264)
Share of results of associates after tax	2	-	-	-	-	9		11
Loss before tax								(587)
Tax credit								135
Loss for the year from continuing activities								(452)
Total assets	**14,828**	**571**	**3,397**	**4,843**	**308**	**(11,975)**		**11,972**
Total liabilities*	**11,344**	**457**	**1,155**	**1,306**	**286**	**(6,591)**		**7,957**
Other segment items								
Capital expenditure (including acquisitions)	75	379	331	-	59	12		856
Intangible expenditure (including acquisitions)	45	55	-	13	-	-		113
Depreciation	128	9	90	1	6	3		237
Amortisation of intangible assets	2	-	-	60	-	-		62
Goodwill	36	32	308	1,237	13	869		2,495

* Interest and tax liabilities are included within central/unallocated.
No impairments were recorded during 2007.

2 Segmental reporting (continued)

Secondary format – geographical segments

All material revenue, profits, liabilities, assets and other segment items arise within the UK. No secondary segments analysed by geographic destination are therefore reported.

Reportable segments' assets are reconciled to total assets as follows:

	At 31 December 2008 £m	At 31 December 2007 £m
Segment assets for reportable segments	**16,078**	11,972
Assets of disposal group classified as held-for-sale	**235**	-
Total assets per the balance sheet	**16,313**	11,972

Reportable segments' liabilities are reconciled to total liabilities as follows:

	At 31 December 2008 £m	At 31 December 2007 £m
Segment liabilities for reportable segments	**11,868**	7,957
Liabilities of disposal group classified as held-for-sale	**134**	-
Total liabilities per the balance sheet	**12,002**	7,957

3 Operating costs and other operating income

Operating costs were as follows:

Year ended 31 December:	Continuing operations 2008 £m	Continuing operations 2007 £m	Discontinued operations 2008 £m	Discontinued operations 2007 £m	Total 2008 £m	Total 2007 £m
Fuel costs	15	-	1,438	942	1,453	942
Power purchases and other costs of sales	6,601	5,528	627	(173)	7,228	5,355
Staff costs (Note 6)	553	520	26	17	579	537
Depreciation, including relevant impairments	278	236	-	1	278	237
Intangible asset amortisation, including relevant impairments	76	62	-	-	76	62
Derivative losses	108	53	1,076	3	1,184	56
Other operating charges, including restructuring costs	843	715	33	57	876	772
Operating costs, after impairment and restructuring costs	8,474	7,114	3,200	847	11,674	7,961

Operating costs, before impairment and restructuring costs	8,379	7,114	3,200	847	11,579	7,961
Impairment and restructuring costs (Note 4)	95	-	-	-	95	-

Foreign exchange losses of £13 million were recognised in the profit and loss account (2007: £31 million loss).

3 Operating costs and other operating income (continued)

Operating costs also include:	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Repairs and maintenance costs	**117**	113
Research and development costs	**14**	8
Operating leases charges	**40**	49
Loss on disposal of property, plant and equipment	**1**	2
Auditors' remuneration for:		
Audit services: Audit of the Company and consolidated accounts	**1.0**	1.4
Other services: Audit of the Company's subsidiaries pursuant to legislation	**0.6**	0.6
Other services pursuant to legislation	**0.3**	0.3
Tax services	**0.5**	0.5
All other services	**0.2**	0.2

The above figures all relate to continuing operations.

Other operating income:

The largest component of other operating income in 2008 was derivative gains of £288 million (£197 million relating to continuing operations and £91 million relating to discontinued operations). Other operating income also includes profit on disposal of businesses of £3 million and gains on disposal of property, plant and equipment of £68 million were also recognised.

The largest component of other operating income in 2007 was derivative gains of £480 million (£85 million relating to continuing operations and £395 million relating to discontinued operations). Other operating income also includes PowerTechnology consulting income of £12 million and income from engineering services of £14 million. Gains on disposal of property, plant and equipment of £6 million were also recognised.

4 Impairment and restructuring costs

Impairment and restructuring costs comprise:

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Impairment and restructuring costs before taxation	**95**	-
Tax on impairment and restructuring costs	**(27)**	-
Impairment and restructuring costs after taxation	**68**	-

During 2008, CHP property, plant and equipment was impaired by £4 million (see Note 11) and a further onerous contract of £32 million was recognised with respect to the CHP contracts. The impairment and onerous contract arose as a result of rising wholesale gas prices resulting in increased costs on CHP contracts that receive a relatively fixed price per unit of output. Consequently, in some cases the current estimate of unavoidable costs of meeting the obligations under the contacts exceeds the economic benefits expected to be received under it. CHP plants are within the Generation segment. Goodwill relating to the Energy Services segment was impaired by £13 million (see Note 10) and restructuring and onerous contract costs of £34 million were recognised following a strategic review of the business activities. Restructuring costs of £12 million relating to the Retail business were also recorded. A tax credit of £27 million arose as a result of these charges. The above charges relate solely to continuing operations.

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

Profits less losses on disposal of investments/businesses (including provisions) comprise:

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Profits less losses on disposal of investments/businesses (including provisions) before taxation	**5**	-
Tax on profits less losses on disposal of investments/ businesses (including provisions)	**-**	-
Profits less losses on disposal of investments/ businesses (including provisions) after taxation	**5**	-
Gain on disposals recognised in the income statements	**3**	-
Gain on partial disposal recognised in equity	**2**	-
Total gains on disposal of investments	**5**	-

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

During the year, E.ON UK disposed of 100 percent of its investment in Holford Gas Storage Limited. Proceeds from the disposal and net assets at the date of disposal were nil. In addition, the Group disposed of 100 percent of the trade and assets of E.ON Engineering for £3 million. The net assets disposed of were £0.4 million, resulting in profit of £2.6 million. Also, E.ON UK disposed of a 40 percent share of E.ON Masdar London Array Limited (formerly E.ON Climate & Renewables UK London Array Limited) for total proceeds of £5 million. Net assets disposed totalled £3 million, resulting in a profit of £2 million.

6 Employee information, including directors' remuneration

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

Year ended 31 December:	**Continuing operations 2008**	Continuing operations 2007	**Discontinued operations 2008**	Discontinued operations 2007	**Total 2008**	Total 2007
Total operations (including UK Centre)	**17,405**	16,578	**189**	222	**17,594**	16,800

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

Year ended 31 December:	**Continuing operations 2008 £m**	Continuing operations 2007 £m	**Discontinued operations 2008 £m**	Discontinued operations 2007 £m	**Total 2008 £m**	Total 2007 £m
Wages and salaries	**499**	467	**20**	13	**519**	480
Social security costs	**52**	44	**2**	2	**54**	46
Other pension costs (Note 23)	**58**	55	**4**	2	**62**	57
	609	566	**26**	17	**635**	583
Capitalised in property, plant and equipment	**(56)**	(46)	**-**	-	**(56)**	(46)
Charged in income statement as staff costs	**553**	520	**26**	17	**579**	537

6 Employee information, including directors' remuneration (continued)

The key management compensation costs were:

	Year ended 31 December 2008 £	Year ended 31 December 2007 £
Salaries and short-term employee benefits	**5,893,243**	6,470,661
Post-employment benefits	**1,111,510**	959,557
Termination benefits	**496,501**	1,119,938
Share based payments	**517,163**	2,451,984
	8,018,417	11,002,140

All key management compensation costs relate solely to continuing operations. For details of the highest paid director's remuneration see Note 3 of the parent company financial statements.

7 Finance income and costs

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Interest receivable		
From fellow E.ON group undertakings	**5**	-
Net pensions interest (Note 23)	**-**	32
Other	**18**	5
Finance income	**23**	37
Interest payable		
Loans from fellow E.ON group undertakings	**(195)**	(254)
Net pensions interest (Note 23)	**(3)**	-
Other loans	**(13)**	(16)
Unwinding of discount in provisions	**(3)**	(2)
Capitalised interest	**23**	8
Finance costs	**(191)**	(264)
Net finance costs	**(168)**	(227)

Finance income and costs all relate to continuing operations.

8 Taxation

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Current tax:		
United Kingdom Corporation tax at 28.5% (2007: 30%)	**241**	87
Overseas tax	**19**	-
Over provision in prior year	**(21)**	(23)
Total current tax charge	**239**	64
Less current tax on discontinued operations	**(108)**	(300)
Current tax on continuing operations	**131**	(236)
Deferred tax:		
Origination and reversal of temporary timing differences	**(211)**	214
Impact of change in rate	**3**	(51)
Under provision in prior year	**53**	36
Total deferred tax (credit)/charge (Note 25)	**(155)**	199
Less deferred tax on discontinued operations	**307**	(98)
Deferred tax on continuing operations	**152**	101
Tax charge/(credit) on profit/(loss) on continuing activities	**283**	(135)

8 Taxation (continued)

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 of 28.5 percent (2007: 30 percent) can be explained as follows:

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Profit/(loss) on continuing activities before tax	**740**	(587)
Less: Group's share of associates' profit after tax	**(10)**	(11)
Profit/(loss) on continuing activities excluding associates' profit	**730**	(598)
(Loss)/profit on discontinued activities before tax	**(764)**	1,594
Accounting (loss)/profit before tax	**(34)**	996
Tax (credit)/charge on (loss)/profit on ordinary activities at 28.5% (2007: 30%)	**(10)**	299
Effects of:		
Impact of change in rate	**3**	(51)
Prior year adjustment	**32**	13
Expenses not deductible for tax purposes	**22**	2
Impact of phase out of IBA's	**38**	-
Non-taxable income	**(1)**	-
Total tax charge	**84**	263
Tax charge/(credit) on continuing operations	**283**	(135)
Tax (credit)/charge on discontinued operations	**(199)**	398
Total tax charge	**84**	263

The impact of the rate change occurred due to deferred taxes being calculated at the new statutory rate of corporation tax of 28 percent in the UK. This is expected to be the effective rate when the timing differences will reverse.

The tax impact of impairment and restructuring costs are given in Note 4.

9 Discontinued operations

The relevant assets and liabilities relating to the E.ON Energy Trading segment have been presented as held-for-sale following the approval of the Group's management to sell the E.ON Energy Trading business to a fellow group undertaking. The completion date for the transaction was 1 January 2009.

	At 31 December 2008 £m
Operating cashflows	5
Investing cashflows	(5)
Total cashflows	-

The segment did not operate its own individual bank account and therefore all cash flows occur through operating intercompany.

a) Assets of disposal group classified as held-for-sale

	At 31 December 2008 £m
Intangible assets	80
Inventories	127
Commodity and other derivative financial receivables	28
Total	235

b) Liabilities of disposal group classified as held-for-sale

	At 31 December 2008 £m
Commodity and other derivative financial payables	38
Trade and other payables	49
Provisions	47
Total	134

c) Analysis of the result of discontinued operations is as follows:

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Revenue	**2,316**	2,003
Net expenses	**(3,080)**	(409)
(Loss)/profit before tax of discontinued operations	**(764)**	1,594
United Kingdom Corporation tax	**180**	(398)
Overseas tax	**19**	-
(Loss)/profit for the year from discontinued operations	**(565)**	1,196

10 Intangible assets

	Goodwill	Software	Customer lists	Other	Total
	£m	£m	£m	£m	£m
Cost					
At 1 January 2008	2,495	153	464	281	3,393
Acquisitions	25	-	1	25	51
Additions	-	35	-	602	637
Disposals	-	(27)	-	(457)	(484)
Transferred to disposal group classified as held-for-sale	(30)	(8)	-	(46)	(84)
At 31 December 2008	**2,490**	**153**	**465**	**405**	**3,513**
Aggregate impairment & amortisation					
At 1 January 2008	-	114	240	135	489
Amortisation for the year	-	15	47	1	63
Impairment	13	-	-	-	13
Disposals	-	(12)	-	-	(12)
Transferred to disposal group classified as held-for-sale	-	(4)	-	-	(4)
At 31 December 2008	**13**	**113**	**287**	**136**	**549**
Net book value at 31 December 2008	**2,477**	**40**	**178**	**269**	**2,964**

	Goodwill	Software	Customer lists	Other	Total
	£m	£m	£m	£m	£m
Cost					
At 1 January 2007	2,495	132	464	285	3,376
Additions	-	21	-	92	113
Disposals	-	-	-	(96)	(96)
At 31 December 2007	**2,495**	**153**	**464**	**281**	**3,393**
Aggregate impairment & amortisation					
At 1 January 2007	-	99	193	135	427
Amortisation for the year	-	15	47	-	62
At 31 December 2007	**-**	**114**	**240**	**135**	**489**
Net book value at 31 December 2007	**2,495**	**39**	**224**	**146**	**2,904**

10 Intangible assets (continued)

Intangible assets transferred to the disposal group classified as held-for-sale amounts to a net £80 million and relates to assets which are used by E.ON Energy Trading (goodwill, software and ROCs). See Note 9 for further details regarding the disposal group held-for-sale.

Other intangible assets comprise emission rights, ROCs and contractual development rights. Contractual development rights are amortised from the period in which the development is completed.

All amortisation charges in the year have been charged through operating costs.

Goodwill is reviewed annually for impairment or more frequently if there are indications that it may be impaired. Goodwill is allocated to cash generating units identified according to business segment as per Note 2. Goodwill relating to the Energy Services segment has been impaired by £13 million during the year (see Note 4).

The recoverable amounts of goodwill have been assessed based on value in use calculations using cash flow projections based on approved financial plans. These plans cover periods in excess of five years on account of the long-term nature of the Groups' assets. Growth rate assumptions used were based on management's expectations of market development. The annual growth rate used to determine cash flows in the long-term ranges from 0 percent to 1 percent. Projected cash flows were discounted at rates of between 6 percent and 7 percent based on risks relevant to the segment. The discount rate used is pre tax.

The key assumptions in the value in use calculations determining recoverable amounts for specific cash generating units are:

Central Networks

A 20 year cash flow forecast is built up from medium term plans (extended out based on management views on required investment and expected regulatory returns). In addition a terminal value is also applied to the Regulatory Asset Value and included in the value in use calculations.

Retail

A 15 year cash flow forecast is built up from medium term plans (extended out based on management views on sustainable retail margins and future volume growth). In addition a terminal value is applied to the annual cash flows in year 15.

10 Intangible assets (continued)

Generation and EC&R

Value in use calculations are performed for each part of the business. Power Stations and renewable assets are valued by calculating future cash flows over the life of each unit using E.ON AG long-term price tracks. Valuations are then reduced by overhead costs for supporting functions.

E.ON Energy Services

A 10 year cash flow forecast is built up from medium term plans for each business area, (extended out based on management views on growth). In addition a terminal value is applied to the annual cash flows in year 10.

UK Centre

A cash flow forecast is built up from the 3 year medium term plan. In addition a terminal value is applied to the cash flows in year 3 on the assumption that cash flows will continue into perpetuity.

11 Property, plant and equipment

	Generating assets £m	Distribution and transmission networks £m	Other operating and short-term assets £m	Total £m
Cost				
At 1 January 2008	4,044	4,544	457	9,045
Acquisitions	-	-	2	2
Additions	739	342	59	1,140
Disposals	(150)	(188)	(42)	(380)
At 31 December 2008	**4,633**	**4,698**	**476**	**9,807**
Depreciation				
At 1 January 2008	2,112	1,651	204	3,967
Charge for the year	155	84	35	274
Impairment	4	-	-	4
Disposals	(32)	(185)	(38)	(255)
At 31 December 2008	**2,239**	**1,550**	**201**	**3,990**
Net book value at 31 December 2008	**2,394**	**3,148**	**275**	**5,817**

11 Property, plant and equipment (continued)

	Generating assets £m	Distribution and transmission networks £m	Other operating and short-term assets £m	Total £m
Cost				
At 1 January 2007	3,620	4,221	524	8,365
Additions	486	323	47	856
Disposals	(62)	-	(114)	(176)
At 31 December 2007	**4,044**	**4,544**	**457**	**9,045**
Depreciation				
At 1 January 2007	2,028	1,584	292	3,904
Charge for the year	144	67	26	237
Disposals	(60)	-	(114)	(174)
At 31 December 2007	**2,112**	**1,651**	**204**	**3,967**
Net book value at 31 December 2007	**1,932**	**2,893**	**253**	**5,078**

Additions in 2008 include capitalised borrowing costs amounting to £23 million (2007: £8 million). The net book value of property, plant and equipment held under finance leases is £59 million (2007: £61 million).

Group assets include assets in the course of construction at a cost of £821 million (2007: £386 million) primarily relating to generating assets.

Land and buildings at net book value comprise:

	At 31 December 2008 £m	At 31 December 2007 £m
Freehold	**168**	156
Long leasehold	**24**	26
Total	**192**	182

12 Interests in associates

	Associates net assets £m
Net assets	
At 1 January 2008	3
Retained profits	10
Dividends received	(22)
Dividend deferred	14
Disposals	(2)
At 31 December 2008	**3**

No goodwill is recorded within interests in associates.

Details of the Group's principal investment in associates are as follows:

	Accounting reference date	Country of incorporation or registration	Shares held	Percentage of capital held directly or indirectly by the Group
Trakya Electric Uretin ve Ticaret A.S. ("Trakya Electric")	31 December	Turkey	Ordinary shares	31%

The principal activity of Trakya Electric is as the owner and operator of a gas fired power station in Turkey. The Company sold its 49 percent investment in E.ON IS UK Limited to the majority shareholder, E.ON IS GmbH, on 30 April 2008 for its market value of £ 3 million.

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

	At 31 December 2008 £m	At 31 December 2007 £m
Share of assets	**135**	131
Share of liabilities	**(132)**	(128)
Share of net assets	**3**	3
Revenue	**77**	108
Operating profit	**9**	23

Notes to the financial statements
for the year ended 31 December 2008 (continued)

13 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 %	Country of incorporation or registration	Principal business activities
Central Networks East plc +	Ordinary shares	100	England and Wales	Distribution of electricity
Central Networks West plc +	Ordinary shares	100	England and Wales	Distribution of electricity
Central Networks 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
Powergen (East Midlands) Loan Notes *+	Ordinary shares	100	England and Wales	Holding company for distribution activities
East Midlands Electricity Distribution Holdings +	Ordinary shares	100	England and Wales	Intermediate holding company
Ergon Overseas Holdings Limited +	Ordinary shares	100	England and Wales	Investment company
E.ON Energy Limited *	Ordinary shares	100	England and Wales	Supply of electricity and supply, trading and shipping of gas in the UK
E.ON Energy Services Limited*	Ordinary shares	100	England and Wales	Supply of metering, new connection and home installation services
Powergen Holdings BV +	Ordinary shares	100	The Netherlands	Intermediate holding company

* direct interest + indirect interest

14 Available for sale investments

	£m
At 1 January 2008	18
Revaluation	1
At 31 December 2008	**19**

Available for sale financial assets include the following:

	At 31 December 2008 £m	At 31 December 2007 £m
Listed equity securities – UK	**2**	2
Listed gilts – UK	**17**	16
	19	18

15 Financial receivables: amounts falling due after more than one year

	At 31 December 2008 £m	At 31 December 2007 £m
Finance lease receivables	**28**	24
Amounts due from parent undertaking and fellow subsidiaries	**19**	-
	47	24

Amounts due from parent undertaking and fellow subsidiaries is an unsecured loan which incurs interest at LIBOR plus 47.5 basis points and is repayable in 2010. Further details on finance lease receivables are provided in Note 17.

16 Inventories

	At 31 December 2008 £m	At 31 December 2007 £m
Fuel stocks	**155**	142
Stores	**102**	51
	257	193

17 Trade and other receivables

	At 31 December 2008 £m	At 31 December 2007 £m
Trade receivables	**1,978**	1,785
Less: provision for impairment of receivables	**(223)**	(205)
Trade receivables - net	**1,755**	1,580
Other receivables	**153**	7
Prepayments and accrued income	**164**	271
Finance lease receivables	**6**	6
Amounts due from parent undertaking and fellow subsidiaries	**55**	119
	2,133	1,983

17 Trade and other receivables (continued)

The age analysis of trade receivables is as follows:

	At 31 December 2008 £m	At 31 December 2007 £m
Total trade receivables thereof:	**1,755**	1,580
Not impaired and not past-due	**1,009**	1,157
Not impaired and up to 90 days past-due	**417**	242
Not impaired and 91 to 180 days past-due	**136**	95
Not impaired and 181 to 360 days past-due	**135**	47
Not impaired and over 360 days past-due	**58**	39

Valuation allowances for trade receivables have changed as shown in the following table:

	2008 £m	2007 £m
Balance as at 1 January	**(205)**	(182)
Impairment	**(18)**	(23)
Balance as at 31 December	**(223)**	(205)

The individual impaired receivables are due from a large number of customers from whom it is unlikely that full repayment will ever be received. Receivables are monitored by the various business units. There are no indications that the carrying amounts reported might be further impaired.

In addition to the increase in the provision for impairment of receivables a further £99 million was charged to the income statement during 2008 to write off trade receivables (2007: £145 million).

17 Trade and other receivables (continued)

The finance leases granted by the Group arise on the provision of CHP plants on certain client sites and a Public Finance Initiative ("PFI") lighting contract. Each CHP site provides steam and power to one principal client base as well as selling power to the rest of the Group. The lease duration is typically 15-20 years and the lessee generally has the option to acquire the site at the end of the lease. The PFI lighting contract is a 25 year contract to replace, repair and run public lighting across Staffordshire. The maturities of the finance leases are set out below:

	At 31 December 2008		At 31 December 2007	
	Gross Investment £m	**Net Investment £m**	Gross Investment £m	Net Investment £m
Within 1 year	**17**	**17**	35	35
Within 1-5 years	**30**	**24**	115	85
After 5 years	**28**	**17**	152	75
Impairment	**(30)**	**(24)**	(258)	(165)
	45	**34**	44	30

Unearned finance income at 31 December 2008 amounted to £11 million (2007: £14 million).

Collateral

Collateral issued to third parties, measured at a fair value, amounts to £47 million (2007: £36 million). This collateral includes amounts pledged to customers if a default in supply of electricity occurs.

There is also collateral held in respect of future open positions on gas and carbon trades. E.ON UK can sell or re-pledge this collateral with no subsidiary conditions.

18 Trade and other payables

	At 31 December 2008 £m	At 31 December 2007 £m
Trade payables	**608**	458
Amounts owed to parent undertaking and fellow subsidiaries	**285**	292
Other taxation and social security	**6**	9
Accruals and other creditors	**617**	623
Deferred income	**63**	49
	1,579	1,431

19 Borrowings: amounts falling due within one year

	At 31 December 2008 £m	At 31 December 2007 £m
Bank overdrafts	**20**	1
Short-term loans from parent undertaking and fellow subsidiaries	**72**	1,458
5% Euro Eurobond 2009 owed to external debt holders	**251**	-
5% Euro Eurobond 2009 owed to fellow group undertakings	**224**	-
Finance lease payable	**-**	18
	567	1,477

Short-term funding is provided through inter-company facilities that are unsecured and repayable on demand. The weighted average interest rate on all short-term loans during the year was 6.10 percent (2007: 7.17 percent).

20 Borrowings: amounts falling due after more than one year

	At 31 December 2008 £m	At 31 December 2007 £m
Amounts owed to external debt holders		
5% Euro Eurobond 2009	**-**	194
6.25% Sterling Eurobond 2024	**8**	8
2012 Loan	**-**	5
2023 Loan	**5**	-
	13	207
Amounts owed to fellow group undertakings		
5% Euro Eurobond 2009	**-**	174
6.25% Sterling Eurobond 2024	**224**	224
Term loan	**900**	900
Long-term loan 2010	**300**	-
Long-term loan 2011	**333**	560
Long-term loans	**1,495**	-
	3,252	1,858
	3,265	2,065

20 Borrowings: amounts falling due after more than one year (continued)

The 2023 Loan is unsecured, repayable in instalments and incurs interest at 5.15 percent. The term loan is unsecured and repayable in 2037 and incurs interest at 6.075 percent. The long-term loan 2010 is unsecured, repayable in 2010 and incurs interest at LIBOR plus 25 basis points. The long-term loan 2011 is unsecured, payable in 2011 and incurs interest at LIBOR plus 47.5 basis points. Other long-term loans include two unsecured loans payable of £1,495 million, both of which are repayable in 2013 and incur interest at LIBOR plus 22.5 basis points. All of the bonds outstanding are unsecured at 31 December 2008 and do not have any financial covenants (2007: none).

Maturity of financial liabilities

The maturity profile of the carrying amount of the Group's non-current borrowings was as follows:

	At 31 December 2008 £m	At 31 December 2007 £m
In more than one year but not more than two years	**300**	368
In more than two years but not more than five years	**1,828**	565
In more than five years	**1,137**	1,132
	3,265	2,065

At 31 December 2008 there was £3,692 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 which expire between 2010 and 2013. These facilities comprised:

Facility	Total facility £m	Amount undrawn at 31 December 2008 £m	Expiry date	Fees
E.ON UK plc – committed facility from E.ON AG	870	570	21 December 2010	10bp
E.ON UK plc – committed facility from E.ON UK Holding Company Ltd	3,000	2,667	6 March 2011	19bp
E.ON UK plc – committed facility from Powergen Group Investments	300	300	21 December 2010	-
Avon Energy Partners Holdings – committed facility from Powergen Ltd	1,100	105	30 June 2013	-
Powergen East Midlands Investments – committed facility from Powergen Ltd	550	50	30 June 2013	-
	5,820	**3,692**		

20 Borrowings: amounts falling due after more than one year (continued)

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. 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. The desired mix is managed by E.ON AG treasury.

Interest rate risk profile of financial liabilities:

	Total	Floating rate financial liabilities	Fixed rate financial liabilities		
				Weighted average interest rate	Weighted average period for which rate is fixed
	£m	£m	£m	%	Years
At 31 December 2008					
Sterling	**3,357**	**2,220**	**1,137**	**6.1**	**26.0**
Euros	**475**	**224**	**251**	**5.0**	**0.5**
	3,832	**2,444**	**1,388**	**5.9**	**21.4**

	Total	Floating rate financial liabilities	Fixed rate financial liabilities		
				Weighted average interest rate	Weighted average period for which rate is fixed
	£m	£m	£m	%	Years
At 31 December 2007					
Sterling	3,049	1,917	1,132	6.1	27.1
Euros	368	174	194	5.0	1.5
Dollars	125	-	125	6.5	0.2
	3,542	2,091	1,451	6.0	21.3

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.

20 Borrowings: amounts falling due after more than one year (continued)

The minimum lease payments under finance leases fall due as follows:

	At 31 December 2008 £m	At 31 December 2007 £m
Within one year	-	19
	-	19
Future finance charges on finance leases	-	(1)
Present value of finance lease liabilities	-	18

21 Financial derivatives

Treasury instruments

As part of the financing of its normal operating activities, the Group is permitted to hold a variety of financial instruments including swaps, 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. Active steps are taken to manage treasury 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.

Commodity instruments

Within the ordinary course of business the Group routinely enters into sale and purchase transactions for commodities. Several contracts were entered into and continue to be held for the purpose of the receipt or delivery of the commodity in accordance with the Group's expected sale, purchase or usage requirements. Such contracts are not in the scope of IAS 39.

21 Financial derivatives (continued)

Certain commodity contracts are held for trading and are within the scope of IAS 39. These are recognised on the balance sheet at fair value with the movements in fair value recognised in the Group income statement. The Group also uses commodity derivative instruments to manage fluctuations in commodity prices. Such contracts include forward contracts and swaps. Where these derivatives have been designated as cash flow hedges of underlying commodity price exposures, certain gains and losses attributable to these instruments are deferred in equity and recognised in the income statement when the hedged transaction crystallises. Commodity derivatives that are not part of a hedging relationship are recognised in the balance sheet at fair value with movements in fair value recognised in the income statement.

Valuation

The fair value of derivative instruments is sensitive to movements in underlying market rates and other relevant variables. The Group assesses and monitors the fair value of derivative instruments on a periodic basis. Fair values for each derivative financial instrument are determined as being equal to the price at which one party would assume the rights and duties of another party and calculated using common market valuation methods with reference to available market data as of the balance sheet date.

The following is a summary of the methods and assumptions for the valuation of financial instruments:

- Currency and commodity forward contracts, swaps and emission related derivatives are valued separately at their forward rates and prices as of the balance sheet date. Forward rates and prices are based on spot rates and prices, with forward premiums and discounts taken into consideration.
- The fair values of existing instruments to hedge interest rate risk are determined by discounting future cash flows using market interest rates over the remaining term of the instrument. Discounted cash values are determined for interest rate, cross-currency and cross-currency interest rate swaps for each individual transaction as of the balance sheet date. Interest exchange amounts are considered with an effect on current results at the date of payment or accrual.
- Certain long-term energy contracts, including options, are valued by the use of valuation models. These models use probability weighted expected values for gas prices and other indices, taking into account individual contract details such as volume and price formula.

Embedded derivatives

In accordance with IAS 39, 'Financial instruments: Recognition and measurement', the Group has reviewed all material contracts for embedded derivatives. Embedded derivatives are required to be separately accounted for if they do not meet certain requirements set out in the standard.

21 Financial derivatives (continued)

The Group has identified several embedded derivatives within its long-term gas contracts. These contracts satisfy the criteria of paragraph 5 of IAS 39 whereby the contracts were entered into and continue to be held for the purpose of the receipt or delivery of gas in accordance with the entity's expected usage requirements. The contracts do not therefore have to be recorded at fair value in their entirety on the balance sheet. The embedded derivative elements of the contracts are required to be valued and recorded as assets or liabilities on the balance sheet. The embedded derivatives relate to price indexation clauses within the contracts that are not deemed to be closely related to the economic characteristics and risks of the host contracts. The contracts were entered into at a time when such indexations were prevalent across the industry.

The fair values of the embedded derivatives are calculated as the difference between the fair value of the entire contract (host plus embedded derivative) and the fair value of the host contract. The total liability related to embedded derivatives is £17 million (2007: £81 million). Gains and losses arising from the movement in the value of embedded derivatives flow through the income statement as hedge accounting is not available.

During 2008, £64 million was credited (2007: £48 million charge) to the income statement in respect of fair value movements related to embedded derivatives.

Maturities of derivative financial instruments designated as cash flow hedges at the balance sheet date were:

	Contracts with positive fair values (£m)		**Contracts with negative fair values (£m)**	
	At 31 December 2008	At 31 December 2007	**At 31 December 2008**	At 31 December 2007
Cross-currency swaps				
Less than 1 year	-	-	-	(15)
1 to 5 years	-	-	-	-
Commodity forward contracts				
Less than 1 year	-	3	-	(26)
1 to 5 years	-	-	-	-
	-	3	-	(41)

Notes to the financial statements for the year ended 31 December 2008 (continued)

21 Financial derivatives (continued)

Derivative financial instruments not designated as hedges at the balance sheet date and all classified as current were:

	Contracts with positive fair values (£m)		Contracts with negative fair values (£m)	
	At 31 December 2008	At 31 December 2007	**At 31 December 2008**	At 31 December 2007
Interest rate swaps	**4**	-	-	-
Cross-currency swaps	**150**	41	-	-
Foreign currency forward contracts	**465**	34	**(230)**	(16)
Commodity swaps	**1,028**	440	**(1,277)**	(400)
Commodity forward contracts	**2,632**	1,202	**(3,386)**	(1,119)
Embedded derivatives within long-term gas contracts	-	-	**(17)**	(81)
Options	-	3	-	(4)
	4,279	1,720	**(4,910)**	(1,620)

Derivative financial instruments are classified within current assets and current liabilities unless they form part of a designated hedge relationship, when they are classified according to the period in which the hedging relationship is expected to expire.

The notional principal amount of derivatives are as follows:

	At 31 December 2008 £m	At 31 December 2007 £m
Interest rate swaps	**251**	515
Cross-currency swaps	**476**	492
Foreign currency forward contracts	**3,622**	1,255
Commodity swaps	**5,625**	2,424
Commodity forward contracts	**23,990**	11,962
Embedded derivatives within long-term gas contracts	**519**	762
Options	-	5
	34,483	17,415

Amounts within 1 year include the following instruments that are not designated as hedging instruments and expire over extended periods: Embedded derivatives relating to long-term gas contracts that expire over the period to 2013 and interest rate swaps, cross-currency swaps, foreign currency forward contracts, commodity swaps and commodity forward contracts that expire over the next 5 years.

21 Financial derivatives (continued)

Pursuant to currently available information, the following effects will accompany the reclassification of cash flow hedges from other reserves to the income statement in subsequent periods:

Timing of reclassifications from other reserves to the income statement - 2008

	Carrying Amount	2009	2010	2011-2013	> 2013
	£m	£m	£m	£m	£m
Other reserves – Currency cash flow hedges	-	-	-	-	-
Other reserves – Commodity cash flow hedges	-	-	-	-	-

Timing of reclassifications from other reserves to the income statement - 2007

	Carrying Amount	2008	2009	2010-2012	> 2012
	£m	£m	£m	£m	£m
Other reserves – Currency cash flow hedges	1	1	-	-	-
Other reserves – Commodity cash flow hedges	(12)	(12)	-	-	-

At 31 December 2008, the Group held £87 million (2007: £46 million) of financial assets in the form of Sterling bank deposits. These deposits earn interest at floating rates, fixed in advance for periods up to three months, by reference to Sterling LIBID.

22 Additional disclosures on financial instruments

The following table shows the carrying amounts of the financial instruments, their grouping into IAS 39 categories, their fair values and their measurement sources:

At 31 December 2008	**Carrying amounts £m**	**Total carrying amounts within the scope of IFRS 7 £m**	**IAS 39 measurement category[2]**	**Fair value £m**	**Of which: Determined using market prices £m**
Receivables from finance leases	34	34	-	34	-
Trade receivables	1,755	1,755	L&R	1,755	-
Derivative assets with hedging relationships	-	-	-	-	-
Derivative assets with no hedging relationships	4,279	4,279	HfT	4,279	3,660
Other operating assets	227	227	L&R	227	-
Cash and cash equivalents	87	87	AfS	87	87
Securities and fixed-term deposits	19	19	AfS	19	19
Bonds	(707)	(707)	AmC	(769)	(769)
Bank loans/liabilities to banks	(25)	(25)	-	(26)	(26)
Liabilities from finance leases	-	-	-	-	-
Trade payables	(608)	(608)	AmC	(608)	-
Other operating liabilities	(902)	(902)	AmC	(902)	-
Borrowings: amounts falling due after more than one year	(3,028)	(3,028)	AmC	(3,464)	-
Borrowings: amounts falling due within one year	(72)	(72)	AmC	(72)	-
Derivative liabilities with no hedging relationships	(4,910)	(4,910)	HfT	(4,910)	(4,661)
Derivative liabilities with hedging relationships	-	-	-	-	-

[2] AfS: Available for sale; L&R: Loans and receivables; HfT: Held for trading; AmC: Amortised cost

22 Additional disclosures on financial instruments (continued)

At 31 December 2007	Carrying amounts £m	Total carrying amounts within the scope of IFRS 7 £m	IAS 39 measure-ment category[2]	Fair value £m	Of which: Determined using market prices £m
Receivables from finance leases	30	30	-	30	-
Trade receivables	1,580	1,580	L&R	1,580	-
Derivative assets with hedging relationships	3	3	-	3	3
Derivative assets with no hedging relationships	1,720	1,720	HfT	1,720	1,644
Other operating assets	126	126	L&R	126	-
Cash and cash equivalents	46	46	AfS	46	46
Securities and fixed-term deposits	18	18	AfS	18	18
Bonds	(725)	(725)	AmC	(761)	(761)
Bank loans/liabilities to banks	(6)	(6)	-	(6)	(6)
Liabilities from finance leases	(18)	(18)	-	(18)	-
Trade payables	(458)	(458)	AmC	(458)	-
Other operating liabilities	(915)	(915)	AmC	(915)	-
Borrowings: amounts falling due after more than one year	(1,460)	(1,460)	AmC	(1,643)	(1,083)
Borrowings: amounts falling due within one year	(1,333)	(1,333)	AmC	(1,333)	-
Derivative liabilities with no hedging relationships	(1,620)	(1,620)	HfT	(1,620)	(1,509)
Derivative liabilities with hedging relationships	(41)	(41)	-	(41)	(41)

[2] AfS: Available for sale; L&R: Loans and receivables; HfT: Held for trading; AmC: Amortised cost

The carrying amounts of cash and cash equivalents, trade receivables and trade payables are considered reasonable estimates of their fair values because of their short maturity.

Where financial instruments are listed on an active market, the respective price quotes at that market constitute the fair value. This applies in particular to equities held and bonds issued.

The fair value of shareholdings in unlisted companies and of debt securities that are not actively traded, such as loans received, loans granted and financial liabilities, is determined by discounting future cash flows. Discounting takes place using current customary market interest rates through the remaining terms of the financial instruments.

22 Additional disclosures on financial instruments (continued)

The fair value of commercial paper and borrowings under revolving short-term credit facilities and of trade receivables is used as the fair value due to the short maturities of these instruments. See Note 21 for information on the determination of the fair value of derivative financial instruments.

The following two tables illustrate the contractually agreed (undiscounted) cash outflows arising from the financial liabilities included in the scope of IFRS 7:

At 31 December 2008	Cash outflows 2009 £m	Cash outflows 2010 £m	Cash outflows 2011-2013 £m	Cash outflows from 2014 £m
Bonds	516	16	49	435
Bank loans/liabilities to banks	20	-	1	4
Other financial liabilities	110	409	2,091	2,323
Cash outflows for financial liabilities	**646**	**425**	**2,141**	**2,762**
Trade payables	608	-	-	-
Derivatives (with/without hedging relationships)	4,423	1,650	347	-
Other operating liabilities	902	-	-	-
Cash outflows for trade payables and other operating liabilities	**5,933**	**1,650**	**347**	**-**
Total cash outflows for liabilities under IFRS 7	**6,579**	**2,075**	**2,488**	**2,762**

At 31 December 2007	Cash outflows 2008 £m	Cash outflows 2009 £m	Cash outflows 2010-2012 £m	Cash outflows from 2013 £m
Bonds	163	401	47	430
Bank loans/liabilities to banks	6	-	-	-
Liabilities from finance leases with third parties	19	-	-	-
Other financial liabilities	1,963	55	164	2,267
Cash outflows for financial liabilities	**2,151**	**456**	**211**	**2,697**
Trade payables	458	-	-	-
Derivatives (with/without hedging relationships)	5,093	1,850	297	-
Other operating liabilities	915	-	-	-
Cash outflows for trade payables and other operating liabilities	**6,466**	**1,850**	**297**	**-**
Total cash outflows for liabilities under IFRS 7	**8,617**	**2,306**	**508**	**2,697**

22 Additional disclosures on financial instruments (continued)

For financial liabilities that bear floating interest rates, the rates that were fixed on the balance sheet date are used to calculate future interest payments for subsequent periods as well. Financial liabilities that can be terminated at any time are assigned to the earliest maturity time band in the same way as put options that are exercisable at any time.

In gross-settled derivatives (usually currency derivatives and commodity derivatives), outflows are accompanied by related inflows of funds or commodities.

Gains and losses on the disposal of available-for-sale securities and equity investments are reported under other operating income and other operating expenses, respectively.

Risk management

Principles

The prescribed processes, responsibilities and actions concerning financial and risk management are described in detail in internal risk management guidelines applicable throughout the E.ON AG Group. A department exists within the E.ON AG group to manage all risk controlling and reporting in the area of commodities, while risk controlling and reporting in the areas of interest rates and currencies remains the responsibility the Financial Controlling department of E.ON AG.

The Group uses an E.ON AG Group-wide treasury, risk management and reporting system. This system is a standard information technology solution and is both fully integrated and continuously updated. The system is designed to provide for the analysis and monitoring of the E.ON AG Group's exposure to liquidity, foreign exchange and interest risks. The market units employ established systems for commodities. Counterparty risks are monitored on an E.ON AG Group-wide basis by Financial Controlling, with the support of a standard software package.

A separate Risk Committee is responsible for the maintenance and further development of the strategy set by the Board of Management of E.ON AG with regard to commodity and credit risk management policies. See Financial Review section for further details.

The following discussion of the Group's risk management activities and the estimated amounts generated from profit-at-risk, value-at-risk and sensitivity analyses are "forward-looking statements" that involve risks and uncertainties. Actual results could differ materially from those projected due to actual, unforeseeable developments in the global financial markets. The methods used by the Group to analyse risks, as discussed below, should not be considered projections of future events or losses. The Group also faces risks that are either non-financial or non-quantifiable. Such risks principally include country risk, operational risk and legal risk, which are not represented in the following analyses.

22 Additional disclosures on financial instruments (continued)

Foreign exchange risk management

Due to the international nature of some of its business activities, the E.ON AG Group is exposed to exchange risks related to sales, assets, receivables and liabilities denominated in foreign currencies, investments in foreign operations and anticipated foreign exchange payments. The Group's exposure results mainly from transactions in US dollars, Euros, and from net investments in foreign operations.

The foreign exchange risk arising from net investments in foreign operations with a functional currency other than sterling is reduced at E.ON AG Group level as needed through hedges of net investments. In addition, borrowings are made in foreign currency to control foreign exchange risks.

In line with the Group's internal risk-reporting process and international banking standards, market risk has been calculated using the value-at-risk method on the basis of historical market data. The value-at-risk (or "VaR") is equal to the maximum potential loss (on the basis of a probability of 99 percent) from foreign-currency positions that could be incurred within the following business day. The calculations take account of correlations between individual transactions; the risk of a portfolio is generally lower than the sum of its individual risks.

The one day VaR from the translation of deposits and borrowings denominated in foreign currency, plus foreign currency derivatives, amounted to £2.5 million (2007: £0.4 million) and, as in 2007, resulted primarily from the open positions denominated in Euros and US dollars. The increase in the VaR over the previous year is due in particular to the increased volatility of the EUR/GBP exchange rate and to overall higher volumes denominated in foreign currency.

This VaR has been calculated in accordance with the requirements of IFRS 7. In practice, however, another value will result, since certain underlying transactions (eg scheduled transactions and off-balance sheet own-use agreements) are not considered in the calculation according to IFRS 7.

Interest risk management

Several line items on the Group Balance Sheet and certain financial derivatives are based on fixed interest rates, and are therefore subject to changes in fair value resulting from changes in market rates. In the case of balance sheet items and financial derivatives based on floating interest rates, the Group is exposed to profit risks. The Group seeks to maintain an appropriate mix of fixed and floating rate debt in its overall debt portfolio. As of 31 December 2008, the Group has entered into interest rate swaps with a nominal value of £251 million (2007: £515 million).

22 Additional disclosures on financial instruments (continued)

A sensitivity analysis was performed on the Group's short-term and variable-rate borrowings, including interest rate derivatives. A one percent increase (decline) in the level of interest rates would cause net interest expense to rise (fall) by £26 million per annum (2007: £21 million).

Commodity price risk management

The Group is exposed to substantial risks resulting from fluctuations in the prices of commodities, both on the supply and demand side. This risk is measured based on potential negative deviation from the target adjusted Earnings Before Interest and Tax (EBIT).

The maximum permissible risk is determined centrally by the Board of Management of E.ON AG in its medium-term planning and translated into a decentralised limit structure in coordination with the market units. Before fixing any limits, the investment plans and all other known obligations and quantifiable risks have been taken into account.

E.ON UK conducts commodity transactions primarily within the system portfolio, which includes core operations, existing sales and procurement contracts and any energy derivatives used for hedging purposes or for power plant optimisation. The risk in the system portfolio thus arises from the open position between planned procurement and generation and planned sales volumes. The risk of these open positions is measured using the profit-at-risk ("PaR") number, which quantifies the risk by taking into account the size of the open position and the prices, the volatility and the liquidity of the underlying commodities. PaR is defined as the maximum potential negative change in the value of the portfolio at a probability of 95 percent in the event that the open position is closed as quickly as possible.

The principal derivative instruments used by E.ON UK to cover commodity price risk exposures are electricity, gas, coal and oil swaps and forwards, as well as emissions-related derivatives. Commodity derivatives are used by the Group for the purposes of price risk management, system optimisation, equalisation of burdens and improvement of margins. Proprietary trading is permitted only within very tightly defined limits. The risk metric used for the proprietary trading portfolio is a five day VaR with a 95 percent confidence interval.

22 Additional disclosures on financial instruments (continued)

The trading limits for proprietary trading as well as for all other trading activities are established and monitored by bodies that are independent from trading operations. Limits used on hedging and proprietary trading activities include five day VaR and PaR numbers, as well as stop-loss limits. Additional key elements of the risk management system are a set of E.ON AG Group-wide commodity risk guidelines, the clear division of duties between scheduling, trading, settlement and controlling, as well as a risk reporting system independent of the trading operations. E.ON AG Group-wide developments in commodity risks are reported to the Risk Committee on a monthly basis.

As of 31 December 2008, E.ON UK has entered into electricity, gas, coal, oil and emissions-related derivatives with a nominal value of £30,134 million (2006: £15,153 million).

The VaR for the proprietary trading portfolio amounted to £2 million as of 31 December 2008 (2007: £4 million). The PaR for the financial instruments included in the scope of IFRS 7 contained in the system portfolio was £60 million as of 31 December 2008 (2007: £27 million).

The restriction to financial instruments included in the scope of IFRS 7 that has been applied in this calculation does not reflect the economic position of the E.ON Group. Consequently, none of the off-balance sheet transactions, such as own-use contracts under normal trading relationships, may be included when calculating the PaR according to IFRS 7, even though such transactions represent a material component of the economic position. The PaR reflecting the actual economic position therefore differs significantly from the PaR determined in accordance with IFRS 7.

Equity risk

The value of all exchange-traded equity holdings on the balance sheet date was £2 million (2007: £2 million). This relates to the Group's interest in a listed company. This holding is treated as strategic and is not being hedged at this time. All exchange-traded equity holdings are classified as available for sale.

Changes in value are generally shown as a change in other reserves.

Credit risk management

Credit risk management involves the identification, measurement and control of credit risks. Credit risk results from non-delivery or partial delivery by a counterparty of the agreed consideration for services rendered or of payments owing on existing accounts receivable and from the additional expenses for replenishment of the funds thus lost.

22 Additional disclosures on financial instruments (continued)

In order to minimise credit risk arising from the use of financial instruments and from operating activities, the Group enters into transactions only with counterparties that satisfy the E.ON AG Group's internally established minimum requirements. Maximum credit risk limits are set on the basis of internally established credit quality ratings. The setting and monitoring of credit limits is subject to certain minimum requirements applicable throughout the Group. Not included in this process are long-term contracts arising from the operating activities and asset management transactions. Some of these are monitored separately at E.ON UK level.

Monthly reports on the levels of credit limits, and on their usage by significant counterparties in the areas of financial and energy trading, are forwarded to the E.ON AG Risk Committee. The carrying amounts of primary and derivative financial assets plus the financial guarantees made represent the maximum credit risk as of the reference date.

Derivative transactions are generally executed on the basis of standard agreements that allow for the netting of all outstanding transactions with individual counterparties. Although the greater part of the transactions was completed on the basis of contracts that do allow netting, the table below does not show netting of positive and negative fair values of continuous transactions. Moreover, collateral received is not taken into account. This means that the counterparty risk is shown to be higher in the following table than it actually is.

The credit ratings and maturities of the Group's derivative financial instruments are shown. The nominal values in the table represent the notional values of the derivatives and the counterparty risk is the positive fair value exposure on the derivatives.

	Total		up to 1 year		1 - 5 years	
Rating of counterparties **31 December 2008 (£m)**	Nominal value	Counter party risk	Nominal value	Counter party risk	Nominal value	Counter party risk
AAA and Aaa through AA- and Aa3	11,422	1,398	7,614	951	3,808	447
AA- and A1 or A+ and Aa3 through A- and A3	13,365	1,870	9,316	1,294	4,049	576
A- and Baa1 or BBB+ and A3 through BBB- and Baa3	3,386	351	1,970	209	1,416	142
BBB- and Ba1 or BB+ and Baa3 through BB- and Ba3	474	19	239	15	235	4
Other	235	-	230	-	5	-
	28,882	**3,638**	**19,369**	**2,469**	**9,513**	**1,169**

22 Additional disclosures on financial instruments (continued)

	Total		up to 1 year		1 - 5 years	
Rating of counterparties **31 December 2007 (£m)**	Nominal value	Counter party risk	Nominal value	Counter party risk	Nominal value	Counter party risk
AAA and Aaa through AA- and Aa3	5,901	1,167	3,696	474	2,205	693
AA- and A1 or A+ and Aa3 through A- and A3	6,340	990	4,728	706	1,612	284
A- and Baa1 or BBB+ and A3 through BBB- and Baa3	1,655	183	1,245	140	410	43
BBB- and Ba1 or BB+ and Baa3 through BB- and Ba3	644	64	620	59	24	5
Other	199	21	178	18	21	3
	14,739	**2,425**	**10,467**	**1,397**	**4,272**	**1,028**

23 Pension scheme arrangements

At 31 December 2008, E.ON UK had two registered pension schemes and one unfunded pension scheme. The main E.ON UK pension scheme is the E.ON UK Group of the Electricity Supply Pension Scheme ("the Scheme"). This is a funded scheme with several different benefit categories, largely defined benefit type. An actuarial valuation of the Scheme is normally carried out every three years by the Scheme's independent actuary, who recommends the rates of contribution payable by participating employers. In intervening years the actuary reviews the continuing appropriateness of the rates. The last actuarial valuation of the Scheme was as at 31 March 2007.

The principal actuarial assumptions used to calculate the defined benefit pension balances in the financial statements were:

	At 31 December 2008	At 31 December 2007
Average nominal rate of annual increase in salaries	**3.0%**	4.2%
Average nominal rate of annual increase in pensions	**2.5%**	3.2%
Discount rate	**6.4%**	5.8%
Expected return on assets	**5.4%**	5.9%
Inflation rate	**2.5%**	3.2%

23 Pension scheme arrangements (continued)

The mortality assumptions are based on the recent actual mortality experience of members within the scheme and the assumptions also allow for future mortality improvements. The assumptions are that a member currently aged 60 will live on average for a further 26 years if they are male and for a further 28 years if they are female. For a member who retires in 2028 at age 60, the assumptions are that they will live on average for a further 28 years after retirement if they are male and for a further 29 years after retirement if they are female.

The indicative impact on scheme liabilities of changing the discount rate assumption by 0.25 percent is +/-3.6 percent. The indicative impact on scheme liabilities of changing the inflation rate assumption by 0.25 percent is +/-3.5 percent. The indicative impact on scheme liabilities of changing pensioner life expectancy by one year is +/- 2.6 percent.

The amounts recognised in the balance sheet are as follows:

	At 31 December 2008 £m	At 31 December 2007 £m	At 31 December 2006 £m
Fair value of plan assets	**4,889**	5,103	4,969
Present value of funded obligations	**(4,403)**	(5,226)	(5,014)
	486	(123)	(45)
Present value of unfunded obligations	**(14)**	(15)	(20)
Net asset/(liability) recognised in the balance sheet	**472**	(138)	(65)

The amounts recognised in the income statement are as follows:

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Current service cost	**46**	50
Interest cost	**298**	253
Expected return on plan assets	**(295)**	(285)
Settlement	**7**	-
Curtailment	**9**	7
Net cost recognised in the income statement	**65**	25

23 Pension scheme arrangements (continued)

During the year, E.ON UK plc transferred part of their workforce into E.ON Energy Trading UK Staff Company Limited ("EET UK Staff Company"), a separate company outside the Group Europe. EET UK Staff Company set up a cross border scheme for UK staff to transfer their past service entitlement and build up future accrual. The transfer of staff to the E.ON cross border pension scheme was effective on 16 December 2008 and has been treated as a Settlement in the operating charge.

Changes in the present value of the defined benefit obligation are as follows:

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m	Year ended 31 December 2006 £m
Opening defined benefit obligation	**5,241**	5,034	5,157
Service cost	**46**	50	45
Interest cost	**298**	253	240
Transfers in	**-**	33	-
Actuarial (gains)/losses	**(914)**	112	(169)
Curtailment	**9**	7	8
Settlements	**(9)**	-	-
Contributions by plan participants	**19**	17	14
Benefits paid	**(273)**	(265)	(261)
	4,417	5,241	5,034

Changes in the fair value of plan assets are as follows:

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m	Year ended 31 December 2006 £m
Opening fair value of plan assets	**5,103**	4,969	4,917
Expected return on scheme assets	**295**	285	261
Transfers in	**-**	33	-
Actuarial (losses)/gains	**(369)**	11	(14)
Settlements	**(16)**	-	-
Contributions by employer	**130**	53	52
Contributions by plan participants	**19**	17	14
Benefits paid	**(273)**	(265)	(261)
	4,889	5,103	4,969

23 Pension scheme arrangements (continued)

The Group expects to make a special contribution of £62 million to its defined benefit pension plans in the year to 31 December 2009 and in addition, during 2010 to 2013, a special contribution of £61 million per annum will also be made by the Group to reduce the deficit in the Scheme.

The expected returns on the major categories of plan assets and their fair value as a percentage of total plan assets are as follows:

	Expected return		**Fair value of assets**	
	At 31 December 2008	At 31 December 2007	**At 31 December 2008**	At 31 December 2007
	%	%	**%**	%
Equity instruments	**9.0**	8.6	**14**	25
Debt instruments	**4.2**	4.9	**76**	64
Property	**6.6**	7.7	**9**	7
Other assets	**-**	-	**1**	4
	5.4	5.9	**100**	100

E.ON UK employs a building block approach in determining the long-term rate of return on pension plan assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The overall expected rate of return on assets is derived by aggregating the expected return for each asset class over the benchmark asset allocation. The benchmark asset allocation is 70 percent bonds, 20 percent equities and 10 percent property. No assumption is set for the other assets category.

The actual return on scheme assets is shown below:

	Year ended 31 December 2008	Year ended 31 December 2007
	£m	£m
Expected return on scheme assets	**295**	285
Actuarial (loss)/gain on scheme assets	**(369)**	11
Actual return on scheme assets	**(74)**	296

23 Pension scheme arrangements (continued)

Cumulative actuarial gains and losses recognised in equity:

	At 31 December 2008 £m	At 31 December 2007 £m
Gain at start of year	**27**	128
Actuarial gains/(losses) recognised in the year	**545**	(101)
Gain at end of year	**572**	27

History of experience adjustments:

	At 31 December 2008 £m	At 31 December 2007 £m	At 31 December 2006 £m	At 31 December 2005 £m
Fair value of scheme assets	**4,889**	5,103	4,969	4,917
Present value of defined benefit obligations	**(4,417)**	(5,241)	(5,034)	(5,157)
Surplus/(deficit) in the scheme	**472**	(138)	(65)	(240)
Experience adjustments on plan liabilities				
Amounts (£m)	**914**	(112)	169	(374)
Percentage of scheme liabilities (%)	**20.7%**	2.1%	3.4%	7.3%
Experience adjustments on plan assets				
Amounts (£m)	**(369)**	11	(14)	484
Percentage of scheme assets (%)	**7.6%**	0.2%	0.3%	9.8%

Notes to the financial statements
for the year ended 31 December 2008 (continued)

24 Provisions

Movements on provisions comprise:

	At 31 December 2007	Charged to the income statement	Accretion of discount	Provisions utilised	Transferred to disposal group classified as held-for-sale	**At 31 December 2008**
	£m	£m	£m	£m	£m	**£m**
Decommissioning	64	5	3	(1)	-	**71**
Contract provisions	36	40	-	(4)	(1)	**71**
Restructuring	1	12	-	-	-	**13**
Emissions obligations	103	237	-	(103)	-	**237**
ROCs	33	91	-	(78)	(46)	**-**
Other	-	36	-	-	-	**36**
Share based payments	4	-	-	(1)	-	**3**
	241	421	3	(187)	(47)	**431**

Provisions have been analysed between current and non-current as follows:

	At 31 December 2008	At 31 December 2007
	£m	£m
Current	**330**	157
Non-current	**101**	84
	431	241

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.

Contract provisions at 31 December 2008 primarily relate to certain out of the money CHP contracts. The provisions will be utilised over the onerous portions of the contracts, currently estimated to be years up to and including 2020.

Restructuring provisions relate primarily to the restructuring of the Energy Services business.

Emissions obligations provisions represent amounts payable to national authorities for emissions made during the year.

ROCs represent the value of certificates payable to national authorities for the Group's activities during the year.

24 Provisions (continued)

Share based payments are fully described in Note 27.

Other provisions primarily represent an amount payable to Lehman Brothers Holdings Inc. following termination of the ISDA Master Agreement and the close out of outstanding transactions arising from the collapse of the Lehman Group which will be utilised in 2009.

The Group's provisions include £71 million (2007: £36 million) for contract provisions which meet the definition of financial liabilities under IAS 39. These financial liabilities are considered to be floating rate liabilities as, in establishing the provisions, the cash flows have been 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.

The provisions transferred to the disposal group classified as held-for-sale amounts to £47 million and relates to contract provisions and ROCs provisions which are part of the E.ON Energy Trading segment. See Note 9 for further details regarding the disposal group held-for-sale.

25 Deferred tax

An analysis of the provision for deferred tax recognised at 31 December 2008 is as follows:

	At 31 December 2008 £m	At 31 December 2007 £m
Accelerated capital allowances	**918**	782
Other temporary differences	**(198)**	(65)
Provision for deferred tax	**720**	717
Provision at 1 January	**717**	506
Deferred tax (credit)/charge for year	**(155)**	199
Acquired	**3**	-
Taken to equity	**155**	12
Provision at end of year	**720**	717

The deferred tax on items charged directly to equity is that arising on the current year movements in cashflow hedges and actuarial gains and losses.

25 Deferred tax (continued)

	At 31 December 2008 £m	At 31 December 2007 £m
Intangibles	**13**	21
Investments	**(5)**	(7)
Property, plant and equipment	**918**	782
Receivables	**(6)**	(11)
Derivatives	**(281)**	15
Financial liabilities	**(2)**	3
Operating liabilities	**(23)**	(1)
Pensions provision	**132**	(72)
Other provisions	**(14)**	1
Unrealised capital losses	**9**	7
Windfarm PPA	**-**	(18)
Other	**(21)**	(3)
Deferred tax liability	**720**	717

The deferred tax liability due after more than one year is £720 million (2007: £717 million). The effect of the disposal of the E.ON Energy Trading business in January 2009 will be to remove a net £300 million asset from the deferred tax balance as at 31 December 2008 which will result in it increasing to a £1,020 million liability.

The deferred tax liability on property, plant and equipment has increased by £136 million due to a £53 million prior year adjustment, the effect of £38 million phasing out of Industrial Buildings Allowances and the balance of £45 million relates to the effect of acquisitions of assets in the year where tax deductions in the form of Capital Allowances exceed accounts depreciation.

26 Share capital

The share capital of the Company comprises:

	At 31 December 2008 £m	At 31 December 2007 £m
Authorised		
3,050,000,002 ordinary shares of 50p each (2007: 3,050,000,002 ordinary shares of 50p each)	**1,525**	1,525
Allotted, called-up and fully paid		
2,649,241,799 ordinary shares of 50p each (2007: 2,649,241,799 ordinary shares of 50p each)	**1,325**	1,325

27 Share based payments

Stock Appreciation Rights (SAR's)

In 1999, the E.ON AG Group introduced a stock-based compensation plan, SARs, based on E.ON AG shares. From 2002 up to and including 2005, E.ON UK annually granted virtual stock options ("Stock Appreciation Rights" or SARS) through the E.ON AG Stock Appreciation Rights program. The fourth tranche was exercised in full in 2008. SARs from the fifth tranche may still be exercised in accordance with the terms and conditions of the SARs. In 2008, the following obligations from the fourth to seventh tranches were outstanding. The terms of the SARs are based in Euros (€) and information is presented in Euros below.

	Tranche 7	Tranche 6	Tranche 5	Tranche 4
Date of issuance	3 January 2005	2 January 2004	2 January 2003	2 January 2002
Term	7 years	7 years	7 years	7 years
Vesting period	2 years	2 years	2 years	2 years
Price at issuance (€) *	61.10	44.80	37.86	50.70
Base price of Dow Jones STOXX Utilities Index (€)	268.66	211.58	202.14	262.44
Number of participants in year of issuance	31	13	21	18
Number of SARs issued	77,044	62,325	90,927	58,859
Exercise hurdle (exercise price exceeds the price at issuance by at least %)	10	10	10	10
Exercise hurdle (minimum exercise, €) *	22.41	16.42	13.88	18.59
Maximum exercise gain (€)	65.35	49.05	-	-
Out performance of benchmark index?	yes	yes	yes	yes

* After stock split on 4 August 2008

SARs can only be issued if the qualified executive owns a certain minimum number of shares of E.ON AG stock, which must be held until the issued SARs' expiration date or until all SARs have been exercised.

Following the expiration of a two year vesting period after issuance, qualified executives can exercise all or a portion of the SARs issued to them within predetermined exercise windows. These windows commence four weeks after the publication of an E.ON AG Interim Report or Annual Report in the years after the vesting period of the respective tranche's term. The term of the SARs is limited to a total of 7 years.

27 Share based payments (continued)

Both of the following two conditions must be met before SARs may be exercised:

- Between the date of issuance and exercise, the E.ON AG stock price must outperform the "Dow Jones STOXX Utilities Index (Price EUR)" on at least ten consecutive trading days.
- The E.ON AG stock price at the time of exercise must be at least 10 percent higher than the price at issuance.

SARs that remain unexercised by the qualified executive on the corresponding tranche's last exercise date are considered to have been exercised automatically on that date, subject to fulfilment of the exercise conditions. If the conditions are not met, the rights embodied in the SARs expire.

When exercising SARs, qualified executives receive cash. Possible dilutive effects on E.ON AG stock of capital related measures and extraordinary dividend payments between the SARs' time of issuance and exercise are taken into consideration when calculating such compensation.

The amount paid to qualified executives when they exercise their SARs is the difference between the E.ON AG stock price at the time of exercise and the underlying stock price at issuance multiplied by the number of SARs exercised. Beginning with the sixth tranche, a cap on gains on SARs equal to 100 percent of the strike price was put in place in order to limit the effect of unforeseen extraordinary increases in the price of the underlying stock. This cap on gains took effect for the first time in the 2006 fiscal year.

The underlying stock price equals the average XETRA closing quotations for E.ON AG stock during the December prior to issuance.

Once issued, SARs are not transferable and when the qualified executive leaves the E.ON AG Group they may be exercised according to the SARs' conditions either on the next possible allowed date or, if certain conditions have been fulfilled, prior to that date. If employment is terminated by the qualified executive, SARs expire and become void without compensation if such termination occurs within the two year vesting period or if the SARs are not exercised on the next possible exercise date.

A recognised option pricing model (Monte Carlo simulation) is applied in order to determine the value of the SARs under IFRS 2. This option pricing model simulates a large number of different scenarios for the E.ON AG stock and the benchmark, the Dow Jones STOXX Utilities Index (Price EUR). The intrinsic value of the stock options is determined for each scenario. The calculated value of the options is equivalent to the discounted average of these intrinsic values.

27 Share based payments (continued)

The table on page 97 and the following table show the parameters used for the purpose of the valuation on the balance sheet date.

	Tranche 7	Tranche 6	Tranche 5	Tranche 4
Intrinsic value on 31 December 2008 (€)[3]	24.21	40.53	47.46	34.62
Fair value on 31 December 2008 (€)[3]	24.72	37.80	48.33	34.62
Swap rate (%)	2.89	2.65	2.27	2.06
Volatility of the E.ON AG stock (%)	33.51	36.16	43.20	75.12
Dividend yield	6.64	6.08	5.57	5.57

[3] For three subscription rights.

In this option price model, historical volatility and correlations of the E.ON AG share price that reflect remaining maturities are applied in the calculations. The swap rate is applied as the interest rate for the corresponding remaining maturity. The dividend yields of the E.ON AG share are also included in the pricing model. The E.ON AG share dividend yield is calculated for each tranche and maturity based on the Bloomberg consensus estimates. The annual average of the Xetra closing prices for E.ON AG shares was €38.31 in 2008 (closing prices before the stock split have been adjusted). The Xetra closing price for E.ON AG shares at year-end was €28.44. The Dow Jones STOXX Utilities Index (Price EUR) closed at 337.55 points.

In 2008, 3,534 SARs (2007: 8,433) from tranche four were exercised on an ordinary basis. The gain to holders on exercise totalled £0.1 million (2007: £4.6 million). No options were exercised prior to their normal exercise window and no SARS expired.

The provision for the SAR program was £0.9 million as of the balance sheet date (2007: £2.0 million). The decline in the value of the rights resulted in income of £1.0 million in the 2008 fiscal year (2007: expense of £2.0 million).

Notes to the financial statements for the year ended 31 December 2008 (continued)

27 Share based payments (continued)

The number of SARs, the liability recognised and the expenses arising from the E.ON AG SAR program were as follows:

	Tranche 7	Tranche 6	Tranche 5	Tranche 4
SARs outstanding as of 1 January 2007	72,533	-	32,228	11,967
SARs exercised in 2007	(72,533)	-	(12,665)	(8,433)
SARs outstanding as of 31 December 2007	-	-	19,563	3,534
SARs exercised in 2008	-	-	-	(3,534)
SARs outstanding as of 31 December 2008	-	-	19,563	-
SARs exercisable at year end	-	-	19,563	-
Provision as of 1 January 2007 (£m)	2	-	2	-
Gain to holders in 2007 (£m)	(3)	-	(1)	-
Expense in 2007 (£m)	1	-	1	-
Provision as of 31 December 2007 (£m)	-	-	2	-
Gain to holders in 2008 (£m)	-	-	-	-
Income in 2008 (£m)	-	-	(1)	-
Provision as of 31 December 2008 (£m)	**-**	**-**	**1**	**-**
Average gain to holders per option in 2008 (£)	-	-	-	19.53

The average gain per stock option exercised during the year ended 31 December 2008 amounted to £nil in tranche 7 (2007: £45), £nil in tranche 6 (2007: £nil), £nil in tranche 5 (2007: £66) and £20 in tranche 4 (2007: £64).

At 31 December 2008, the SARs of tranches five were exercisable.

27 Share based payments (continued)

E.ON Share Performance Plan

In 2006, the E.ON AG Group introduced a new stock-based compensation plan, the E.ON Share Performance Plan, based on E.ON AG shares. During 2008, virtual shares ('Performance Rights') from the third tranche were granted to qualified executives for the first time.

The terms of the Performance Rights are based in Euros (€) and information is presented in Euros below:

	Tranche 3	Tranche 2	Tranche 1
Date of issuance	1 January 2008	1 January 2007	1 January 2006
Term	3 years	3 years	3 years
Target value of compensation at issuance (€)	136.26	96.52	79.22
Number of participants in year of issuance	24	28	33
Number of Performance Rights issued	16,886	28,434	15,832
Maximum cash amount (€)	408.78	289.56	237.66

At the end of the three year term, each Performance Right is entitled to a cash payment linked to the final E.ON AG share price established at the time. The amount of the payment is also linked to the relative performance of the E.ON AG share price in comparison with the benchmark index Dow Jones STOXX Utilities Index (Total Return EUR). The amount paid out is equal to the target value of this compensation component if the E.ON AG share price at the end of the term is equal to the initial price at the beginning of the term and the performance matches that of the benchmark. The maximum amount to be paid out to each participant per Performance Right is limited to three times the original target value on the grant date.

The calculation of the payment amount to participants takes place on the last day of the term of the tranche. The final share price is paid out if the performance of the E.ON AG stock matches that of the index. If the E.ON AG stock outperforms the index, the amount paid out is increased proportionally by one percent for each one percent of out performance. If the E.ON AG stock underperforms the index, disproportionate deductions of five percent are made for each one percent of underperformance. If the E.ON AG stock underperforms by 20 percent or more then no payment is made..

The plan contains adjustment mechanisms to eliminate the effect of events such as interim corporation actions. After the stock split, adjustment factors were generated to ensure neutrality of value with an unchanged number of Performance Rights. Due to the adjustment factors an adjustment of the "Target Value at Issuance" and the "Maximum Amount Paid" was not necessary.

27 Share based payments (continued)

The fair value of the Performance Rights in accordance with IFRS 2 is calculated using a recognised option pricing model (Monte Carlo simulation). This model simulates a large number of different scenarios for the E.ON AG stock and the benchmark, the Dow Jones STOXX Utilities Index (Total Return EUR). As all payments to plan participants take place on a specified date, no assumptions concerning exercise behaviour are made in this model.

The table below shows the parameters used for the purpose of the valuation on the balance sheet date.

	Tranche 3	Tranche 2	Tranche 1
Intrinsic value on 31 December 2008 (€)	73.78	91.62	89.70
Fair value on 31 December 2008 (€)	65.88	89.65	89.70
Swap rate (%)	2.69	2.25	-
Volatility of the E.ON AG stock (%)	40.22	52.5	-
Volatility of the Dow Jones STOXX Utilities Index (Total Return €) (%)	29.58	39.34	-
Correlation	0.92	0.93	-
Dividend yield of the E.ON share (€)	6.08	5.57	-

In 2008, 16,886 third tranche Performance Rights were granted in 2008. The first tranche matured on 31 December 2008. The ordinary payout at the year end for the remaining first tranche was set at €89.70 per Performance Right. In addition, the cash amount from 1,778 of the first and second tranches of Performance Rights was paid out in on an extraordinary basis in accordance with the terms and conditions of the plan. Total extraordinary payments amounted to £0.2 million (2007: £0.2 million). In 2008, 633 second-tranche Performance Rights expired in the 2008 fiscal year.

The liability recognised on the balance sheet at 31 December 2008 amounted to £2 million (2007: £2 million). The total cost of the stock option program in 2008 amounted to £0.3 million (2007: £2 million).

27 Share based payments (continued)

The number of Performance Rights, the liability recognised and the expenses arising from the E.ON Share Performance Plan were as follows:

	Tranche 3	Tranche 2	Tranche 1
Performance Rights outstanding as of 1 January 2007	-	-	15,832
Performance Rights granted in 2007	-	28,434	-
Performance Rights settled in 2007	-	-	(3,340)
Performance Rights expired in 2007	-	-	(166)
Performance Rights outstanding as of 31 December 2007	-	28,434	12,326
Performance Rights granted in 2008	16,886	-	-
Performance Rights settled in 2008	-	(498)	(12,326)
Performance Rights expired in 2008	-	(633)	-
Performance Rights outstanding at year end	**16,886**	**27,303**	**-**
Provision as of 31 December 2007 (£m)	-	1	1
Cash amount paid in 2008 (£m)	-	-	(1)
Expense in 2008 (£m)	-	1	-
Provision as of 31 December 2008 (£m)	**-**	**2**	**-**

28 Share premium account

	2008	2007
	£m	£m
At 1 January and 31 December	**97**	97

The share premium account is not available for distribution.

29 Retained earnings

	£m
At 1 January 2007	1,591
Retained profit for the year	738
Actuarial gains and losses (net of tax)	(70)
Dividends (£0.09 per share paid on 21 December 2007)	(240)
At 31 December 2007	2,019
Loss for the year	(112)
Actuarial gains and losses (net of tax)	393
Gain on partial disposal (Note 5)	2
At 31 December 2008	**2,302**

30 Other reserves

The Group	Capital redemption reserve £m	Special capital reserve £m	Available for sale investment reserve £m	Hedging reserve £m	Revaluation reserve £m	Total £m
At 31 December 2006	85	474	1	(108)	24	476
Cash flow hedges (net of tax)	-	-	-	100	-	100
At 31 December 2007	85	474	1	(8)	24	576
Cash flow hedges (net of tax)	-	-	1	8	-	9
At 31 December 2008	**85**	**474**	**2**	**-**	**24**	**585**

The 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 Central Electricity Generating Board's (CEGB) net assets were vested in its successor companies.

The revaluation reserve arose as a result of the step acquisitions of the renewables business and Cottam Development Centre Limited.

31 Equity minority interests

The Group	2008 £m	2007 £m
At 1 January	**(2)**	(6)
Income statement	**4**	6
Minority interest arising on partial disposal	**2**	-
Dividends paid to minority interests	**(2)**	(2)
At 31 December	**2**	(2)

Notes to the financial statements
for the year ended 31 December 2008 (continued)

32 Cash flows from operating activities

Reconciliation of net (loss)/profit to cash generated from operations:

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Net (loss)/profit including discontinued operations	**(108)**	744
Adjustments for:		
Tax charge (Note 8)	**84**	263
Amortisation (Note 10)	**63**	62
Goodwill impairment charge (Note 10)	**13**	-
Depreciation (Note 11)	**274**	237
Impairment loss on generating assets (Note 11)	**4**	-
Onerous contract recognition	**32**	-
Loss on disposal of property, plant and equipment (Note 3)	**1**	2
Gain on disposal of property, plant and equipment	**(68)**	(6)
Profit on sale of investments (Note 3)	**(3)**	-
Net finance costs (Note 7)	**168**	227
Share of results of associates after taxation (Note 12)	**(10)**	(11)
Non cash losses/(gains) on commodity and other derivative financial instruments	**896**	(419)
Other non-cash differences	**32**	4
Changes in working capital (excluding effects of acquisitions and disposal of subsidiaries)		
(Increase)/decrease in inventories	**(201)**	74
(Increase)/decrease in trade and other receivables	**(2,283)**	1,065
Increase/(decrease) in payables	**2,113**	(917)
Decrease in pensions liability	**(67)**	(28)
Increase in provisions	**203**	35
Cash generated from operations	**1,143**	1,332

33 Commitments and contingent liabilities

a) At 31 December 2008, the Group had commitments contracted but not provided for of £437 million (2007: £627 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.

c) A complaint was made to the European Commission by the South Wales Small Mines Association (SWSMA) against, amongst others, the Company and National Power plc in 1990. The complaint alleged breaches of EU law by the CEGB 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 the complaint in 1998 on legal grounds and that decision was subsequently appealed by some former members of SWSMA. The appeal did not proceed to judgement because the Court of Justice of the European Communities held this to be without purpose in light of its decision in a parallel case, in which it overturned the Commission's rejection of a similar complaint. The Commission proceeded to carry out an investigation into the substantive merits of the complaint. By a decision dated 18 June 2007 the Commission rejected the SWSMA complaint, indicating that there were insufficient grounds for acting upon it. This decision has been appealed by members of SWSMA to the European Court of First Instance and the Company have been granted leave to intervene in that action. Whilst there has been a withdrawal of action by some of the complainants, the action continues to be pursued by the remaining complainants.

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 2008, the Group's future commitments for the supply of coal under all its contractual arrangements totalled £1,106 million (2007: £1,150 million).

33 Commitments and contingent liabilities (continued)

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 2008, the estimated minimum commitment for the supply of gas under all these contracts totalled £3,784 million (2007: £3,379 million).

The Group is also committed to power purchase contracts for the supply of electricity. At 31 December 2008 the total contractual commitment for the Group was £1,551 million (2007: £1,008 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.

f) At 31 December 2008, the Group had the following operating lease commitments:

	31 December 2008		31 December 2007	
	Property £m	**Other assets £m**	Property £m	Other assets £m
Annual commitments under non-cancellable operating leases expiring:				
Within one year	**9**	**5**	26	4
Within two to five years	**32**	**10**	27	11
After five years	**39**	**1**	35	-
	80	**16**	88	15

The Group leases various offices and other buildings under non-cancellable operating lease arrangements. The leases have various terms, escalation clauses and renewal rights. The Group also leases certain other equipment under non-cancellable operating lease arrangements.

34 Ultimate holding company

The immediate parent undertaking is Powergen Group Investments, a company incorporated in England. The ultimate parent undertaking and controlling party is E.ON AG, a company incorporated in Germany, which is the parent company of the largest and smallest group to consolidate these financial statements. Copies of E.ON AG's accounts are available from the offices of E.ON AG at the following address:

E.ON AG
E.ON-Platz 1
D-40479
Düsseldorf
Germany

35 Related party transactions

Information about material related party transactions is set out below:

Subsidiary companies

Details of investments in principal subsidiary companies are disclosed in Note 13.

Parent company and fellow subsidiaries

Transactions and balances with the parent company and fellow subsidiaries are summarised below. Purchases and sales relate predominantly to purchases and sales of gas.

Income statements items	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Expenses incurred from parent undertaking and fellow subsidiaries	**563**	789
Income received from parent undertaking and fellow subsidiaries	**193**	84

Balance sheet items with parent undertakings and fellow subsidiaries are disclosed in Notes 17, 18, 19 and 20. Income statement interest payable and receivable are disclosed in Note 7.

Associates

Transactions and balances with associates are summarised below. Sales relate largely to management fees. Purchases relate largely to electricity generated by associates.

Income statements items	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Purchases from associates	**4**	102
Sales to associates	**-**	6

Balance sheet items	At 31 December 2008 £m	At 31 December 2007 £m
Receivables from associates	**-**	3
Payables to associates	**-**	15

35 Related party transactions (continued)

Pension funds

Information relating to the pension fund arrangements is disclosed in Note 23.

Directors and key management

Details of directors' and key management remuneration are disclosed in Note 6.

36 Acquisitions

On 15 January 2008, the Group purchased the entire issued share capital of CHN Group Limited for cash consideration of £23 million. The CHN Group wholly owns five trading subsidiaries, CHN Contractors Limited, CHN Electrical Services Limited, CHN Gas Service and Maintenance Limited, CHN Special Projects Limited and Industry Developments Limited. These companies are all located within the West Midlands. Their primary activities are to provide installation, service, maintenance and repair of plumbing, heating and electrical systems, primarily through business to business contracts with local authorities and housing associations.

On 31 March 2008, the Group purchased the entire issued share capital of Empower Training Services Limited for cash consideration of £3 million. The primary activity of Empower Training Services Limited is to provide training for the utilities industries.

On 18 July 2008, the Group increased its stake in the London Array unincorporated joint venture by acquiring half of Shell's project interest for £12 million after which the Group had a project interest of 50 percent. The London Array project is a consortium to develop an offshore wind farm in the outer Thames Estuary. Included in the consideration above is £8 million of consideration which is contingent on supply of the turbines. The Group's effective project interest was reduced to 30 percent following the subsequent disposal of a 40 percent share of E.ON Masdar London Array Limited (formerly E.ON Climate & Renewables UK London Array Limited).

On 8 August 2008, the Group acquired 60 percent of the share capital of Lighting for Staffordshire Holdings Limited and the trade and assets of its service provider for cash consideration of £11 million. Lighting for Staffordshire Holdings Limited owns the trading subsidiary Lighting for Staffordshire Limited which is involved in the maintenance of street lighting and illuminated signs in Staffordshire.

On 31 October 2008, the Group purchased the entire issued share capital of Thor Holdings Limited for £10 million. Thor Holdings Limited owns Thor Cogeneration Ltd which is involved in a project to build a cogeneration plant in the Teesside area.

36 Acquisitions (continued)

The acquisitions described above are immaterial to the Group and therefore the information below is shown in aggregate.

	Book value £m	**Fair value £m**
Property, plant and equipment	2	**2**
Intangibles	-	**26**
Cash and cash equivalents	1	**1**
Other current assets	24	**24**
Other current liabilities	(10)	**(12)**
Deferred tax liability	-	**(3)**
Non-current liabilities	(2)	**(3)**
	15	
Fair value of net assets acquired		**35**
Goodwill arising on acquisition		**25**
Total consideration		**60**

Satisfied by:	
Cash paid	**51**
Contingent consideration – cash	**8**
Directly attributable costs	**1**
	60

The goodwill arising on these acquisitions is attributable to the anticipated profitability of their activities in the new markets and the future operating synergies from the combination.

In total, these acquisitions contributed £53 million to revenue and £6 million to profit before tax for the period between the dates of acquisition and the balance sheet date.

If these acquisitions had been completed on the first day of the financial year, group revenues for the period would have been £69 million and group profit attributable to equity holders of the parent would have been £7 million.

37 Events after the balance sheet date

On 1 January 2009, the Group sold its E.ON Energy Trading business to EET AG as part of the overall strategy to combine all of the European energy trading operations. In accordance with IFRS 5, the E.ON Energy Trading business has been disclosed as a discontinued operation in these financial statements. The results of the E.ON Energy Trading business are included in discontinued operations in the Group income statement and the relevant assets and liabilities are classified as held-for-sale in the Group balance sheet as described in Note 9.

On 14 January 2009, the Group announced its intention to create a joint venture with RWE npower with plans to build new nuclear power stations in the UK. The Group and RWE npower will each have a 50 percent stake in the joint venture, which will focus long-term on seeking to secure sites being sold by the Nuclear Decommissioning Authority and taking them through the consents process to building and operating new nuclear power stations.

E.ON UK PLC

COMPANY ACCOUNTS

For the year ended 31 December 2008

Independent auditors' report to the member of E.ON UK plc

We have audited the parent company financial statements of E.ON UK plc for the year ended 31 December 2008 which comprise the Balance Sheet and the related Notes. These parent company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the group financial statements of E.ON UK plc for the year ended 31 December 2008.

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

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

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

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

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the Directors' Report and the Financial Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies within the parent company financial statements. Our responsibilities do not extend to any other information.

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company 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 parent company financial statements.

Opinion
In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008;
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the parent company financial statements.

PricewaterhouseCoopers LLP.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
28 April 2009

E.ON UK PLC

COMPANY BALANCE SHEET
as at 31 December 2008

	Note	31 December 2008	31 December 2007
		£m	£m
Fixed assets			
Intangible assets			
Goodwill	5	**21**	23
Other	5	**237**	103
Total intangible assets		**258**	126
Tangible assets	6	**1,888**	1,521
Investments			
Investments in associates	7	**1**	3
Investments in subsidiaries	7	**3,479**	3,478
Other	7	**19**	18
Total investments		**3,499**	3,499
		5,645	5,146
Current assets			
Stocks	8	**303**	162
Debtors: amounts falling due within one year	9	**4,423**	3,965
Commodity and other derivative financial instruments	13	**4,307**	1,723
Cash and short term deposits		**54**	22
		9,087	5,872
Creditors: amounts falling due within one year			
Loans and overdrafts	10	**(661)**	(489)
Commodity and other derivative financial instruments	13	**(4,950)**	(1,647)
Trade and other creditors	11	**(4,456)**	(3,715)
		(10,067)	(5,851)
Net current (liabilities)/assets		**(980)**	21
Total assets less current liabilities		**4,665**	5,167

COMPANY BALANCE SHEET
as at 31 December 2008 (continued)

	Note	**31 December 2008**	31 December 2007
		£m	£m
Creditors: amounts falling due after more than one year			
Long-term loans	12	**(1,765)**	(2,059)
Provisions for liabilities and charges	14	**(320)**	(155)
Deferred tax	15	**-**	(142)
Net assets		**2,580**	2,811
Capital and reserves			
Called-up share capital	16	**1,325**	1,325
Share premium account	17	**97**	97
Special capital reserve	17	**474**	474
Capital redemption reserve	17	**85**	85
Profit and loss account	17	**599**	830
Equity shareholders' funds	18	**2,580**	2,811

The financial statements on pages 114 to 138 were approved by the Board on 28 April 2009 and signed on its behalf by:

Brian Tear
Director

28 April 2009

The accounting policies and Notes on pages 116 to 138 form an integral part of these financial statements.

Notes to the parent company financial statements for the year ended 31 December 2008

1 Accounting policies

Nature of operations

The principal business in the UK is the generation, trading and wholesale of electricity and the trading of gas. The Company is also the holding company for the distribution and retail companies.

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.

There is no difference between the loss on ordinary activities before taxation and the retained loss for the year stated in Note 2 and its historical cost equivalent. 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.

Going concern

Notwithstanding the fact that the Company has net current liabilities and has made a loss for the year, the directors have prepared the financial statements on the going concern basis. The directors have in place sufficient borrowing facilities such that the Company can meet its obligations as they fall due for a period of at least twelve months from the date of the directors' approval of these financial statements.

Turnover

Turnover within the UK comprises sales from the generation, trading and wholesale of electricity and the trading of gas. Turnover excludes Value Added Tax.

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

1 Accounting policies (continued)

Provisions

Provisions are recognised in the balance sheet when the Company has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

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 and a related fixed asset are 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 are translated to Sterling at rates of exchange ruling at the end of the financial year.

Transactions denominated in foreign currencies are translated to Sterling at the exchange rate ruling on the transaction date.

Differences on exchange arising from the retranslation of the opening net investment in 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.

1 Accounting policies (continued)

Financial instruments

The Company's financial risk management policies are consistent with those of the Group and are described in the Directors' Report of the Group Financial Statements.

The Company is exempt under the terms of Financial Reporting Standard ("FRS") 29 from providing detailed disclosures in respect of its financial instruments because the Company is included within the Group's consolidated accounts and its financial instruments are incorporated into the disclosures to the Group Financial Statements.

Fixed asset investments

Investments in subsidiaries and associates are stated at original cost plus subsequent loans advanced or amounts invested. A provision is made for any impairment in the value of investments.

Other investments are treated as available for sale and are carried at fair value. Unrealised gains and losses on available for sale investments are recognised in equity until the investment is disposed of.

Debt instruments

In accordance with FRS 26, all borrowings are initially stated at the fair value of consideration received after deduction of directly attributable transaction 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 or received.

Derivative instruments

The Company uses a range of derivative instruments, including interest rate swaps, cross-currency swaps and energy-based options and futures contracts and foreign exchange contracts. Derivative instruments are used for hedging purposes, apart from certain energy-based options and futures contracts, which are used for trading purposes. Wherever possible, the Company takes the own use exemption permitted by FRS 26 for commodity contracts entered into and held for the purpose of the Company's own purchase, sale or usage requirements. Commodity contracts that do not qualify for own use exemption, including those entered into for trading purposes are accounted for in accordance with the policy below. Certain commodity derivatives qualify as designated hedges of future cash flows.

Derivative instruments are recorded as either assets or liabilities in the balance sheet and measured at fair value. Changes in the fair value of derivatives that do not qualify for hedge accounting are recognised in the profit and loss account as they arise.

1 Accounting policies (continued)

Changes in the value of instruments that are designated and effective as hedges of future cash flows ("cash flow hedges") are recognised directly in equity, with any ineffective portion recognised immediately in the profit and loss account.

Changes in the value of derivative instruments that are designated as hedges of the changes in fair value of assets or liabilities are recognised in the profit and loss account. A movement in fair value in the hedged item that is attributable to the risk being hedged is also recognised in the profit and loss account, resulting in any ineffectiveness being recognised immediately in the profit and loss account.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or no longer qualifies for hedge accounting. At that time, any cumulative gains or losses relating to cash flow hedges recognised in equity are recognised in the profit and loss account in the same period in which the hedged item affects net profit or loss. If a hedged transaction is no longer expected to occur, any net cumulative gain or loss recognised in equity is immediately transferred to the profit and loss account.

Derivatives embedded within other financial instruments or host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value in their entirety.

Intangible fixed assets

Goodwill

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.

Emission allowances

Emission rights held under national and international emissions rights systems are reported as intangible assets. Emission rights are capitalised at their acquisition costs when issued for the respective reporting period as (partial) fulfilment of the notice of allocation from the responsible national authorities, or purchased from third parties. The consumption of emission rights is recognised at average cost based on emissions made. A shortfall in emission rights is recognised within other provisions at cost. The expenses incurred for the consumption of emission rights and the recognition of a corresponding provision are reported under cost of goods sold.

As part of operating activities, emission rights are also held for proprietary trading purposes. Emission rights held for proprietary trading are reported under derivative financial instruments at fair value.

1 Accounting policies (continued)

Tangible fixed assets

Tangible fixed assets are stated at original cost, 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, 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 used to finance the construction of a major capital project with a long period of development, interest payable is capitalised as part of the cost of the asset and written off over the economic useful life of the asset. Where specific borrowings are used, the amount capitalised is based on actual interest payable. Where general borrowings are used, the amount capitalised is based on the weighted average cost of capital of the Group, not exceeding the actual expenditure incurred during the relevant period of construction.

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
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.

1 Accounting policies (continued)

Impairment

Impairments of assets are calculated as the difference between the carrying value of the asset and its recoverable amount, if lower. Where such an asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the income generating unit to which the asset belongs.

Stocks

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 considered to be 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'. Timing differences arise primarily from the differing treatment for taxation and accounting purposes of provisions and depreciation of fixed assets. Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, or where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered.

Deferred tax is measured at the tax rates that are expected to apply in the periods which the timing differences are expected to reverse, based on tax laws that have been enacted or substantially enacted by the balance sheet date.

Cash flow statement

The Company is the parent undertaking of the E.ON UK Group, and is included in the consolidated financial statements of the Group. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 (revised 1996) 'Cash Flow Statements' (FRS 1).

1 Accounting policies (continued)

Related party transactions

The Company is exempt under the terms of FRS 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.

Equity

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Pension costs

The Company contributes to a funded group pension scheme operated by the Company, the assets of which are invested in a separate trustee-administered fund. The Company is unable to identify its share of the underlying assets and liabilities of the group pension scheme. The Company has accounted for its contribution to the group pension scheme as if the scheme was a defined contribution scheme and accounts for contributions payable to the group pension scheme in the accounting period in which they fall due.

Dividend distribution

Dividend distribution to the Company's shareholder is recognised as a liability in the financial statements in the period in which the dividends are approved.

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

Offsetting

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

2 Loss of the Company

The loss for the financial year of the Company is £247 million (2007: £ 792 million profit). The Company is not publishing a separate profit and loss account as permitted by Section 230 of the Companies Act 1985. The Company has made a loss for the year principally due to derivative losses, as a result of lower gas and power prices at the year end.

3 Directors' remuneration

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 2008 £	Year ended 31 December 2007 £
Aggregate emoluments	**3,474,518**	4,093,299

Retirement benefits are accruing to five (2007: five) directors under a defined benefit scheme. During the year no directors exercised options over shares they were rewarded for services to the E.ON Group (2007: none). During the year three (2007: four) directors exercised Performance Rights (2007: Stock Appreciation Rights) over shares in the ultimate parent company, E.ON AG, that they were awarded for services to the E.ON UK Group.

Highest paid director	Year ended 31 December 2008 £	Year ended 31 December 2007 £
Annual salary	**574,975**	548,383
Annual bonus	**586,100**	410,500
Long term incentive payments	**199,757**	1,450,940
Other benefits	**170,155**	42,219
Total emoluments, excluding gains on the exercise of share options and benefits accruing under long-term incentive schemes	**1,530,987**	2,452,042
Defined benefit pension scheme:		
- Accrued pension at end of year	**183,510**	157,860

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

4 Employee information

The average number of persons employed by the Company, including directors was:

	Year ended 31 December 2008	Year ended 31 December 2007
Total operations	**2,840**	2,794

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

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Wages and salaries	**169**	159
Social security costs	**16**	15
Other pension costs (Note 19)	**76**	14
	261	188

5 Intangible fixed assets

	Goodwill £m	Other £m	Total £m
Cost			
At 1 January 2008	32	103	135
Acquisitions (Note 21)	1	5	6
Additions	-	505	505
Disposals	(1)	(376)	(377)
At 31 December 2008	**32**	**237**	**269**
Amortisation			
At 1 January 2008	9	-	9
Charge for the year	2	-	2
At 31 December 2008	**11**	**-**	**11**
Net book value at 31 December 2008	**21**	**237**	**258**
Net book value at 31 December 2007	23	103	126

Other intangible assets primarily comprise emission rights and are not amortised.

6 Tangible fixed assets

	Generating assets £m	Other assets £m	Total £m
Cost			
At 1 January 2008	3,218	51	3,269
Additions	502	2	504
Disposals	(110)	(2)	(112)
At 31 December 2008	**3,610**	**51**	**3,661**
Depreciation			
At 1 January 2008	1,709	39	1,748
Charge for the year	121	5	126
Disposals	(101)	-	(101)
At 31 December 2008	**1,729**	**44**	**1,773**
Net book value at 31 December 2008	**1,881**	**7**	**1,888**
Net book value at 31 December 2007	1,509	12	1,521

Generating assets include freehold land and buildings with a net book value of £160 million (2007: £150 million).

Generating assets include capitalised finance costs of £55 million (2007: £41 million).

7 Investments

	Subsidiary investment	Associate investment		
	Equity £m	Equity £m	Other investments £m	Total £m
At 31 December 2007	3,478	3	18	3,499
Revaluation surplus	-	-	1	1
Additions	15	-	-	15
Impairments	(13)	-	-	(13)
Disposals	(1)	(2)	-	(3)
At 31 December 2008	**3,479**	**1**	**19**	**3,499**

On 31 October 2008, the Company purchased the entire issued share capital of Thor Holdings Limited for £10 million. Thor Holdings Limited owns Thor Cogeneration Ltd which is involved in a project to build a cogeneration plant in the Teesside area.

Notes to the parent company financial statements for the year ended 31 December 2008 (continued)

7 Investments (continued)

On 31 March 2008, the Company acquired the entire issued share capital of Empower Training Services Limited for cash consideration of £3 million. The primary activity of Empower Training Services Limited is to provide training for the utilities industries.

On 8 August 2008, the Company acquired 60 percent of the share capital of Lighting for Staffordshire Holdings Limited for cash consideration of £2 million. Lighting for Staffordshire Holdings Limited owns the trading subsidiary Lighting for Staffordshire Limited which is involved in the maintenance of street lighting and illuminated signs in Staffordshire.

During 2008, the carrying amount of £13 million relating to CT Services Holdings Limited was impaired following a strategic review of the business activities.

Interests in subsidiary undertakings

Details of the Company'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 Company as a whole.

Name	Class of share capital	Proportion of nominal value of issued equity shares and voting rights held by the Company %	Country of incorporation or registration	Principal business activities
Powergen International Limited	Ordinary shares	100	England and Wales	Holding company for international activities
E.ON Energy Limited	Ordinary shares	100	England and Wales	Supply of electricity and supply, trading and shipping of gas in the UK
Powergen (East Midlands) Investments	Ordinary shares	100	England and Wales	Holding company for distribution activities
E.ON Climate & Renewables UK Limited	Ordinary shares	100	England and Wales	Holding company for renewable activities
EME Distribution No. 2 Limited	Ordinary shares	100	England and Wales	Holding company for distribution activities
E.ON UK Energy Services Limited	Ordinary shares	100	England and Wales	Supply of metering, new connection and home installation services

7 Investments (continued)

Associates

Details of the Company's principal investments in associates are as follows:

	Accounting reference date	Country of incorporation or registration	Shares held	Percentage of capital held directly by the Company
Biogeneration Limited	31 March	England and Wales	Ordinary shares	50%

The principal activity of Biogeneration Limited is to generate electricity using methane produced by its landfill sites. The remaining 50 percent is owned by Biffa Waste Services Limited, a wholly owned subsidiary of Biffa Limited.

Biogeneration Limited has aggregate share capital and reserves of £1 million at its year end (2007: £1 million) and recorded a profit for the year of £1 million (2007: £1 million).

On 30 April 2008, the Company sold its 49 percent investment in E.ON IS UK Limited to the major shareholder, E.ON IS GmbH for its market value of £3 million.

Other investments

Other investments include the following:

	At 31 December 2008 £m	At 31 December 2007 £m
Listed equity securities – UK	**2**	2
Listed gilts – UK	**17**	16
	19	18

8 Stocks

	At 31 December 2008 £m	At 31 December 2007 £m
Fuel stocks	**274**	140
Stores	**29**	22
	303	162

9 Debtors: amounts falling due within one year

	At 31 December 2008 £m	At 31 December 2007 £m
Trade debtors	**260**	142
Other debtors	**105**	44
Prepayments and accrued income	**105**	208
United Kingdom corporation tax	**-**	77
Deferred tax (Note 15)	**88**	-
Other taxation and social security	**57**	-
Amounts due from group undertakings	**3,808**	3,494
	4,423	3,965

Amounts due from group undertakings are unsecured, a combination of interest free and interest bearing, denominated in Sterling and repayable on predetermined dates. Interest bearing loans are set at LIBOR plus 25 to 70 basis points.

10 Loans and overdrafts

	At 31 December 2008 £m	At 31 December 2007 £m
Bank overdrafts	**112**	145
Short-term loans from parent undertaking and fellow subsidiaries	**74**	344
5% Euro Eurobond 2009 – amounts owed to external debt holders	**251**	-
5% Euro Eurobond 2009 - amounts owed to fellow group undertakings	**224**	-
	661	489

Short-term funding is provided through inter-company facilities, which are unsecured and repayable on demand. Amounts owed to parent undertaking and fellow subsidiaries are unsecured, incur interest based on LIBOR, are denominated in Sterling and are repayable on predetermined dates.

The weighted average interest rate on all short-term loans during the year was 6.2 percent (2007: 5.6 percent).

None of the bonds outstanding at 31 December 2007 and 31 December 2008 have any financial covenants.

11 Trade and other creditors falling due within one year

	At 31 December 2008 £m	At 31 December 2007 £m
Trade creditors	**528**	397
Amounts owed to group undertakings	**3,528**	3,041
United Kingdom corporation tax	**64**	-
Overseas tax	**19**	-
Other taxation and social security	**-**	21
Accruals and other creditors	**317**	256
	4,456	3,715

Amounts owed to group undertakings are unsecured, a combination of interest free and interest bearing, are denominated in Sterling, Euro and US Dollar and are repayable on predetermined dates. Interest bearing loans are set at LIBOR less 12.5 to plus 50 basis points.

12 Long-term loans

	At 31 December 2008 £m	At 31 December 2007 £m
Amounts owed to external debt holders		
5% Euro Eurobond 2009	**-**	194
6.25% Sterling Eurobond 2024	**8**	8
	8	202
Amounts owed to fellow group undertakings		
5% Euro Eurobond 2009	**-**	174
6.25% Sterling Eurobond 2024	**224**	223
Term loan	**900**	900
Long-term loan 2010	**300**	-
Long-term loan 2011	**333**	560
	1,757	1,857
	1,765	2,059

None of the bonds outstanding at 31 December 2007 and 31 December 2008 have any financial covenants. Amounts owed to fellow group undertakings are unsecured.

12 Long-term loans (continued)

The term loan is repayable in 2037 and incurs interest at 6.075 percent. The long-term loan 2010 is repayable in 2010 and incurs interest at LIBOR plus 25 basis points. T he long-term loan 2011 is repayable in 2011 and incurs interest at LIBOR plus 47.5 basis points.

13 Financial instruments

Amounts recognised in respect of derivative financial instruments are as follows:

	Assets (£m)		**Liabilities (£m)**	
	At 31 December 2008	At 31 December 2007	**At 31 December 2008**	At 31 December 2007
Interest rate swaps	**4**	-	-	-
Cross-currency swaps	**150**	41	-	-
Foreign currency forward contracts	**465**	34	**(233)**	(17)
Commodity swaps	**1,028**	440	**(1,277)**	(400)
Commodity forward contracts	**2,660**	1,205	**(3,423)**	(1,145)
Embedded derivatives within long term gas contracts	-	-	**(17)**	(81)
Options	-	3	-	(4)
	4,307	1,723	**(4,950)**	(1,647)

Derivative financial instruments are classified within current assets and current liabilities unless they form part of a designated hedge relationship, when they are classified according to the period in which the hedging relationship is expected to expire.

The fair value of these derivatives is equivalent to the carrying value.

14 Provisions for liabilities and charges

Movements on provisions comprise:

	At 31 December 2007	Charged to the profit and loss account	Accretion of discount	Provisions utilised	**At 31 December 2008**
	£m	£m	£m	£m	**£m**
Contract provisions	10	37	-	(7)	**40**
Decommissioning	41	1	2	(1)	**43**
Emissions obligations	104	237	-	(104)	**237**
	155	275	2	(112)	**320**

Contract provisions at 31 December 2008 primarily represent an amount payable to Lehman Brothers Holdings Inc. following termination of the ISDA Master Agreement and the close out of outstanding transactions arising from the collapse of the Lehman Group which will be utilised in 2009.

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.

Emissions obligations provisions represent amounts payable to national authorities for emissions made during the period.

15 Deferred tax

An analysis of the full provision and discounted provision for deferred tax recognised at 31 December 2008 is as follows:

	At 31 December 2008 £m	At 31 December 2007 £m
Accelerated capital allowances	**236**	235
Other timing differences	**(254)**	(13)
Undiscounted (asset)/provision for deferred tax	**(18)**	222
Discount	**(70)**	(80)
Discounted (asset)/provision for deferred tax	**(88)**	142

	2008 £m	2007 £m
Provision/(asset) at 1 January	**142**	(16)
Deferred tax (credit)/charge for year	**(233)**	122
Taken to equity	**3**	36
(Asset)/provision at 31 December	**(88)**	142

As at 31 December 2008 deferred tax balances are measured at the standard rate of corporation tax in the UK at 28 percent, as this is the rate that will apply when these timing differences reverse. During the year, the rate at which capital allowances are given on plant (from 25 percent to 20 percent), long-life plant (from 6 percent to 10 percent) and industrial buildings (from 4 percent to 3 percent, to be reduced to nil by 2011) changed. The impact of this change is to increase the deferred tax provision by £1m. As a result of the change in treatment of industrial buildings on disposal such that no balancing tax allowances or charges will arise in the future the balance of deferred tax relating to industrial buildings has been removed from the deferred tax balances. The impact of this change is to reduce the deferred tax provision by £11m.

The effect of the disposal of the E.ON Energy Trading business in January 2009 will be to remove a net asset of £270 million from the deferred tax balance at 31 December 2008, which will result in a liability of £182 million.

16 Share capital

The share capital of the Company comprises:

	At 31 December 2008 £m	At 31 December 2007 £m
Authorised		
3,050,000,002 (2007: 3,050,000,002) ordinary shares of 50p each	**1,525**	1,525
Allotted, called-up and fully paid		
2,649,241,799 (2007: 2,649,241,799) ordinary shares of 50p each	**1,325**	1,325

17 Reserves

	Share premium account £m	Special capital reserve £m	Capital redemption reserve £m	Profit and loss account £m
At 31 December 2007	97	474	85	830
Cash flow hedges (net of tax)	-	-	-	10
Loss for year	-	-	-	(241)
At 31 December 2008	**97**	**474**	**85**	**599**

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.

18 Reconciliation of movements in shareholders' funds

	31 December 2008 £m	31 December 2007 £m
(Loss) /profit for the financial year	**(241)**	792
Dividends	**-**	(240)
Retained (loss) / profit for the financial year	**(241)**	552
Shares issued	**-**	1,000
Cash flow hedges (net of tax)	**10**	100
Net movement in shareholders' funds	**(231)**	1,652
Opening shareholders' funds	**2,811**	1,159
Closing shareholders' funds	**2,580**	2,811

19 Pension commitments

At 31 December 2008, the Company had two registered pension schemes and one unfunded pension scheme. The main Company pension scheme is the E.ON UK Group of the Electricity Supply Pension Scheme ("the Scheme"). This is a funded scheme with several different benefit categories, largely defined benefit type. An actuarial valuation of the Scheme is normally carried out every three years by the Scheme's independent actuary, who recommends the rates of contribution payable by participating employers. In intervening years the actuary reviews the continuing appropriateness of the rates. The last full actuarial valuation of the Scheme was as at 31 March 2007. The valuation of the Scheme at an E.ON UK plc group level is not performed in accordance with FRS 17 "Retirement Benefits", therefore the surplus, as calculated in accordance with IAS 19 "Employee Benefits" ("IAS 19"), has been disclosed. The E.ON UK Group surplus under IAS 19 is as follows:

	31 December 2008	31 December 2007
Valuation surplus/(deficit)	**£472m**	£(140)m
Market value of assets	**£4,889m**	£5,103m
Funding level	**110.4%**	97.6%
The scheme was valued using the following assumptions		
– average nominal rate of return on investments (discount rate)	**6.4%**	5.8%
– average nominal rate of annual increase in salaries	**3.0%**	4.2%
– average nominal rate of annual increase in pensions	**2.5%**	3.2%
Inflation rate	**2.5%**	3.2%
Method of valuation used	**IAS 19**	IAS 19

19 Pension commitments (continued)

The contributions paid by the Company are accounted as if the scheme were a defined contribution scheme, as the Company is unable to identify its share of the underlying assets and liabilities in the scheme. The cost of contributions to the group scheme amount to £76 million (2007: £14 million), being 65.9 percent of pensionable salary (2007: 12.6 percent). This includes a special contribution of £61 million in 2008.

Excluding the special contribution, the cost of contributions to the group scheme amount to £15 million (2007: £14 million), being 12.8 percent of pensionable salary (2007: 12.6 percent).

An amount of £8 million (2007: £6 million) is included within other creditors, being the outstanding contributions to the Company scheme.

20 Commitments and contingent liabilities

a) At 31 December 2008, the Company had commitments contracted but not provided of £416 million (2007: £387 million) for capital expenditure.

b) The Company 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 Company.

The directors are of the opinion, having regard to legal advice received, the Company'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 Company's financial position, results of operations or liquidity.

c) A complaint was made to the European Commission by the South Wales Small Mines Association (SWSMA) against, amongst others, the Company and National Power plc in 1990. The complaint alleged breaches of EU law by the CEGB 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.

20 Commitments and contingent liabilities (continued)

The Commission rejected the complaint in 1998 on legal grounds and that decision was subsequently appealed by some of the former members of SWSMA. The appeal did not proceed to judgement because the Court of Justice of the European Communities held this to be without purpose in light of its decision in a parallel case, in which it overturned the Commission's rejection of a similar complaint. The Commission proceeded to carry out an investigation into the substantive merits of the complaint. By a decision dated 18 June 2007 the Commission rejected the SWSMA complaint, indicating that there were insufficient grounds for acting upon it. This decision has been appealed by members of SWSMA to the European Court of First Instance and the Company have been granted leave to intervene in that action. Whilst there has been a withdrawal of action by some of the complainants, the action continues to be pursued by the remaining complainants.

d) The Company 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 2008, the Company's future commitments for the supply of coal under all its contractual arrangements totalled £1,106 million (2007: £1,150 million).

The Company is also committed to purchase gas under various long-term gas supply contracts including the supply of gas to the Company's three UK power stations. At 31 December 2008, the estimated minimum commitment for the supply of gas under all these contracts totalled £3,784 million (2007: £3,379 million).

The Company is also committed to power purchase contracts for the supply of electricity. At 31 December 2008, the total contractual commitment for the Company was £1,551 million (2007: £1,008 million).

e) The Company has issued guarantees to third parties to support its subsidiaries' activities, particularly around gas and power procurement and banking activities. At 31 December 2008, the credit risk exposure under financial guarantees issued by E.ON UK plc in support of its subsidiaries was £602 million (2007: £628 million).

f) In the normal course of business the Company 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.

Notes to the parent company financial statements for the year ended 31 December 2008 (continued)

20 Commitments and contingent liabilities (continued)

g) At 31 December 2008, the Company had the following operating lease commitments:

	31 December 2008	31 December 2007
	Property £m	Property £m
Annual commitments expiring under non-cancellable operating leases expiring:		
Within one year	**1**	1
Within two to five years	**1**	2
After five years	**6**	4
	8	7

The Company leases various offices and other buildings under non-cancellable operating lease arrangements. The leases have various terms, escalation clauses and renewal rights.

21 Acquisitions and disposals

On 8 August 2008, as part of the investment in Lighting for Staffordshire Holdings Limited, trade and assets of the service provider ABB Highways Lighting were acquired for cash consideration of £9 million. The acquired business is involved in the maintenance of street lighting and illuminated signs in Staffordshire. This transaction has been accounted for by the purchase method of accounting.

	Book value £m	**Fair value £m**
Fixed asset intangibles – contracts	-	**5**
Current assets	7	**5**
Current liabilities	(2)	**(2)**
	5	**8**
Goodwill arising on acquisition		**1**
Total consideration		**9**

Satisfied by:	
Cash	**9**
Directly attributable costs	**-**
	9

21 Acquisitions & disposals (continued)

The goodwill arising on the acquisition is attributable to the anticipated profitability of their activities in the new markets and the future operating synergies from the combination.

On the same day as the acquisition, the trade and assets acquired were transferred to one of E.ON UK plc's subsidiary companies. The consideration received and the fair value of net assets transferred was £9 million resulting in £nil gain or loss on disposal.

22 Subsequent events

On 1 January 2009, the Company sold its E.ON Energy Trading business to EET AG as part of the overall strategy to combine all of the European energy trading operations.

On 1 January 2009, the trade and assets of Empower Training Company Limited, a subsidiary company, were transferred to the Company.

On 14 January 2009, the Company announced its intention to create a joint venture with RWE npower with plans to build new nuclear power stations in the UK. The Company and RWE npower will each have a 50 percent stake in the joint venture, which will focus long-term on seeking to secure sites being sold by the Nuclear Decommissioning Authority and taking them through the consents process to building and operating new nuclear power stations.

23 Ultimate parent undertaking and controlling party

The immediate parent undertaking is Powergen Group Investments, a company incorporated in England. The ultimate parent undertaking in the UK is E.ON UK Holding Company Limited, a company incorporated in England. The ultimate parent undertaking and controlling party is E.ON AG, a company incorporated in Germany, which is the parent company of the largest group to consolidate these financial statements. Copies of E.ON AG's accounts are available from the offices of E.ON AG at the following address:

E.ON AG
E.ON-Platz 1
D-40479
Düsseldorf
Germany