E.ON UK PLC

ANNUAL REPORT AND ACCOUNTS

for the year ended 31 December 2010

Registered No: 2366970

E.ON UK PLC

Directors' report for the year ended 31 December 2010

The directors present their report and the audited accounts of E.ON UK plc ("the Company") and its subsidiaries (together, "the Group" or "E.ON UK") for the year ended 31 December 2010.

Principal activities, review of business and future developments

The Group's principal activities during the year and at the year end were electricity generation and distribution, retailing of gas and electricity, and energy services. 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 electricity distribution; and
- providing services to customers to get connected to energy supplies, heat their homes and understand their energy use.

E.ON UK's aim is to maintain its position as a leading player in the UK's electricity and gas markets and to provide its customers with a secure, affordable and climate-friendly supply of energy. E.ON UK's strategy in the UK is to build on this position, to sustain and develop its generation business and to continue developing a competitive retail business.

The Group is fully committed to cleaner and better energy, which means being committed to substantially improving the world of energy in terms of affordability, supply security and climate protection. E.ON UK aims to make the energy debate more real, more honest and more urgent through its *Carbon, Cost and Consequences* energy manifesto. The Group faces the necessity of replacing a quarter of its power stations in the next decade in a way that will reduce carbon emissions, ensure the lights stay on and homes stay warm, and keep energy as affordable as possible for E.ON UK's customers.

The underlying level of the business during the year was good given the difficult economic conditions, with continuing operations showing an improvement compared to the prior year. The increase in profit before tax from continuing activities to £808 million for the year, compared to a profit before tax for the prior year of £748 million, is largely driven by the improved performance of the Retail business and increased profits from the Central Networks business due to higher sales volumes and tariff increases. This increase is offset by reduced profits from the Generation business due to lower transfer price income and increased losses from other segments arising from higher pension and net interest costs and the non-recurrence of profits on disposal of investments recognised in 2009.

The profit for the year of £732 million is lower than the prior year profit of £1,458 million primarily due to the reduction in profits from discontinued operations arising from the disposal of the Energy Trading business to E.ON Energy Trading SE ("EET SE") in 2009. The post-tax profit from discontinued operations for the year was £106 million compared to a post-tax profit of £903 million in 2009. The result from discontinued operations during the year relates to the gain arising from new back to back arrangements that were entered into as part of the disposal of the Energy Trading business in 2009.

In January 2011, the decision was made to combine the Retail business with the Energy Services business to create a single customer focussed business to deliver end to end energy services and solutions to customers. This combined business is called E.ON Energy Solutions.

Assets held for sale at the year end of £60 million relating to offshore transmission cables held within the E.ON Climate & Renewables UK ("EC&R UK") segment were sold in March 2011 for a gain of approximately £6 million.

On 1 April 2011 the Group disposed of its Central Networks business in line with the E.ON AG Group's strategy to divest €15 billion by the end of 2013. The purchase price for the equity and for the assumption of certain liabilities, including around £100 million of the Group's pension provision, was approximately £4.1 billion. E.ON UK will record a book gain of approximately £600 million through this transaction.

On 4 May 2011 the Group disposed of its stake in Corby Power Limited, which owns a 350 MW gas-fired power station in Corby, for a total consideration of £44 million. The Group expects to make a gain on disposal of approximately £20 million from this transaction.

The Group's funding is substantially through loans from the ultimate parent undertaking, E.ON AG and its other fellow subsidiaries (together, "the E.ON AG Group"). The majority of this funding matures after one year. However, some of these facilities mature within one year and 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.

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 2010, E.ON UK supplied approximately 8.0 million customer accounts, of which 7.4 million (2009: 7.4 million) were residential customer accounts and 0.6 million (2009: 0.5 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.

Residential Customers

The residential business had approximately 7.4 million customer accounts as of 31 December 2010. Approximately 61% of E.ON UK's residential customer accounts are electricity customers and 39% 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.

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. 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.

In the residential customer sector, E.ON UK sold 21.1 TWh of electricity and 52.8 TWh of gas in 2010, as compared with 20.5 TWh of electricity and 46.1 TWh of gas in 2009. The increase in gas sales was due to colder weather at the start and end of the year and was partly offset by changes in customer behaviour and energy efficiency measures.

Electricity consumption across the industry in England, Scotland, and Wales was 320 TWh for the year, compared with 315 TWh in 2009. Gas consumption (excluding power stations) was 647 TWh for the year compared with 597 TWh in 2009. The main reason for the increase in consumption was due to cold weather at the start and end of the year. This was partly offset by changes in customer behaviour and energy efficiency measures.

Lower wholesale costs influenced by the recession, oil prices and the availability of gas led to all major suppliers, including E.ON UK, announcing gas and/or electricity price decreases in the first quarter of 2010.

Wholesale prices increased throughout 2010 and most of E.ON UK's competitors made an announcement regarding their Standard prices in the final quarter of 2010. E.ON UK and one other competitor were the only suppliers not to announce a price increase in 2010, delaying a change to 2011.

Small and Medium-Sized Business ("SME") and Industrial and Commercial ("I&C") Customers

In this sector, E.ON UK sold 27.2 TWh of electricity and 21.6 TWh of gas in 2010, as compared with 23.1 TWh of electricity and 25.2 TWh of gas in 2009. The increased SME volumes were mainly due to cold weather at the start and end of the year and were partly offset by changes in customer behaviour and energy efficiency measures. Sales of electricity to I&C customers increased largely as a result of successful sales rounds. Sales of gas to I&C customers declined due to changes in the customer portfolio which was slightly offset by the effect of colder weather.

Generation

E.ON UK focuses on maintaining a low cost, efficient and flexible electricity generation business in order to compete effectively in the wholesale electricity market. As of 31 December 2010, 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 which is consistent with the prior year. E.ON UK's share of the generation market in Great Britain in 2010 was approximately 9% (2009: 11%).

E.ON UK generates electricity from a diverse portfolio of fuel sources. In 2010, approximately 47.7% of E.ON UK's electricity output was fuelled by coal and approximately 52.2% by gas, of which approximately 3.5% was from CHP schemes, with the remaining 0.1% being generated from oil-fired plants. This compares with approximately 38.8% fuelled by coal and approximately 60.5% by gas, of which approximately 5.8% was from CHP schemes, with the remaining 0.7% being generated from oil-fired plants in 2009. 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. The above capacities and generation mix exclude the assets of EC&R UK.

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 following delays in 2010 is now planned to be commissioned during 2011.

The Group continues to develop its nuclear sites at Oldbury and Wylfa as part of its 50:50 joint venture with RWE Npower.

EC&R UK

EC&R UK forms part of E.ON AG's global Climate & Renewables market unit and pulls together the renewables operational assets, development and construction, and renewables trading activities in the UK.

EC&R UK is one of the leading developers and owner/operators of renewable electricity in the UK. At the year end it had a portfolio of 21 operational onshore and offshore wind farms and a fully dedicated biomass power station at Steven's Croft in Scotland. Robin Rigg, a 180 MW offshore wind farm located in the Solway Firth, began exporting electricity to the mainland in September 2009 and was fully commissioned in early 2010. In 2009 EC&R UK were awarded exclusive rights by the Crown Estates to develop a second potential site in the Solway Firth, and are awaiting a final decision on the strategic environmental assessment before development activity commences. In

2010, as part of The Crown Estates Round Three developments, EC&R UK were awarded the rights to develop a project off the coast of Sussex. This is known as the Rampion project and will have a capacity of around 650 MW.

EC&R UK continues to support the delivery of renewables through both wind and biomass and also other emerging technologies. EC&R UK aims to be at the forefront of marine development, having installed the innovative Pelamis wave power device, which is undergoing testing at the European Marine Energy Centre in Orkney.

During the first half of 2010, EC&R UK, together with its partners DONG Energy and Masdar, announced plans to invest £2 billion to build the world's largest offshore wind farm, London Array, located in the outer Thames estuary. The first phase will have a capacity of 630 MW and is scheduled to commence generation in 2012. When the second phase becomes operational, London Array will have a total capacity of 1,000 MW.

During 2010, EC&R UK divested two of its onshore assets, Bessy Bell and St Breock, with a combined capacity of 10 MW. This represents a step forward in the strategic re-alignment of the wind portfolio in the UK, in line with the E.ON AG Group's strategy to increase renewable activity to industrial levels.

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 tradable Renewable Obligation Certificate contracts ("ROCs"), and direct payment of any residual obligation into the buy-out fund. For the period from 1 April 2009 to 31 March 2010, E.ON UK achieved 76% of its renewables obligation through own generation and purchases, compared with 69% in the period from 1 April 2008 to 31 March 2009.

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 licences are available for network developments, including for those areas already covered by an existing distribution licence, and electricity distribution could also face indirect competition from alternative energy sources such as gas and micro-generation.

Within the UK there are 14 licensed distribution network operators ("DNOs"), each responsible for a distribution services area. During the year, the Central Networks business owned and managed two DNOs licences 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 licences are issued for the operation of the two networks but the combined business was managed by a centralised management team and used the same methodology and employees 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. Distribution charges across the UK represent on average around 15% of a domestic electricity bill. The Group operated under Distribution Price Control Review 4 ("DPCR4") to 31 March 2010, which was then replaced by DPCR5, which both incorporates an allowed rate of return for investing in and operating the network, as well as performance targets.

DPCR5 runs from April 2010 to March 2015 and provides Central Networks with a 24% increase in capital investment compared to DPCR4 to replace ageing assets, increased operating cost allowances and significant incentives to improve performance in areas like network performance but allowed only a 4.0% post-tax real return on assets compared to 4.8% in DPCR4. DPCR5 also includes a £500 million Low Carbon Network Fund which aligns with Central Networks' own aims of starting to deliver an electricity grid that can support the move to a low carbon society.

Central Networks fundamentally changed the way it works with its contractors by introducing a new Alliancing model from April 2010. This will help to efficiently deliver the DPCR5 work programme.

In 2010, Central Networks continued to focus on the strategic priorities of safety, network performance, customer, cost and sustainability. Customer minutes lost, one of the key performance indicators for network performance, increased by 7% compared with 2009, mainly due to several periods of severe weather.

On 1 April 2011, the E.ON UK Group disposed of its Central Networks business in line with the E.ON AG Group's strategy to divest €15 billion by the end of 2013.

Energy Services

During 2010, the Energy Services business included the Property Services, Meter Operations and Sustainable Energy 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.

The Sustainable Energy business was established within Energy Services to build the decentralised energy systems of the future, and help customers deliver a lower carbon environment. Sustainable Energy includes street lighting, connections, consultancy, community energy and micro-generation activities, selling principally to housing developers, local authorities and other public sector bodies.

Meter Operations continues to be an important part of the business as the Group works with the Government to achieve a nationwide rollout of SMART meters over the next decade. Property Services sells contracting services, especially gas central heating and plumbing, to local authorities, social housing associations and domestic customers.

In January 2011, the decision was made to combine the Energy Services business with the Retail business to create a single customer focussed business to deliver end to end energy services and solutions to customers. This combined business is called E.ON Energy Solutions.

Other activities

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

Discontinued operations

The Energy Trading business was legally transferred to EET SE on 1 January 2009. The legal sale resulted in the financial disposal at fair value of some balance sheet items, contract novations and new back to back arrangements replicating the economic benefit of the original trades or contracts associated with the Trading Business.

The profit before tax on disposal of the Energy Trading business of £1,222 million was recognised in 2009 and was classified within discontinued operations in the income statement. An additional £195 million pre-tax gain on disposal relating to the new back to back arrangements was deferred and will be recognised in the income statement over the next three years as the contracts are settled. During 2010, £106 million of the deferred pre-tax gain relating to deferred income was recognised in the income statement.

Financial Review

Principal risks and uncertainties facing the Group are discussed further in the Financial Review on page 12. The Financial Review also includes further analysis of key performance indicators for each of the Group's operating segments, and analysis of the Group's financial position at the year end.

Results and dividends

The profit attributable to the equity shareholder and balance transferred to reserves for the financial year to 31 December 2010 was £730 million (2009: profit of £1,453 million).

The directors do not recommend the payment of a final dividend (2009: £nil). An interim dividend of £240 million was paid during the year (2009: an interim dividend of £480 million was paid).

Directors

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

Dr Paul Golby	
Graham Bartlett	
Brian Tear	
Maria Antoniou	
John Crackett	(resigned 1 April 2011)

Information on directors' emoluments is given in Note 3 to the Company's financial statements.

Directors' indemnities

The Group, which includes the Company, maintains liability insurance for directors and officers. This is a qualifying indemnity provision for the purposes of the Companies Act 2006.

Employees

The Group, which includes the Company, provides an environment in which communication is open and constructive. There are well established arrangements for communication and consultation with employees and their representatives at local and company level which cover 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 employees are treated fairly in all aspects of employment. It also strives for a diverse environment that is supportive of all employees. 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 employees remains a key priority in achieving the UK growth strategy and ensuring that all employees 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.

The Group is committed to investing in the communities in which employees live and work. The Group strives to play an active role in the community through supporting employees with volunteering and fundraising opportunities.

Corporate responsibility

Society expects increasingly more of the energy industry, particularly of large energy companies. E.ON UK, through its *Carbon, Cost and Consequences* energy manifesto, is committed to providing answers to questions about climate change, energy efficiency and what tomorrow's energy supply will look like. E.ON UK continues to engage in dialogue with its stakeholders and deal with society's different expectations. This is the only way the Group will continue to earn its license to operate and license to build. E.ON UK's ability to remain successful over the long term depends in part on incorporating its stakeholders' interests and expectations into the way it operates its business. More information on E.ON UK's corporate responsibility efforts is available on the E.ON UK's website www.eon-uk.com which includes the latest Corporate Responsibility report. This information is not considered to be part of these financial statements.

Contributions for political and charitable purposes

Donations to charitable organisations during the financial year by the Group amounted to £407,531 (2009: £169,228). Donations to charitable organisations during the financial year by the Company amounted to £344,951 (2009: £162,061). It is the Group's policy not to make cash donations to any political party. However, the Group and the Company 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 and the Company paid for exhibition space at the Conservative, Labour and Liberal Democrats party conferences. The total cost required to be disclosed as political donations was £30,000 (2009: £12,000).

Policy on payment of creditors

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

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

The Group and the Company support the Better Payments Practice Code and have 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 2006 is 20 days (2009: 21 days). The average number of days taken to pay the Company's trade suppliers calculated in accordance with the requirements of the Companies Act 2006 is 11 days (2009: 21 days).

Going concern

Notwithstanding the fact that the Group and the Company have net current liabilities, 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 for the Group are shown in Notes 20 and 21.

The directors have reviewed the Group and the Company's budget and cash flow forecasts for the year ended 31 December 2011 and the outline projections for the two subsequent years. The directors confirm that they have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis in preparing these financial statements.

Company report

The Company is required by the Companies Act 2006 to include a business review in this report. The information that fulfils the requirements of the business review can be found in the following sections which are incorporated in this report by reference:

- review of the business and expected future developments on pages 1 - 7
- financial review, including principal risks and uncertainties, on pages 12 - 28

The development, performance and position of the Company are included within the Group's financial review of the Generation, EC&R UK and Other businesses. The profit of the Company for the financial year to 31 December 2010 was £123 million (2009: profit of £1,066 million). The 2009 profit included the gain on disposal of the Energy Trading business. The directors do not recommend the payment of a final dividend (2009: £nil). An interim dividend of £240 million was paid during the year (2009: an interim dividend of £480 million was paid). The financial statements of the Company are included on pages 120 to 148.

Auditors

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

- so far as each of the directors are aware, there is no relevant audit information of which the Group's auditors are unaware; and
- each director has taken all steps that he or she ought to have taken as a director in order to become 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 section 418(2) of the Companies Act 2006.

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.

On behalf of the Board

Brian Tear
Chief Financial Officer and Director
E.ON UK plc
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Westwood Way
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Coventry
CV4 8LG

23 May 2011

E.ON UK PLC

Financial review for the year ended 31 December 2010

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

Overview

During the year and at the year end, E.ON UK and its associated companies were involved in electricity generation and distribution, energy services, and gas and electricity retail. As of 31 December 2010, E.ON UK owned or through joint ventures had an attributable interest in 10,757 MW of generation capacity, including 359 MW of CHP plants and 427 MW of operational wind capacity. E.ON UK served 8.0 million electricity and gas customer accounts at 31 December 2010 and its Central Networks business served 5 million customer connections. Energy Services provided boiler care for 110,000 customers.

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.

Market risks

Apart from electricity distribution, the markets within which the Group operates are subject to strong competition from new market entrants and existing participants. In connection with the current economic downturn, E.ON UK faces risks from declining demand, primarily from I&C customers who are reducing their energy use and could reduce it further. EON UK uses a comprehensive sales management system and intensive customer management to minimise these risks.

Regulatory risk

The political, legal and regulatory environments within which the Group operates is a source of external risk. Changes to these environments can lead to considerable uncertainty. The Group manages these risks by engaging in intensive and constructive dialogue with government agencies and policy makers.

Reputational risk

E.ON UK has an acceptable brand image in the UK. E.ON UK is a prominent energy company in the UK and is frequently mentioned during public discussions of controversial energy policy issues. Trust and credibility are essential for the Group to remain successful over the long term. The foundation for earning trust and credibility is built by clear and consistent communications with E.ON UK's key stakeholders. E.ON UK works hard to engage in dialogue and maintain good relationships with its key stakeholders. The Group is constantly paying attention to environmental and social issues. E.ON UK's

Reputational risk (continued)

objective is to minimise its reputational risks and garner public support so that the Group can continue to operate its business successfully.

Commodity prices

Following the disposal of the Energy Trading business on 1 January 2009, the Group's generation businesses are no longer exposed to significant commodity price risks on fuel purchased and power sold, which had been managed through the use of commodity derivative financial instruments. All outstanding commodity derivative financial instruments at the date of disposal were novated or matched with equal and opposite contracts with EET SE. This means that the Group bears no commodity price risk in relation to these contracts. From the date of disposal, the Group began to operate under a new transfer pricing mechanism which affects primarily the Generation, EC&R UK and Retail businesses.

The Group's Generation and EC&R UK fleet now sells the majority of its output to EET SE, using a transfer pricing mechanism which transfers substantially all of the associated short term commodity price risk out of the E.ON UK plc Group. EET SE then trade this volume on the market. Residual commodity price risks are managed through the use of derivative financial instruments. The key risk under the new transfer pricing mechanism for the Group is the potential for unscheduled power station outages, for which the Group would incur financial penalties. This risk is discussed separately under 'Asset performance'.

The Group's Retail business uses long-term and short-term derivative financial instruments to buy its required supply of power and gas from EET SE. These instruments, some of which are treated as trading contracts and measured at fair value, smooth fluctuations in the wholesale cost of power and gas. The required supply is based on forecast demand and as a result the key residual risk for the Retail business relates to fluctuations in demand. These fluctuations in demand fall under two categories: 'Market risks' and 'Weather', which are discussed separately.

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 significant 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 – trade receivables

E.ON UK is impacted by the current financial environment in addition to normal ongoing credit risk. 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 impairment of financial receivables. There are a number of initiatives underway to mitigate this risk. These include credit vetting, strategic customer targeting and systems investment to manage outstanding customer debts.

Weather

Gas and electricity sales volumes 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 to September. Revenues and results of the Group can therefore be adversely affected by periods of unseasonably warm weather. The Group uses a demand management system and weather derivatives to manage this risk.

Operational risks

If power outages 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. The Group also continues to implement operational and infrastructure improvements that will enhance the reliability of the generation assets. The Group also has insurance contracts in place to cover certain losses due to unforeseen power outages or shutdowns.

Key performance indicators ("KPIs")

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

KPIs	Results 2010	Results 2009	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)	3.29	3.31	LTIFR has improved slightly during 2010 and has continued to do so year on year. The reduction in 2010 is primarily due to a decrease in the number of road traffic accidents.

Financial review for the year ended 31 December 2010 (continued)

KPIs	Results 2010	Results 2009	Commentary
Generation			
Plant scheduled availability (taking account of planned outages)	84%	90%	Availability has decreased primarily as a result of two fires which occurred at Kingsnorth power station during the year. Kingsnorth was fully operational at the year end.
Available generating capacity at year end (MW)	10,330	10,330	Generating capacity has remained the same as 2009.
Generation production during the year (TWh)*	29	33	The decrease was primarily due to reduced production in gas stations, partially offset by an increase in production in coal stations, driven by lower wholesale power prices and lower demand which made some generating assets less economic to operate.

*excluding generation from jointly owned plants and client specific CHP plants

KPIs	Results 2010	Results 2009	Commentary
EC&R UK			
Available generating capacity at year end (MW)	427	245	Of the additional capacity in 2010, 180MW is attributable to Robin Rigg offshore wind farm.
Generation production during the year (GWh) (Note: 1TWh = 1,000GWh)	1,032	762	The increase in production was due to extra capacity in 2010.
Central Networks			
Volumes distributed (TWh)	52.8	52.4	The volume of power distributed increased by 0.8% in the year, supported by a rebound to growth from larger industrial customers following the severe contraction during 2009.
Customer minutes lost (minutes)	141.4	132.4	The increase is primarily due to several periods of severe weather.

Financial review for the year ended 31 December 2010 (continued)

KPIs	Results 2010	Results 2009	Commentary
Retail			
Customer numbers (million)	8.0	7.9	Customer numbers have increased slightly by 0.1 million.
Volumes of electricity sold (TWh)	48.3	43.6	E.ON UK sold more electricity and gas to residential and SME customers due to cold weather at the start and end of the year.
Volumes of gas sold (TWh)	74.4	71.3	This affect was partly offset by changes in customer behaviour and energy efficiency measures. Sales of electricity to I&C customers increased largely as a result of successful sales rounds. Sales of gas to I&C customers declined due to an optimisation of the portfolio.
Energy Services			
Home Energy Services - number of boiler service and maintenance customers (thousand)	110	95	The number of customers increased due to sales and marketing efforts.
Meter Operations (jobs completed per day)	5.0	6.1	Meter Operations jobs completed per day have reduced due to the significant reduction in meter installations to avoid 'stranded assets' in the advent of the SMART roll out programme.

Key financial KPIs within the Group are considered to be revenue, adjusted EBIT and operating cash flow. These are discussed below within the Group financial results section.

Group financial results

The profit before tax from continuing operations was £808 million compared with a £748 million profit before tax for the prior year.

Revenue

Group revenue from continuing operations was relatively consistent with the prior year at £9,241 million (2009: £9,227 million). The increase in external turnover has arisen primarily in the Retail and Central Networks businesses offset by a reduction in revenues from the Generation and EC&R UK businesses.

Revenue is further analysed below:

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
UK Operations		
Generation	**1,732**	1,753
EC&R UK	**195**	210
Central Networks	**534**	503
Retail	**6,659**	6,624
Energy Services	**108**	110
All other segments	**13**	5
External segment revenue	**9,241**	9,205
Statutory reporting adjustment (see Note 2)	**-**	22
Revenue from continuing operations	**9,241**	9,227

The increase in the Retail business was due to increased sales to residential and SME customers due to cold weather, although this was partially offset by a reduction in prices, a change in customer behaviour and continuing energy-efficiency improvements. Electricity sales to I&C customers increased as a result of successful sales rounds offset by a reduction in gas sales.

The increase in revenues from the Central Networks business was primarily due to tariff increases. The decline in revenues from the Generation business is due to reduced running of plant, in particular, lost availability at Kingsnorth. The decline from the EC&R UK business is primarily attributable to a reduction in sales of ROCs offset by an increase in sales from the Robin Rigg site which was fully commissioned during 2010.

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 2010 £m	Year ended 31 December 2009 £m
Power purchases and other costs of sales	**6,958**	7,122
Employee costs	**578**	544
Depreciation, including relevant impairments	**381**	295
Intangible asset amortisation, including relevant impairments	**61**	67
Derivative losses	**1**	76
Other operating charges, including restructuring costs	**664**	772
	8,643	8,876

Power purchases and other costs of sales have decreased from £7,122 million in 2009 to £6,958 million in 2010 due to lower power and gas costs offset by higher volumes purchased. E.ON UK generated 29 TWh of electricity at its own power plants in 2010, about 12 percent less than in the prior year (33 TWh). The decrease was primarily due to reduced production in gas stations, partially offset by an increase in production in coal stations, driven by lower wholesale power prices and lower demand which made some generating assets less economic to operate.

Employee costs, at £578 million, were 6% higher than in the previous year primarily due to pay increases and increased pension service cost charges offset by a reduction in headcount which is mainly attributable to efficiency enhancement and restructuring measures in the Retail and Energy Services businesses.

The depreciation charge, including relevant impairments, increased from £295 million in 2009 to £381 million in 2010 due to an impairment of £40 million relating to development costs written-down associated with the Kingsnorth power station and the Seal Sands site. In addition, a £24 million impairment of metering assets was also recognised.

Derivative losses were lower in 2010 due to less volatility in forward gas and power prices. Other operating charges included the costs of running the UK businesses and supporting corporate infrastructure. Other operating charges have decreased in 2010 compared to 2009, primarily due to lower write-offs of receivables, operational savings and foreign exchange losses offset by higher advertising expenses and increased losses from disposals of property, plant and equipment.

Operating income

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

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Derivative gains	**186**	273
Profit on disposal of investments	**-**	56
Gains on disposal of property, plant and equipment	**7**	8
Foreign exchange gains	**-**	56
Impairment reversal	**-**	9
Other income	**155**	92
	348	494

Derivative gains were lower in 2010 compared to 2009 due to lower forward commodity prices. Profit on disposal of investments is discussed in a separate section under 'Adjusted EBIT' below. The gains on the disposal of property, plant and equipment are consistent with prior year at £7 million (2009: £8 million). An impairment reversal of £9 million was recognised in 2009 in respect of CHP property, plant and equipment. Other income has increased from 2009 primarily due to higher recharges to fellow group undertakings, pre-commissioning income and income from insurance claims and other commercial settlements.

Adjusted EBIT

A more detailed analysis of the Group's adjusted Earnings Before Interest and Tax ("EBIT") and reconciliation to profit before tax from continuing operations is set out below:

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
UK Operations		
Generation	**134**	198
EC&R UK	**85**	87
Central Networks	**391**	363
Retail	**323**	80
Energy Services	**(5)**	(4)
All other segments	**(86)**	(57)
Group adjusted EBIT	**842**	667
Contract provisions, impairment and restructuring costs	**(98)**	(91)
Profit on disposal of investments/businesses	**-**	56
Net derivative gains	**185**	197
Other adjustments	**17**	16
Group operating profit	**946**	845
Net finance costs	**(121)**	(99)
Share of results of associates/joint ventures (loss)/profit after tax	**(17)**	2
Profit before tax from continuing operations	**808**	748

Adjusted EBIT, E.ON's key figure for purposes of internal management control and as an indicator of a business's long-term earnings power, is derived from the profit/loss from continuing operations before interest and taxes and adjusted to exclude certain exceptional items. The adjustments include derivative gains and losses, profit and losses on investment/business disposals and other income and expenses of a non-recurring or rare nature.

Group adjusted EBIT from continuing operations totalled £842 million for the year compared with £667 million in the same period to 31 December 2009. Adjusted EBIT has increased compared to the prior year as set out below.

Generation adjusted EBIT was £134 million compared to £198 million in 2009, a decrease of £64 million. This primarily reflects a reduction in the capacity fee element of the transfer price due to the change in forward market conditions and major outages at Kingsnorth.

Financial review for the year ended 31 December 2010 (continued)

EC&R UK's adjusted EBIT decreased to £85 million in 2010 due to a significant reduction in power prices, offset by various asset sales and other income. Central Networks' adjusted EBIT increased by 8% to £391 million during 2010 mainly due to additional sales volumes and higher tariffs.

Retail's adjusted EBIT was £323 million for 2010 compared to a profit of £80 million for 2009. This is as a result of increased sales volumes due to colder weather and efficiency improvements. Energy Services' losses increased from £4 million to £5 million, primarily due to lower activity in the Property Services business.

All other segments' losses increased from £57 million to £86 million primarily due to higher pension costs and the impact of there being no income during the year from the Trakya Electric associate, which was disposed of in 2009. All other segments' losses also include the costs of servicing the Group's operating businesses.

From 1 January 2011, adjusted EBITDA replaced adjusted EBIT as E.ON's key figure for purposes of internal management control and as an indicator of its business's long-term earnings power. EBITDA is an earnings figure before interest, taxes, depreciation, and amortisation and is adjusted to exclude certain extraordinary items. The change has been made because adjusted EBITDA is unaffected by investment and depreciation cycles and also provides a better indication of cash-effective earnings.

Contract provisions, impairment and restructuring costs

Included in operating costs in 2010 were contract provisions, impairment and restructuring costs before tax of £98 million (2009: £91 million).

During 2010, £71 million of write-offs (including a fixed asset impairment of £40 million) were recognised by the Generation business in respect of the Kingsnorth power station and Seal Sands developments. This follows a decision by the Group to not develop these sites any further. An impairment of £24 million relating to the Energy Services business was also recognised in respect of meter assets. Restructuring costs of £35 million relating to the Retail business and £6 million relating to Other segments were also recorded. A £38 million onerous contract provision previously recognised was released during the year by the Generation business relating to certain CHP contracts. This follows falling wholesale gas prices resulting in reduced costs on CHP contracts that receive a relatively fixed price per unit of output. A tax credit of £27 million arose as a result of all these charges. The above charges relate solely to continuing operations.

Contract provisions, impairment and restructuring costs (continued)

During 2009, an impairment reversal of £9 million was recognised in respect of CHP property, plant and equipment (see Note 11). The reversal arose as a result of improvements in expected future cash inflows due to higher forecast sales than previously anticipated. A further onerous contract provision of £75 million was recognised primarily with respect to certain CHP contracts. The onerous contract provision 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 contracts exceeds the economic benefits expected to be received under them. CHP plants are within the Generation segment. Restructuring costs of £25 million relating to the Retail business were also recorded. A tax credit of £25 million arose as a result of all these charges. The above charges relate solely to continuing operations.

Profit on disposal of investments/businesses

During 2009, E.ON UK disposed of its 31% investment in Trakya Electric for proceeds of £31 million generating a profit on disposal of £56 million which included the release of a deferred income balance.

Net derivative gains

Net derivative gains were £185 million in 2010 compared to £197 million in 2009. The decrease is primarily due to lower forward gas and power prices, which has been partly offset by the mark to market gains on the commodity forward contracts within the Retail business following a change in hedging strategy.

Other adjustments

Other adjustments are consistent with prior year at £17 million (2009: £16 million). They include statutory reporting adjustments, including the reversal of push-down fair value adjustments and differences in accounting policies between E.ON AG and E.ON UK. They also include various other income and expenses of a non-recurring nature.

Net finance costs

E.ON UK's net finance costs increased from £99 million to £121 million primarily due to £31 million higher borrowing costs arising from the early repayment of the 2024 sterling Eurobond and higher pensions interest. This was offset by £12 million higher gains on interest rate swaps.

Share of results of associates' and joint ventures' loss/profit after tax

E.ON UK's share of results of associates has decreased compared to prior year to a net loss after tax of £17 million (2009: net profit of £2 million), primarily due to losses arising from the start up of the Horizon Nuclear Power joint venture with RWE Npower and the impact of no income from the Trakya Electric associate which was disposed of in 2009.

Financial review for the year ended 31 December 2010 (continued)

Assets and liabilities

A summary of the Group's balance sheet is shown below:

	31 December 2010 £m	31 December 2009 (restated – see note 1) £m
Non-current assets	**10,279**	10,225
Current assets	**3,060**	4,140
Assets of disposal group classified as held-for-sale	**60**	-
Total assets	**13,399**	14,365
Current liabilities	**4,264**	4,843
Non-current liabilities	**4,219**	5,108
Equity	**4,916**	4,414
Total liabilities and equity	**13,399**	14,365

The increase in non-current assets is primarily driven by a £642 million net increase in property, plant and equipment arising from capital expenditure on generating assets and distribution networks offset by a £552 million reduction in commodity derivatives.

Current assets have reduced significantly due to the settlement of commodity derivatives offset by an increase in receivables from fellow group subsidiaries. Trade receivables (net) have remained relatively consistent with prior year at £1,001 million (2009: £1,014 million).

The Group's total borrowings have increased from £2,825 million in 2009 to £3,263 million in 2010 primarily due to the issuance, by Central Networks, of £491 million new Sterling bonds in 2010. Current and non-current derivative liabilities are significantly decreased due to settlement of commodity derivatives during the year.

Actuarial gains and increased employer contributions resulted in a pension liability of £570 million at the year end compared to a liability of £663 million in 2009.

In equity, the Group's profit for the year of £730 million was largely offset by a £240 million dividend that was paid in 2010, resulting in an increase in net equity for the year.

Cash flows

A summary of the Group's cash flow statement is shown below:

	Year ended 31 December 2010 £m	Year ended 31 December 2009 (restated – see note 1) £m
Net cash inflow from operating activities	**1,252**	1,525
Net cash used in investing activities	**(1,418)**	(131)
Net cash inflow/(outflow) from financing activities	**185**	(1,452)
Net movement in cash and cash equivalents	**19**	(58)

The net cash flow position during the year was strong, despite the reduction in net cash inflow from operating activities from £1,525 million in 2009 to £1,252 million in 2010. The reduction was due to one-off benefits in 2009 including a change in the timing of settlements with the Energy Trading business and a £100 million inflow received in 2009 following the close out of a cross currency swap.

Net investing cash outflows are significantly higher than 2009 due to the effect of the £813 million cash inflow from sale proceeds following the disposal of the Energy Trading business and £31 million from the disposal of investments. In addition there has been a significant increase during 2010 in loans provided to fellow group undertakings.

E.ON UK invested £1,034 million in 2010 in property, plant and equipment (2009: £979 million). This expenditure is mainly due to the investment of £91 million in the construction of the Grain gas-fired CHP power station, £109 million investment in the London Array and Robin Rigg wind farms and the £411 million of investment in the distribution network. An additional £20 million was invested in the Horizon Nuclear Power joint venture during 2010 in addition to the £30 million invested in the prior year.

Net cash inflow from financing activities was £185 million compared to an outflow of £1,452 million in 2009 primarily due to the issuance of £491 million new Sterling bonds in 2010, lower loan repayments and a dividend of £240 million compared to £480 million in 2009.

Financial review for the year ended 31 December 2010 (continued)

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.

Foreign exchange risk management

E.ON UK primarily trades in Sterling but its principal currency exposures are to the Euro, Danish Krone and Swiss Francs. 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 construction and maintenance which impact the cash flow and 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 and foreign currency swaps.

Details of the Group's foreign exchange contracts and swaps are set out in Notes 22 and 23 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 a mixture of fixed and floating rate borrowings.

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 significant 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 but this effect is mitigated by the use of long-term and short-term derivative financial instruments. 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.

Credit rating

E.ON UK's long-term credit rating has remained the same throughout the year, rated 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 20 and 21 to the accounts. At 31 December 2010, the Group had total borrowings of £3,263 million (2009: £2,825 million) including £2,130 million of long-term loans and £1,133 million of short-term loans and overdrafts.

At 31 December 2010, the Group had £48 million of cash and short-term investments (2009: £29 million) and £411 million of financial receivables from group undertakings (2009: £nil). E.ON UK's policy is to repay debt where possible and otherwise to place any surplus funds on short-term deposit with E.ON AG or 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 debt position at 31 December 2010 was £2,644 million, compared to £2,616 million (restated*) at 31 December 2009. The Group's definition of net debt has changed during 2010. Net debt now includes finance lease receivables and available for sale investments in addition to borrowings, cash and cash equivalents and financial receivables. *The 2009 comparatives have been restated to provide a like-for-like comparison.

The weighted average interest rate for the year, when compared to average net borrowings, was 3.6% compared with 4.2% in the previous year.

The gearing for the Group was 40% at 31 December 2010 (43%* at 31 December 2009). This is calculated as net debt plus any net pension liability minus any net pension asset as a percentage of total equity plus net debt plus any pension scheme liability minus any net pension asset. *2009 has been restated to provide a like-for-like comparison following a change in the Group's gearing definition.

Taxation

The tax charge from continuing operations amounted to £182 million for the year compared with a £193 million charge for the same period to 31 December 2009. The effective rate on continuing operations was 23% compared with 26% in the year to 31 December 2009. The main reasons for the effective rate not being 28% (2009: 28%) in the period are adjustments to current and deferred tax provisions in respect of impact of changes in rates, prior year adjustment items, non deductible expenses and non taxable income. The prior year adjustment relates to a reduction in liabilities as a result of settlements agreed with HMR&C.

Discontinued operations

The Energy Trading business was sold to EET SE, a fellow group undertaking, on 1 January 2009. In 2009, the pre-tax profit on disposal of the Energy Trading business of £1,222 million was classified within discontinued operations in the income statement. An additional £195 million pre-tax gain on disposal relating to the new back to back transfer pricing arrangements was deferred and will be recognised in the income statement over the periods 2010 to 2012 as the contracts are settled. During 2010, £106 million of the deferred pre-tax gain was recognised in the income statement.

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 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). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group and the Company 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 accounting estimates that are reasonable and prudent;
- state whether IFRSs as adopted by the European Union and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and parent company financial statements respectively; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and the Company 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 (continued)

Directors' responsibility statement

Each of the directors in office at the date the Directors' report is approved confirm that:

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

On behalf of the Board

Brian Tear
Chief Financial Officer and Director

23 May 2011

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 2010 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group Balance Sheet, the Group Statement of Changes in Equity, the Group Cash Flow Statement and the related Notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities set out on pages 29 and 30, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the group financial statements

An audit involves obtaining evidence about the amounts and disclosures in the group financial statements sufficient to give reasonable assurance that the group financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the group financial statements.

Opinion on group financial statements

In our opinion the group financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2010 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

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

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the group financial statements are prepared is consistent with the group financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the parent company financial statements of E.ON UK plc for the year ended 31 December 2010.

Andrew Lyon BSc FCA (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
East Midlands
23 May 2011

E.ON UK PLC

GROUP INCOME STATEMENT
for the year ended 31 December 2010

	Note	**Year ended 31 December 2010 £m**	Year ended 31 December 2009 £m
Revenue	2	**9,241**	9,227
Operating costs excluding contract provisions, impairment and restructuring costs	3	**(8,545)**	(8,785)
Contract provisions, impairment and restructuring costs	4	**(98)**	(91)
Total operating costs		**(8,643)**	(8,876)
Other operating income	3	**348**	494
Operating profit		**946**	845
Net finance costs	7	**(121)**	(99)
Group's share of associates' and joint ventures' (loss)/profit after tax	12	**(17)**	2
Profit before tax from continuing operations		**808**	748
Taxation	8	**(182)**	(193)
Profit for the year from continuing operations		**626**	555
Profit for the year from discontinued operations	9	**106**	903
Profit for the year		**732**	1,458
Profit attributable to:			
Minority interest	32	**2**	5
Equity shareholder	30	**730**	1,453
		732	1,458

The accounting policies and the Notes on pages 39 to 119 form part of these financial statements.

GROUP STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2010

	Note	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Profit for the year		**732**	1,458
Other comprehensive income:			
Actuarial gains/(losses) on pension scheme arrangements	30	**35**	(1,211)
Tax (charge)/credit on actuarial gains/losses	30	**(16)**	339
Cash flow hedge (losses)/gains	31	**(12)**	7
Tax credit/(charge) on cash flow hedges	31	**4**	(2)
Available for sale financial assets	31	**1**	(2)
Transaction with minority shareholder	30	**-**	(2)
Total other comprehensive income		**12**	(871)
Total comprehensive income for the year		**744**	587
Total comprehensive income attributable to:			
Minority interest	32	**2**	5
Equity shareholder		**742**	582
		744	587

The accounting policies and the Notes on pages 39 to 119 form part of these financial statements.

E.ON UK PLC

GROUP BALANCE SHEET
as at 31 December 2010

	Note	31 December 2010 £m	31 December 2009 (restated – see note 1) £m
Non-current assets			
Intangible assets	10	**2,615**	2,670
Property, plant and equipment	11	**7,119**	6,477
Interests in associates and joint ventures	12	**29**	26
Available for sale investments	14	**18**	17
Commodity and other derivative financial instruments	22	**354**	906
Trade and other receivables	15	**144**	129
		10,279	10,225
Current assets			
Inventories	16	**233**	279
Trade and other receivables	17	**2,144**	1,680
Commodity and other derivative financial instruments	22	**635**	2,152
Cash and cash equivalents	18	**48**	29
		3,060	4,140
Assets of disposal group classified as held-for-sale	9	**60**	-
		3,120	4,140
Total assets		**13,399**	14,365

E.ON UK PLC

GROUP BALANCE SHEET
as at 31 December 2010

	Note	31 December 2010 £m	31 December 2009 (restated – see note 1) £m
Current liabilities			
Borrowings	20	**1,133**	428
Commodity and other derivative financial instruments	22	**350**	2,114
Trade and other payables	19	**2,039**	1,647
Current tax liabilities		**487**	418
Provisions	25	**255**	236
		4,264	4,843
Non-current liabilities			
Borrowings	21	**2,130**	2,397
Commodity and other derivative financial instruments	22	**328**	824
Trade and other payables	19	**114**	139
Provisions	25	**277**	288
Deferred tax liability	26	**800**	797
Pension liability	24	**570**	663
		4,219	5,108
Total liabilities		**8,483**	9,951
Shareholders' equity			
Ordinary shares	28	**1,325**	1,325
Share premium	29	**97**	97
Retained earnings	30	**2,910**	2,401
Other reserves	31	**581**	588
Total shareholder equity		**4,913**	4,411
Minority interest in equity	32	**3**	3
Total equity		**4,916**	4,414
Total liabilities and equity		**13,399**	14,365

The financial statements on pages 33 to 119 were approved by the Board on 23 May 2011 and signed on its behalf by:

Brian Tear
Chief Financial Officer and Director
E.ON UK plc
Registered No: 2366970

23 May 2011

The accounting policies and the Notes on pages 39 to 119 form part of these financial statements.

E.ON UK PLC

GROUP STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2010

	Note	Attributable to equity shareholder					Minority interest	Total equity
		Ordinary shares	Share premium	Retained earnings	Other reserves	Total		
		£m	£m	£m	£m	£m	£m	£m
Balance at 1 January 2009		**1,325**	**97**	**2,302**	**585**	**4,309**	**2**	**4,311**
Comprehensive income for the year ended 31 December 2009								
Profit		-	-	1,453	-	1,453	5	1,458
Other comprehensive income for the year								
Cash flow hedges, net of tax	31	-	-	-	5	5	-	5
Disposal of available for sale investment	31	-	-	-	(2)	(2)	-	(2)
Actuarial losses, net of tax	30	-	-	(872)	-	(872)	-	(872)
Transaction with minority shareholder	30	-	-	(2)	-	(2)	-	(2)
Total other comprehensive income		-	-	(874)	3	(871)	-	(871)
Total comprehensive income for the year		**-**	**-**	**579**	**3**	**582**	**5**	**587**
Transactions with owners during the year ended 31 December 2009								
Dividends to equity shareholder	30	-	-	(480)	-	(480)	-	(480)
Dividends to minorities	32	-	-	-	-	-	(2)	(2)
Transaction with minority shareholder	32	-	-	-	-	-	(2)	(2)
Total transactions with owners during the year		**-**	**-**	**(480)**	**-**	**(480)**	**(4)**	**(484)**
Balance at 1 January 2010		**1,325**	**97**	**2,401**	**588**	**4,411**	**3**	**4,414**
Comprehensive income for the year ended 31 December 2010								
Profit		-	-	730	-	730	2	732
Other comprehensive income for the year								
Cash flow hedges, net of tax	31	-	-	-	(8)	(8)	-	(8)
Available for sale investment	31	-	-	-	1	1	-	1
Actuarial gains, net of tax	30	-	-	19	-	19	-	19
Total other comprehensive income		-	-	19	(7)	12	-	12
Total comprehensive income for the year		**-**	**-**	**749**	**(7)**	**742**	**2**	**744**
Transactions with owners during the year ended 31 December 2010								
Dividends to equity shareholder	30	-	-	(240)	-	(240)	-	(240)
Dividends to minorities	32	-	-	-	-	-	(2)	(2)
Total transactions with owners during the year		**-**	**-**	**(240)**	**-**	**(240)**	**(2)**	**(242)**
Balance at 31 December 2010		**1,325**	**97**	**2,910**	**581**	**4,913**	**3**	**4,916**

The accounting policies and the Notes on pages 39 to 119 form part of these financial statements.

E.ON UK PLC

GROUP CASH FLOW STATEMENT
for the year ended 31 December 2010

	Note	**Year ended 31 December 2010 £m**	Year ended 31 December 2009 (restated – see note 1) £m
Cash flows from operating activities			
Cash generated from operations	33	**1,394**	1,674
Interest received		**19**	15
Interest paid		**(118)**	(96)
Net tax paid		**(43)**	(76)
Dividends received from associates	12	**-**	8
Net cash generated from operating activities		**1,252**	1,525
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		**(1,034)**	(979)
Investment in joint venture		**(20)**	(30)
Purchase of other financial assets		**(410)**	(34)
Finance lease principal receipts		**24**	37
Receipts from other financial assets		**5**	18
Proceeds from sale of property, plant and equipment and intangible assets		**17**	13
Proceeds from sale of discontinued operation	9	**-**	813
Proceeds from sale of investments	5	**-**	31
Net cash used in investing activities		**(1,418)**	(131)
Cash flows from financing activities			
Proceeds from issue of new borrowings		**1,091**	590
Repayment of borrowings		**(664)**	(1,560)
Dividends paid to minority interests	32	**(2)**	(2)
Dividends paid to equity shareholder	30	**(240)**	(480)
Net cash generated from/(used in) financing activities		**185**	(1,452)
Net increase/(decrease) in cash and cash equivalents		**19**	(58)
Cash and cash equivalents at 1 January		**29**	87
Cash and cash equivalents at 31 December	18	**48**	29

The accounting policies and the Notes on pages 39 to 119 form part of these financial statements.

1 Accounting policies

Basis of preparation of accounts

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Accounting Standards ("IAS") as adopted by the European Union ("EU"), International Financial Reporting Interpretations Committee ("IFRIC") interpretations and the Companies Act 2006 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-based payment provisions and liabilities of the Group's pension schemes that have been measured at fair value.

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed separately below.

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 2010 through 31 December 2010 or which are being voluntarily applied by E.ON UK:

IFRS/IAS and IFRIC		Effective for periods beginning on or after
IFRIC 12	Service concession arrangements	30 March 2009
IAS 39 (amended)	Financial instruments: Recognition and measurement on eligible hedged items	1 July 2009
IFRS 3 (revised)	Business combinations	1 July 2009
IAS 27 (revised)	Consolidated and separate financial statements	1 July 2009
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	1 July 2009
IFRIC 17	Distributions of non cash assets to owners	1 July 2009
IFRIC 18	Transfer of assets from customers	31 October 2009
IFRS 1 (amended)	First time adoption of IFRS for additional exemptions	1 January 2010
IFRS 2	Share-based payments – Group cash-settled share-based payment transactions	1 January 2010
IFRIC 15	Agreements for the construction of real estate	1 January 2010
Improvements to IFRSs 2009	Various amendments to IFRSs	1 January 2010

1 Accounting policies (continued)

The adoption of the new standards or interpretations or alterations to existing standards effective for 2010 year end have had no material impact on the Group's 2010 financial statements with the exception of IFRIC 18 Transfer of assets from customers.

The adoption of IFRIC 18 has resulted in contributions received from customers generally being recognised within deferred income on the Group Balance Sheet and released to revenue in the Group Income Statement over the life of the related asset. Cash inflows from customer contributions are now presented as operating cash inflows rather than offset against the cash outflows from purchasing property, plant and equipment. IFRIC 18 is effective for contributions received after 1 July 2009 therefore a prior year adjustment has been recognised. The effect of the prior year adjustment on the 2009 Group Balance Sheet is to increase property, plant and equipment additions relating to distribution and transmission networks by £52 million, increase current deferred income by £1 million and increase non-current deferred income by £51 million. Operating cash inflows in 2009 have also been increased by £52 million with an equal and opposite increase in investing cash outflows relating to property, plant and equipment.

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

IFRS/IAS and IFRIC		Effective for periods beginning on or after
IAS 32 (amended)	Financial instruments: Presentation on classification of rights issues	1 February 2010
IFRIC 19	Extinguishing financial liabilities with equity instruments	1 July 2010
IFRS 1 (amended)	First time adoption of IFRS, on IFRS 7 exemptions	1 July 2010
IFRIC 14 (amended)	Prepayments of minimum funding requirement	1 January 2011
IAS 24 (revised)	Related party disclosures	1 January 2011
IFRS 1 (amended)*	First time adoption on hyperinflation and fixed dates	1 July 2011
IFRS 7 (amended)*	Financial instruments: Disclosures on derecognition	1 July 2011
Improvements to IFRSs 2010	Various amendments to IFRSs	1 January 2011

*Not currently adopted into European law by the EU

1 Accounting policies (continued)

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

IFRS/IAS and IFRIC		Effective for periods beginning or starting after
IAS 12 (amended)*	Income taxes on deferred tax	1 January 2012
IFRS 9*	Financial instruments	1 January 2013
IFRS 10*	Consolidated financial statements	1 January 2013
IFRS 11*	Joint arrangements	1 January 2013
IFRS 12*	Disclosure of interests in other entities	1 January 2013
IFRS 13*	Fair value measurement	1 January 2013
IAS 27 (revised)*	Separate financial statements	1 January 2013
IAS 28 (revised)*	Investments in associates and joint ventures	1 January 2013

*Not currently adopted into European law by the EU

Going concern

Notwithstanding the fact that the Group has net current liabilities, 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 20 and 21.

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.

Areas of judgement in application of accounting policies 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:

1 Accounting policies (continued)

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.

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 Group Balance Sheet at fair value, with changes in fair value recorded in the Group Income Statement or Group Statement of Comprehensive Income. 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. For certain long-term physical commodity contracts, forward looking market data is unavailable. In this case the Group uses other valuation techniques, incorporating estimated cash flows based on the most relevant market data available.

The use of valuation models requires the Group to make assumptions and estimates regarding the volatility of commodity prices and other indices 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 22.

1 Accounting policies (continued)

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 24.

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

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

- 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.

Impairment of trade receivables

Valuation allowances against trade receivables are provided for identifiable individual risks where the loss is probable. The estimates and assumptions used to determine the level of provisions are reviewed periodically. Although the provisions recognised are considered appropriate, the use of different assumptions or changes in economic conditions could lead to changes in the provisions and therefore impact profit or loss for the year.

Income taxes

Significant judgement is required in determining the Group's provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

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

1 Accounting policies (continued)

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 and joint venture 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 Group 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. Inter-company transactions, balances and unrealised gains on transactions between companies within the Group are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Group Income Statement.

1 Accounting policies (continued)

Basis of consolidation (continued)

The Group's share of profits and losses of associated and joint venture undertakings are included in the Group Income Statement using the equity method of accounting. The results of associates or joint ventures sold or acquired are included in the Group Income Statement 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 and joint venture undertakings are set out in Note 12. Where t he accounting policies of associated and joint venture undertakings do not conform to those of the Group, adjustments are made on consolidation where the amounts involved are material to the Group.

Joint ventures

A jointly controlled entity is a joint venture which involves the establishment of an entity to engage in economic activity, which the Group controls jointly with its fellow venturers. The Group's interests in jointly controlled entities are accounted for using the equity method of accounting. Unrealised gains and losses arising from transactions with joint venture companies are eliminated within the consolidation process on a pro-rata basis if and to the extent these are material.

A jointly controlled operation is a joint venture which involves the use of assets and other resources of the venturers to engage in economic activity rather than the establishment of an entity. The Group's interests in jointly controlled operations are accounted for by proportionate consolidation. The Group combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements.

The Group recognises the portion of gains or losses on the sale of assets by the Group to the joint venture that is attributable to the other venturers. The Group does not recognise its share of profits or losses from the joint venture that result from the Group's purchase of assets from the joint venture until it re-sells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment of non-current assets.

1 Accounting policies (continued)

Transactions with minority shareholders

The Group applies a policy of treating transactions with minority interests as transactions with equity owners of the Group. For purchases from minority interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to minority interests are also recorded in equity.

Revenue

Revenue comprises revenue from the distribution of electricity; revenue from the sale of electricity and gas to industrial and commercial and domestic customers; revenue from electricity generation; and revenue from providing energy services to customers. Revenue excludes Value Added Tax.

Revenue from the sale of electricity and gas to I&C 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.

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

Revenue from the generation of electricity from renewable sources represents the value of the sale of electricity from wind farms and related renewables credits and is recognised when the power is supplied. Revenue from other generation sources represents capacity fees received for making plant available to customers, plus exercise fees received when plant is used to generate power. Capacity fees are recognised over the period for which plant is made available for use. Exercise fees are charged on a cost-plus basis and recognised as costs are incurred.

Revenue from providing energy services to customers is recognised as the work is performed and the services provided to the customer.

1 Accounting policies (continued)

Segmental reporting

For reporting purposes, the Group is currently organised into five operating divisions – Generation, EC&R UK, Central Networks, Retail and Energy Services all of which are based in the UK. Under IFRS 8 'Operating Segments' these divisions are reported separately in Note 2 as operating segments.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker during 2010, who was responsible for the Central Networks, Retail, Generation and Energy Services operating segments, has been identified as the E.ON UK Executive Board ("EUEB"). The chief operating decision-maker of the EC&R UK operating segment has been identified as the board of directors of that operating segment.

Provisions

Provisions are recognised in the Group 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)

Provisions (continued)

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under contract exceed the economic benefits expected to be received under it.

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 associated 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 Group Statement of Comprehensive Income. All other realised foreign exchange differences are taken to the Group Income Statement within operating costs and operating income in the year in which they arise.

1 Accounting policies (continued)

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. Following the adoption of IFRIC 18, customer contributions received after 1 July 2009 towards property, plant and equipment assets are also recognised as deferred income and released to revenue in the Group Income Statement over the life of the related asset.

Financial instruments

Non-derivative financial assets and liabilities

Non-derivative financial instruments are recognised at fair value on the date when acquired. Unconsolidated equity investments and securities are measured at fair value plus directly attributable transaction costs. 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.

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.

Non-derivative financial assets and liabilities (continued)

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 Group Balance Sheet under "Trade and other receivables." Initial measurement takes place at fair value plus transaction costs. 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".

Financial liabilities (including trade payables and borrowings) 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.

1 Accounting policies (continued)

Financial instruments (continued)

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, interest-rate swaps and cross-currency swaps. In commodities, the instruments used include physically and financially settled forwards and swaps based on the prices of electricity, gas, coal, oil and emission rights.

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% 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 income. To hedge the 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. Certain realised amounts are, if related to the sale of products or services, included in revenues or cost of materials.

1 Accounting policies (continued)

Financial instruments (continued)

Derivative financial instruments and hedging transactions (continued)

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.

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 22 for additional information regarding the Group's use of derivative instruments.

IFRS 7 requires certain financial instruments to be classified using the following fair value hierarchy that reflects the significance of the inputs used in making fair value measurements:

- Quoted prices in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly (level 2)
- Inputs for the asset or liability that are not based on observable market data (level 3)

This analysis is provided in Note 23.

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 in the Group Balance Sheet and allocated to the cash generating unit or group of cash generating units that are expected to benefit from the business combination in which the goodwill arose. Goodwill is 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.

1 Accounting policies (continued)

Intangible fixed assets (continued)

Goodwill (continued)

Goodwill relating to associates is included within 'Interests in associates and joint ventures' in the Group Balance Sheet. Goodwill arising on overseas acquisitions is regarded as a foreign currency asset and is retranslated at each period end at the closing rate of exchange.

Software

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).

Customer lists

Customer lists are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the Group 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 life of customer lists depends on the nature of the business and ranges from 7 to 10 years.

Other intangible assets

Other intangible assets 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).

1 Accounting policies (continued)

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. The Group capitalises internally generated software as an intangible asset where it meets all the recognition criteria.

Property, plant and equipment

Property, plant and equipment is stated at original cost, net of customer contributions for contributions received before 1 July 2009 (for contributions received after 1 July 2009, see the customer contributions accounting policy), less accumulated depreciation and any provision for impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Subsequent costs arising from additional or replacement capital expenditure are only recognised as part of the cost of the related asset if it is probable that the Group will receive a future economic benefit and the cost can be determined reliably. Impairment losses and any subsequent reversals are recognised in the period in which they are identified.

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)

Customer contributions (for contributions received after 1 July 2009)

Following the adoption of IFRIC 18, where an item of property, plant and equipment that must be used to connect customers to the network is received from a customer, or where cash is received from a customer for the acquisition or construction of such an item, that asset is recorded and measured on initial recognition at its fair value. The credit created by the recognition of the asset is recognised in the income statement. The period over which the credit is recognised depends upon the nature of the service provided by the Group, but primarily is deferred within 'Deferred income' and released to revenue in the Group Income Statement over the life of the related asset.

Depreciation

Provision for depreciation of generating and other assets is made so as to write off the cost (less residual value) of property plant and equipment, on a straight line basis except in cases where a different method is deemed more suitable. 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	40-70
Other operating and short-term 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.

1 Accounting policies (continued)

Impairment (continued)

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 Group Income Statement and, where material, are disclosed separately.

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. When assets are leased out under an operating lease, the asset is included in the balance sheet based on the nature of the asset. Accordingly, generating assets leased out under operating leases are included within property, plant and equipment.

1 Accounting policies (continued)

Leases (continued)

Rents payable under operating leases are charged to the Group Income Statement evenly over the term of the lease. Income from operating leases is included within other operating income in the Group 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 Group Income Statement on a weighted average cost basis. The Companies Act 2006 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.

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. Bank overdrafts are excluded and are presented as part of borrowings.

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.

1 Accounting policies (continued)

Taxation (continued)

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 Group 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.

Exceptional items

As permitted by IAS 1 (Revised), Presentation of Financial Statements, certain items are presented separately. The items that the Group separately presents as exceptional are items which are of a non-recurring nature and, in the judgement of the Directors, need to be disclosed separately by virtue of their nature, size or incidence in order to obtain a clear and consistent presentation of the Group's underlying business performance. Items which may be considered exceptional in nature include disposals of businesses and investments, business restructurings, onerous contract provisions, asset impairments and derivative gains and losses.

Pensions

The Group provides pension benefits through both defined benefit and defined contribution schemes. The liability recognised in the Group 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 Group 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. Current and past service costs are charged to employee costs within operating costs. The net pensions interest (interest cost less expected return on assets) is charged to finance costs. Actuarial gains and losses are recognised in full on the Group Balance Sheet and pass through retained earnings. Actuarial gains and losses are also recognised through the Group Statement of Comprehensive Income as incurred. Details of actuarial valuations, including the frequency and methodology, are set out in Note 24.

1 Accounting policies (continued)

Pensions (continued)

Payments to defined contribution schemes are charged against profits as incurred. The Group has no further payment obligations once contributions have been paid. Contributions are recognised in the Group Income Statement as employee costs when they are due and prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

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. One scheme is currently relevant to E.ON UK – the E.ON Share Performance Plan. The Group accounts for this scheme 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 Group 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.

Notes to the financial statements for the year ended 31 December 2010 (continued)

2 Segmental reporting

Year ended 31 December 2010	Generation £m	EC&R UK £m	Central Networks £m	Retail £m	Energy Services £m	All other segments £m	Total £m
Revenue							
External revenue+	1,732	195	534	6,659	108	13	9,241
Inter-segment revenue	3	-	146	29	120	-	298
Total segment revenue	**1,735**	**195**	**680**	**6,688**	**228**	**13**	**9,539**
Result							
Segment result++	134	85	391	323	(5)	(86)	842
Contract provisions, impairment and restructuring costs							(98)
Net derivative gains							185
Other adjustments							17
Operating profit							946
Finance income							33
Finance costs							(154)
Group's share of joint ventures' loss after tax	(17)	-	-	-	-	-	(17)
Profit before tax							808
Tax charge							(182)
Profit for the year from continuing operations							626
Other segment items							
Capital expenditure	488	178	360	-	32	22	1,080
Intangible expenditure	-	4	-	4	1	-	9
Depreciation	194	24	108	-	22	4	352
Amortisation of intangible assets	-	-	-	56	1	4	61
Goodwill	56	54	327	2,899	22	(374)	2,984
Joint venture investments	29	-	-	-	-	-	29

\+ All material revenue arises in the UK based on the point of delivery of goods and services. All material assets are located within the UK.
\++ See explanations of these performance measures below
See Note 4 for impairments by segment.

Notes to the financial statements for the year ended 31 December 2010 (continued)

2 Segmental reporting (continued)

Year ended 31 December 2009	Generation £m	EC&R UK £m	Central Networks £m	Retail £m	Energy Services £m	All other segments £m	Total £m
Revenue							
External revenue[+]	1,753	210	503	6,624	110	5	9,205
Inter-segment revenue	-	-	132	34	121	-	287
Total segment revenue	**1,753**	**210**	**635**	**6,658**	**231**	**5**	**9,492**
Result							
Segment result[++]	198	87	363	80	(4)	(57)	667
Contract provisions, impairment and restructuring costs							(91)
Profit on disposal of investments							56
Net derivative gains							197
Other adjustments							16
Operating profit							845
Finance income							34
Finance costs							(133)
Group's share of associates' and joint ventures' (loss)/profit after tax	(5)	1	-	-	-	6	2
Profit before tax							748
Tax charge							(193)
Profit for the year from continuing operations							555
Other segment items							
Capital expenditure+++	362	161	370	-	43	31	967
Intangible expenditure	-	-	-	3	3	-	6
Depreciation	175	16	106	-	18	3	318
Amortisation of intangible assets	-	-	-	74	1	4	79
Goodwill	56	54	327	2,899	22	(370)	2,988
Joint venture investments	26	-	-	-	-	-	26

\+ All material revenue arises in the UK based on the point of delivery of goods and services. All material assets are located within the UK.
++ See explanations of these performance measures below.
+++ Capital expenditure relating to Central Networks has been restated following the adoption of IFRIC 18 – see note 1.
See Note 4 for impairments by segment.

2 Segmental reporting (continued)

Reported segments

For reporting purposes, the Group is organised into five (2009: five) main operating segments – Generation, EC&R UK, Central Networks, Retail and Energy Services. The main factors defining them as separate operating segments are different products and services, different customer bases and different regulatory environments. Other segments primarily include the support functions for the main operating segments. The Energy Services segment has been reported to provide information to users even though it does not meet the quantitative thresholds. The segments derive their revenue from the following sources:

Segment	*Main source of revenue*
Generation	Sale of generating capacity
EC&R UK	Sale of energy produced from renewable sources
Central Networks	Regulated electricity distribution
Retail	Sale of energy to consumers
Energy Services	Installation and maintenance of energy and heating systems
All other segments	Support functions for other segments and ancillary services

Under IFRS 5, segments or material business units that have been sold or are held-for-sale must be reported as discontinued operations. In 2010 and 2009, this includes the gains relating to the disposal of the Energy Trading business, which was legally disposed of to a fellow group undertaking on 1 January 2009. Information on discontinued operations is given in Note 9.

Performance measures

The chief operating decision maker assesses the performance of the operating segments based on a measure of adjusted EBIT. This measurement basis is derived from the profit/loss from continuing operations before interest and taxes and adjusted to exclude certain exceptional items. The adjustments include derivative gains and losses, gains and losses on investment/business disposals and other income and expenses of a non-recurring or rare nature.

Revenues

Sales between segments are carried out at arm's length. The revenue from external parties reported to the chief operating decision maker is measured in a manner consistent with that in the Group Income Statement. During 2010, the Generation and EC&R UK segments recognised sales of £1,819 million (2009: £1,800 million) to a major customer, EET SE, who represents more than 10% of the Group's revenues from continuing operations.

2 Segmental reporting (continued)

Reconciliations to financial statements

The following adjustments are required to reconcile the Group's segment result to the operating profit reported in these financial statements:

- Contract provisions, impairment and restructuring costs – see Note 4 for further details.
- Profit on disposals of investments/businesses – see Note 5 for further details.
- Derivative gains and losses - these include marking to market of derivatives used to protect the Group's operating businesses from price fluctuations.
- Other adjustments - the Group's management reporting is also used to report to the ultimate parent undertaking, E.ON AG. Therefore, other adjustments include the effects of certain fair value and other adjustments that are only applicable at the E.ON AG consolidated level. They also include certain other income and expenses that are non-recurring.

Reportable segments' figures are reconciled to the financial statements as follows:

2010 (£m)	Revenue	Depreciation	Amortisation	Goodwill
Total per reportable segments	9,539	352	61	2,984
Eliminations	(298)	-	-	-
Reversal of group reporting adjustments	-	(25)	-	(508)
Total per financial statements	**9,241**	**327**	**61**	**2,476**

2009 (£m)	Revenue	Depreciation	Amortisation	Goodwill
Total per reportable segments	9,492	318	79	2,988
Eliminations	(287)	-	-	-
Reversal of group reporting adjustments	22	(23)	(15)	(508)
Total per financial statements	**9,227**	**295**	**64**	**2,480**

No segmented information on liabilities, assets, interest income, interest expense and income tax is provided since these are not reported to the chief operating decision maker.

3 Operating costs and other operating income

Operating costs were as follows:

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Power purchases and other costs of sales	**6,958**	7,122
Employee costs (Note 6)	**578**	544
Depreciation, including relevant impairments	**381**	295
Intangible asset amortisation, including relevant impairments	**61**	67
Derivative losses	**1**	76
Other operating charges, including restructuring costs	**664**	772
Operating costs, after contract provisions, impairment and restructuring costs	**8,643**	8,876

Operating costs, before contract provisions, impairment and restructuring costs	**8,545**	8,785
Contract provisions, impairment and restructuring costs (Note 4)	**98**	91

Foreign exchange losses of £1 million were recognised in the Group Income Statement (2009: £3 million loss).

The above figures all relate to continuing operations.

3 Operating costs and other operating income (continued)

Operating costs also include:		**Year ended 31 December 2010 £m**	Year ended 31 December 2009 £m
Repairs and maintenance costs		**114**	121
Research and development costs		**14**	10
Operating lease charges		**33**	34
Loss on disposal of property, plant and equipment		**27**	3
Loss on disposal of intangible fixed assets		**13**	9
Auditors' remuneration for:			
Audit services:	Audit of the Company and consolidated accounts	**1.0**	1.0
Other services:	Audit of the Company's subsidiaries pursuant to legislation	**0.7**	0.7
	Other services pursuant to legislation	**0.1**	0.1
	Tax services	**0.6**	-
	All other services	**0.1**	0.2

The above figures all relate to continuing operations.

The audit fee paid in relation to the vendor due diligence work for Central Networks was £2 million. This was borne by E.ON AG and not recharged.

Other operating income

The largest component of other operating income in 2010 was derivative gains of £186 million which has arisen from the mark to market gains on the commodity forward contracts within the Retail business following a change in hedging strategy. Other operating income also includes goods and services recharged to group members of £50 million, gains on disposal of property, plant and equipment of £7 million, pre-commissioning income and income from claims and commercial settlements.

The largest component of other operating income in 2009 was derivative gains of £273 million. Other operating income also includes profit on disposal of investments of £56 million, goods and services recharged to group members of £26 million and gains on disposal of property, plant and equipment of £8 million were also recognised. Foreign exchange gains of £56 million were recognised during 2009. An impairment reversal of £9 million was also recognised.

The above figures all relate to continuing operations.

4 Contract provisions, impairment and restructuring costs

Contract provisions, impairment and restructuring costs comprise:

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Contract provisions, impairment and restructuring costs	**136**	100
Reversal of impairment	**-**	(9)
Release of contract provision	**(38)**	-
Net costs before taxation	**98**	91
Taxation	**(27)**	(25)
Net costs after taxation	**71**	66

During 2010, £71 million of write-offs (including a fixed asset impairment of £40 million) were recognised by the Generation business in respect of the Kingsnorth power station and Seal Sands developments. This follows a decision by the Group to not develop these sites any further. An impairment of £24 million relating to the Energy Services business was also recognised in respect of meter assets. Restructuring costs of £35 million relating to the Retail business and £6 million relating to Other segments were also recorded. A £38 million onerous contract provision previously recognised was released during the year by the Generation business relating to certain CHP contracts. This follows falling wholesale gas prices resulting in reduced costs on CHP contracts that receive a relatively fixed price per unit of output. A tax credit of £27 million arose as a result of all these charges. The above charges relate solely to continuing operations.

During 2009, an impairment reversal of £9 million was recognised in respect of CHP property, plant and equipment (see Note 11). The reversal arose as a result of improvements in expected future cash inflows due to higher forecast sales than previously anticipated. A further onerous contract provision of £75 million was recognised primarily with respect to certain CHP contracts. The onerous contract provision 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 them. CHP plants are within the Generation segment. Restructuring costs of £25 million relating to the Retail business were also recorded. A tax credit of £25 million arose as a result of all 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 2010 £m	Year ended 31 December 2009 £m
Profits less losses on disposal of investments/businesses (including provisions) before taxation	-	56
Tax on profits less losses on disposal of investments/ businesses (including provisions)	-	-
Profits less losses on disposal of investments/ businesses (including provisions) after taxation	-	56
Gain on disposals recognised in the income statement	-	56
Total gains on disposal of investments	-	56

During 2009 E.ON UK disposed of its 31% investment in Trakya Electric for proceeds of £31 million generating a profit on disposal of £56 million which includes the release of a deferred income balance.

6 Employee information, including directors' remuneration

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

	Year ended 31 December 2010	Year ended 31 December 2009
Generation	**1,140**	1,292
EC&R UK	**168**	167
Central Networks	**3,515**	3,469
Retail	**7,435**	8,123
Energy Services	**2,112**	2,619
All other segments	**1,453**	1,363
Total	**15,823**	17,033

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

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Wages and salaries	**510**	509
Social security costs	**49**	49
Pension costs – defined benefit plans (Note 24)	**80**	47
Pension costs – defined contribution plans (Note 24)	**5**	3
Share-based payments (Note 27)	**-**	1
	644	609
Capitalised in property, plant and equipment	**(66)**	(65)
Charged in income statement as employee costs	**578**	544

The employee costs above include restructuring costs – see Note 4 for further details.

The above figures all relate to continuing operations.

Notes to the financial statements
for the year ended 31 December 2010 (continued)

6 Employee information, including directors' remuneration (continued)

The key management compensation costs were:

	Year ended 31 December 2010 £	Year ended 31 December 2009 £
Salaries and short-term employee benefits	**5,674,569**	4,817,540
Post-employment benefits	**1,387,370**	1,057,630
Share-based payments	**249,767**	985,395
	7,311,706	6,860,565

Key management of the Group consists of directors of the Company and its principal trading subsidiaries. All key management compensation costs relate solely to continuing operations. For details of the directors' emoluments, including the highest paid director's remuneration see Note 3 on page 133 of the Company financial statements.

7 Finance income and costs

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Interest receivable		
Loans to fellow E.ON group undertakings	**1**	3
Interest on finance lease receivables	**15**	17
Gains on interest rate swaps	**26**	14
Finance income	**42**	34
Interest payable		
Loans from fellow E.ON group undertakings	**(149)**	(118)
Net pensions interest (Note 24)	**(20)**	(18)
Other loans	**(9)**	(16)
Unwinding of discount in provisions (Note 25)	**(23)**	(20)
Capitalised interest	**38**	39
Finance costs	**(163)**	(133)
Net finance costs	**(121)**	(99)

Finance income and costs all relate to continuing operations.

8 Taxation

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Current tax:		
UK corporation tax at 28% (2009: 28%)	**194**	219
Overseas tax	**-**	6
Over provision in prior year	**(3)**	(127)
Total current tax charge	**191**	98
Less current tax on discontinued operations	**(30)**	(85)
Current tax on continuing operations	**161**	13
Deferred tax:		
Origination and reversal of temporary timing differences	**82**	324
Impact of change in rate	**(33)**	-
(Over)/under provision in prior year	**(58)**	90
Total deferred tax (credit)/charge (Note 26)	**(9)**	414
Less deferred tax on discontinued operations	**30**	(234)
Deferred tax on continuing operations	**21**	180
Tax charge on profit on continuing activities	**182**	193

Notes to the financial statements for the year ended 31 December 2010 (continued)

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% (2009: 28%) can be explained as follows:

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Profit on continuing activities before tax	**808**	748
Less: Group's share of associates' and joint ventures' loss/(profit) after tax	**17**	(2)
Profit on continuing activities excluding associates' profit	**825**	746
Profit on discontinued activities before tax	**106**	1,222
Accounting profit before tax	**931**	1,968
Tax charge on profit on ordinary activities at 28% (2009: 28%)	**261**	551
Effects of:		
Impact of change in rate	**(33)**	-
Prior year adjustment	**(61)**	(37)
Expenses not deductible for tax purposes	**15**	10
Impact of phase out of IBA's	**-**	6
Non-taxable income	**-**	(18)
Total tax charge	**182**	512
Tax charge on continuing operations	**182**	193
Tax charge on discontinued operations (see Note 9)	**-**	319
Total tax charge	**182**	512

The Finance (No 2) Act 2010 was substantively enacted on 20 July 2010 and includes legislation to reduce the main rate of corporation tax from 28% to 27% from 1 April 2011. The deferred tax liability at 31 December 2010 has been re-measured accordingly.

Further reductions to the UK corporation tax rate were announced in the June 2010 Budget. These changes, which are expected to be enacted separately each year, propose to reduce the rate by 1% per annum to 24% by 1 April 2014. The Budget also included measures to reduce the rate of writing-down allowances on the main pool of plant and machinery expenditure to 18% and on the special rate pool to 8%, both with effect from 1 April 2012.

8 Taxation (continued)

In addition to the changes in rates of corporation tax disclosed above, a number of further changes to the UK Corporation tax system were announced in the March 2011 UK Budget Statement. A resolution passed by Parliament on 29 March 2011 reduced the main rate of corporation tax to 26% from 1 April 2011. Legislation to reduce the main rate of corporation tax from 26% to 25% from 1 April 2012 is expected to be included in the Finance Act 2011. Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 23% by 1 April 2014.

The effect of the changes enacted by Parliament on 29 March 2011 is to reduce the deferred tax liability provided at the balance sheet date by £30m. This £30m decrease in the deferred tax liability, would increase profit by £30m. This decrease in the deferred tax liability is due to the additional reduction in the corporation tax rate to 26 per cent with effect from 1 April 2011.

The effect of the changes expected to be enacted in the Finance Act 2011 would be to reduce the deferred tax liability provided at the balance sheet date by £22m. This £22m decrease in the deferred tax liability would increase profit by £22m. This decrease in the deferred tax liability is due to the reduction in the corporation tax rate from 26 per cent to 25 per cent with effect from 1 April 2012.

The proposed reductions of the main rate of corporation tax by 1% per year to 23% by 1 April 2014 are expected to be enacted separately each year.

The prior year adjustment relates to a reduction in liabilities as a result of settlements agreed with HMR&C.

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

9 Discontinued operations and assets held for sale

The Energy Trading business was sold to EET SE, a fellow group undertaking, on 1 January 2009. As part of the sale, the Group entered into new back to back arrangements with EET SE replicating the economic benefit of the original trades or contracts associated with the UK trading business.

A gain on disposal of £1,222 million was recognised in 2009. A £106 million gain relating to the new back to back contract arrangements was recognised in 2010. A further gain of £89 million relating to back to back contract arrangements has been deferred (within deferred income) and will be recognised in future periods when the contracts are settled.

There were no assets or liabilities held-for-sale relating to discontinued operations at the end of 2010 (2009: none) and there were no cashflows in 2010 relating to discontinued operations. In 2009, there were no cashflows relating to discontinued operations except for the £813 million sales proceeds received by the Group from the sale of the Energy Trading business.

a) *Analysis of the result of discontinued operations, and the result recognised on disposal:*

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Pre-tax gain on disposal	**106**	1,222
UK corporation tax	**(30)**	(85)
Deferred tax	**30**	(234)
Profit for the year from discontinued operations	**106**	903

9 Discontinued operations and assets held for sale (continued)

b) Details of the disposal of the discontinued operation in 2009:

	£m	Year ended 31 December 2009 £m
Non-current assets		
Intangible assets		**74**
Current assets		
Inventories		**127**
Trade and other receivables		**10**
Commodity and other derivative assets		**28**
Current liabilities		
Trade and other payables		**(36)**
Commodity and other derivative liabilities		**(38)**
Provisions		**(47)**
Net assets disposed of		**118**
Transfer of economic benefits of commodity and other derivatives		**(722)**
Gain on disposal		
Gain recognised in 2009	1,222	
Deferred gain	195	
		1,417
Sale proceeds – cash inflow		**813**

c) Assets held-for-sale in 2010

Assets held for sale of £60 million relates primarily to offshore transmission cables held within the EC&R UK segment, which E.ON UK were required to dispose of as a result of changes in Ofgem regulations. These were sold in March 2011 for a gain of approximately £6 million.

Notes to the financial statements for the year ended 31 December 2010 (continued)

10 Intangible assets

	Goodwill	Software	Customer lists	Other	Total
	£m	£m	£m	£m	£m
Cost					
At 1 January 2010	2,480	160	465	76	3,181
Additions	-	4	-	5	9
Disposals	(4)	(6)	(1)	(3)	(14)
Reclassifications	-	-	-	10	10
At 31 December 2010	**2,476**	**158**	**464**	**88**	**3,186**
At 1 January 2010	-	132	334	45	511
Amortisation for the year	-	13	47	1	61
Disposals	-	-	(1)	-	(1)
At 31 December 2010	**-**	**145**	**380**	**46**	**571**
Net book value					
At 1 January 2010	2,480	28	131	31	2,670
At 31 December 2010	**2,476**	**13**	**84**	**42**	**2,615**

	Goodwill	Software	Customer lists	Other	Total
	£m	£m	£m	£m	£m
Cost					
At 1 January 2009	2,490	153	465	405	3,513
Additions	-	6	-	-	6
Disposals	(13)	-	-	(338)	(351)
Reclassifications	3	1	-	9	13
At 31 December 2009	**2,480**	**160**	**465**	**76**	**3,181**
Aggregate impairment & amortisation					
At 1 January 2009	13	113	287	136	549
Amortisation for the year	-	16	47	1	64
Impairment	-	3	-	-	3
Disposals	(13)	-	-	(92)	(105)
At 31 December 2009	**-**	**132**	**334**	**45**	**511**
Net book value					
At 1 January 2009	2,477	40	178	269	2,964
At 31 December 2009	**2,480**	**28**	**131**	**31**	**2,670**

10 Intangible assets (continued)

Other intangible assets comprise ROCs and contractual development rights. Contractual development rights are amortised from the period in which the development is completed. Reclassifications in 2010 relate to £10 million of development costs, which have been reclassified from assets under construction to other intangible assets.

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.

In 2009, the carrying amount of software intangibles was impaired to its recoverable value. This loss was included in "Total operating costs" in the Group Income Statement. All amortisation and impairment charges in 2009 were charged through operating costs.

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% to 2%. Projected cash flows were discounted at rates of between 6% and 7% based on risks relevant to the segment. The discount rate used is post-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 5 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 cash flows in year 6 on the assumption that cash flows will continue into perpetuity.

10 Intangible assets (continued)

Generation

A 5 year cash flow forecast is built up from medium term plans (extended out based on management views on long term price tracks). In addition a terminal value is applied to the cash flows in year 6 on the assumption that cash flows will continue into perpetuity.

EC&R UK

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. These are comparable to market estimates. Valuations are then reduced by overhead costs for supporting functions.

Energy Services

A 5 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 cash flows in year 6 on the assumption that cash flows will continue into perpetuity.

All other segments

A 5 year cash flow forecast is built up from the medium term plan. In addition a terminal value is applied to the cash flows in year 6 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 2010 (restated)	5,115	4,984*	501	10,600
Additions	667	372	41	1,080
Disposals	(35)	(10)	(11)	(56)
Reclassifications	152	(10)	(269)	(127)
At 31 December 2010	**5,899**	**5,336**	**262**	**11,497**
Depreciation				
At 1 January 2010	2,361	1,562	200	4,123
Charge for the year	200	97	30	327
Impairment	40	-	24	64
Disposals	(8)	(9)	(2)	(19)
Reclassifications	94	(69)	(142)	(117)
At 31 December 2010	**2,687**	**1,581**	**110**	**4,378**
Net book value				
At 1 January 2010 (restated)	2,754	3,422*	301	6,477
At 31 December 2010	**3,212**	**3,755**	**152**	**7,119**

	Generating assets £m	Distribution and transmission networks £m	Other operating and short-term assets £m	Total £m
Cost				
At 1 January 2009	4,633	4,698	476	9,807
Additions	531	388*	48	967
Disposals	(5)	-	(73)	(78)
Reclassifications	(44)	(102)	50	(96)
At 31 December 2009 (restated)	**5,115**	**4,984***	**501**	**10,600**
Depreciation				
At 1 January 2009	2,239	1,550	201	3,990
Charge for the year	176	94	25	295
Reversal of impairment (Note 4)	(9)	-	-	(9)
Disposals	(5)	-	(65)	(70)
Reclassifications	(40)	(82)	39	(83)
At 31 December 2009	**2,361**	**1,562**	**200**	**4,123**
Net book value				
At 1 January 2009	2,394	3,148	275	5,817
At 31 December 2009 (restated)	**2,754**	**3,422***	**301**	**6,477**

*(*Restated – see note 1 for explanation of effects of adoption of IFRIC 18)*

11 Property, plant and equipment (continued)

Additions in 2010 include capitalised borrowing costs amounting to £38 million (2009: £39 million). The capitalisation rate used is 4.5% (2009: 4.5%). The net book value of property, plant and equipment held under finance leases is £46 million (2009: £54 million). All assets held under finance leases relate to generating assets.

An impairment of £64 million was recorded in 2010 (2009: £nil) relating to assets associated with the Kingsnorth and Seal Sands developments and also an impairment of metering assets. A total of £nil (2009: £9 million) impairment reversals were recognised in 2010 as a result of improvements in expected future cash inflows.

Reclassifications relate to a transfer to intangible assets of assets previously under construction and also various reclassifications of assets between property, plant and equipment asset categories.

Group assets include assets in the course of construction at a cost of £1,062 million (2009: £1,110 million) primarily relating to generating assets.

Land and buildings at net book value comprise:

	At 31 December 2010 £m	At 31 December 2009 £m
Freehold	**123**	210
Long leasehold	**23**	26
Total	**146**	236

Notes to the financial statements
for the year ended 31 December 2010 (continued)

12 Interests in associates and joint ventures

	2010 £m	2009 £m
At 1 January	**26**	3
Share of (losses)/profits	**(17)**	2
Dividends received	**-**	(8)
Additions	**20**	30
Disposals	**-**	(1)
At 31 December	**29**	26

Interest in associates and joint ventures

No goodwill is recorded within interest in associates and joint ventures. Details of the Group's significant investments are as follows:

	Accounting reference date	Country of incorporation	Shares held	Percentage of interest held
Horizon Nuclear Power	31 December	England	Ordinary shares	50%

In August 2009, E.ON UK disposed of its 31% associate investment in Trakya Electric for proceeds of £31 million. At 31 December 2009 and 31 December 2010, E.ON UK had no remaining material interests in associates.

Balance sheet and results of associates:

	31 December 2010 £m	31 December 2009 £m
Assets	**-**	-
Liabilities	**-**	-
Net assets	**-**	-
Share of associates' net assets		
Revenue*	**-**	143
Profit after income tax*	**-**	23
*Share of associates' profit after income tax**	**-**	7

*2009 includes results up to date of disposal

12 Interests in associates and joint ventures (continued)

During 2009, E.ON UK entered into a new joint venture with RWE Npower, with plans to build new nuclear power stations in the UK. E.ON UK and RWE Npower each have a 50% stake in the joint venture named Horizon Nuclear Power. The principal activity of Horizon Nuclear Power is building and operating new nuclear power stations. The group's interest in jointly controlled entities is accounted for using the equity method. The £20 million additions during 2010 relate to further capital injections into this joint venture company.

	31 December 2010 £m	31 December 2009 £m
Assets		
Non-current assets	**50**	35
Current assets	**24**	25
	74	60
Liabilities		
Current liabilities	**(17)**	(9)
	(17)	(9)
Net assets	**57**	51
Share of joint venture's net assets	***29***	*26*
Revenue	**-**	-
Expenses	**(34)**	(10)
Loss after income tax	**(34)**	(10)
Share of joint venture's loss after income tax	***(17)***	*(5)*
Proportionate interest in joint venture's commitments	***145***	*137*

There are no contingent liabilities relating to the Group's interest in the joint venture, and no contingent liabilities of the joint venture itself.

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 Limited (formerly 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 Solutions Limited (formerly E.ON Energy Limited)*	Ordinary shares	100	England and Wales	Supply of electricity and supply, trading and shipping of gas in the UK
Powergen Investments Limited+	Ordinary shares	100	England and Wales	Financing company
Powergen Holdings BV +	Ordinary shares	100	The Netherlands	Intermediate holding company

* direct interest + indirect interest

A full list of the Group's principal investments in subsidiary undertakings is available from the Company's registered office.

Central Networks East plc, Central Networks West plc and Central Networks Limited (formerly Central Networks plc) have been disposed of since the year end as part of the disposal of the Central Networks business. See note 37.

14 Available for sale investments

	£m
At 1 January 2010	17
Additions	1
At 31 December 2010	**18**

Available for sale financial assets include the following:

	At 31 December 2010 £m	At 31 December 2009 £m
Listed gilts – UK	**18**	17

15 Trade and other receivables: amounts falling due after more than one year

	At 31 December 2010 £m	At 31 December 2009 £m
Finance lease receivables	**130**	129
Operating receivables due from parent undertaking and fellow subsidiaries	**6**	-
Financial receivables due from parent undertaking and fellow subsidiaries	**1**	-
Other receivables	**7**	-
	144	129

Amounts owed by group undertakings are unsecured, interest free and are repayable in accordance with contract terms.

16 Inventories

	At 31 December 2010 £m	At 31 December 2009 £m
Fuel stocks	**148**	182
Stores	**85**	97
	233	279

17 Trade and other receivables: amounts falling due within one year

	At 31 December 2010 £m	At 31 December 2009 £m
Trade receivables	**1,254**	1,296
Less: provision for impairment of receivables	**(253)**	(282)
Trade receivables - net	**1,001**	1,014
Other receivables	**207**	136
Prepayments and accrued income	**336**	387
Finance lease receivables	**12**	34
Operating receivables due from parent undertaking and fellow subsidiaries	**178**	109
Financial receivables due from parent undertaking and fellow subsidiaries	**410**	-
	2,144	1,680

Amounts owed by group undertakings are unsecured, interest free and are repayable on demand. Further details on financial instruments are provided in Note 23.

18 Cash and cash equivalents

At 31 December 2010, the Group held £48 million (2009: £29 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 London Interbank Bid Rate.

Overdrafts of £17 million (2009: £41 million) are included within borrowings (Note 20).

19 Trade and other payables

	At 31 December 2010 £m	At 31 December 2009 (restated – see note 1) £m
Amounts falling due in less than one year		
Trade payables	**188**	313
Amounts owed to parent undertaking and fellow subsidiaries	**990**	557
Other taxation and social security	**65**	6
Accruals and other creditors	**672**	654
Deferred income	**124**	117
	2,039	1,647

	At 31 December 2010 £m	At 31 December 2009 (restated – see note 1) £m
Amounts falling due after more than one year		
Deferred income	**114**	139

Further details on financial instruments are provided in Note 23.

20 Borrowings: amounts falling due within one year

	At 31 December 2010 £m	At 31 December 2009 £m
Bank overdrafts	**17**	41
Short-term loans from parent undertaking and fellow subsidiaries	**1,116**	376
Other short-term loans	**-**	11
	1,133	428

20 Borrowings: amounts falling due within one year (continued)

Short-term funding is provided through inter-company facilities that are unsecured. Included within the total is £520 million which incurs interest of LIBOR plus 47.5 basis points and is repayable in March 2011, all other amounts are repayable on demand. Other short term loans comprise surplus cash received from related parties, to be held by the Group on short term deposit. The weighted average interest rate on all short-term loans during the year was 1.17% (2009: 2.02%).

21 Borrowings: amounts falling due after more than one year

	At 31 December 2010 £m	At 31 December 2009 £m
Amounts owed to external debt holders		
6.25% Sterling Eurobond 2024	**-**	8
5.75% Sterling Bond 2040	**245**	-
5.50% Sterling Bond 2025	**246**	-
2023 Loan	**4**	5
	495	13
Amounts owed to fellow group undertakings		
6.25% Sterling Eurobond 2024	**-**	225
Long-term loan 2011	**-**	537
Long-term loan 2014	**350**	350
Long-term loan 2037	**900**	900
Other long-term loans	**385**	372
	1,635	2,384
	2,130	2,397

The long-term loan 2011 is unsecured, payable in 2011 and incurs interest at LIBOR plus 47.5 basis points. The long-term loan 2014 is unsecured, repayable in 2014 and incurs interest at 5.775%. The long-term loan 2037 is unsecured, repayable in 2037 and incurs interest at 6.075%. Other long-term loans include three unsecured loans totalling £385 million (2009: £372 million), all of which are repayable in 2013. Two of the loans incur interest at LIBOR plus 22.5 basis points and the remaining loan incurs interest at LIBOR less 5 basis points. The 2024 Eurobond, 2040 Bond, and 2025 Bond are all unsecured and do not have any financial covenants (2009: none). The 2024 Eurobond was redeemed early during 2010. The 2023 loan is unsecured, payable in 2023 and incurs interest at 5%.

Further details on financial instruments are provided in Note 23.

Notes to the financial statements
for the year ended 31 December 2010 (continued)

22 Commodity and other derivative financial instruments

The following two tables include both derivatives that qualify for IAS 39 hedge accounting treatment and those for which it is not used:

	Contracts with positive fair values (£m)		Contracts with negative fair values (£m)	
	At 31 December 2010	At 31 December 2009	**At 31 December 2010**	At 31 December 2009
Non-current assets/(liabilities)				
Foreign currency forward contracts	**1**	8	**-**	(1)
Commodity swaps	**38**	129	**(13)**	(58)
Commodity forward contracts	**315**	769	**(315)**	(765)
	354	906	**(328)**	(824)
Current assets/(liabilities)				
Interest rate swaps	**-**	-	**-**	-
Cross-currency swaps	**-**	-	**-**	-
Foreign currency forward contracts	**1**	4	**(3)**	(2)
Commodity swaps	**29**	184	**(13)**	(150)
Commodity forward contracts	**605**	1,964	**(334)**	(1,962)
Embedded derivatives within long-term gas contracts	**-**	-	**-**	-
	635	2,152	**(350)**	(2,114)
	989	3,058	**(678)**	(2,938)

Maturity of derivative financial instruments

Derivative financial instruments are classified within current assets and current liabilities if they mature in the next 12 months, or if they are held for speculative trading purposes. Otherwise they are classified within non-current assets and non-current liabilities.

22 Commodity and other derivative financial instruments (continued)

The notional principal amounts of derivatives are as follows:

	At 31 December 2010 £m	At 31 December 2009 £m
Foreign currency forward contracts	**473**	558
Commodity swaps	**6,965**	2,259
Commodity forward contracts	**3,659**	12,320
	11,097	15,137

Cash flow hedges

Hedge accounting in accordance with IAS 39 is used primarily for foreign currency forward contracts, used to hedge planned transactions in Euros and Danish Krone. The amount of ineffectiveness for cash flow hedges recorded for the year ended 31 December 2010 produced results of £nil (2009: £nil).

As of 31 December 2010, the hedged transactions in place included foreign currency cash flow hedges with maturities of up to 3 years (2009: 3 years). Cash flow hedges relating to capital expenditure will result in reclassification from reserves to depreciation (net of tax) in the Group Income Statement over the lifetime of the asset (up to 24 years). Pursuant to currently available information, the following effects will accompany the reclassification from reserves to the Group Income Statement in subsequent periods:

Timing of reclassifications from other reserves to the income statement - 2010

	Carrying amount £m	2011 £m	2012 £m	2013-2015 £m	>2015 £m
Other reserves – Currency cash flow hedges	(3)	-	-	-	(3)

Timing of reclassifications from other reserves to the income statement - 2009

	Carrying amount £m	2010 £m	2011 £m	2012-2014 £m	> 2014 £m
Other reserves – Currency cash flow hedges	5	-	-	-	5

Gains and losses from reclassification are reported in the line item of the Group Income Statement which includes the respective hedged transaction.

22 Commodity and other derivative financial instruments (continued)

Contracts to buy or sell non-financial items

Within the ordinary course of business the Group routinely enters into sale and purchase transactions for commodities. Many of these 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.

Certain commodity derivative instruments that are intended to meet forecast demand could be net-settled in future, placing them in the scope of IAS 39. These are recognised on the Group Balance Sheet at fair value, with the movements in fair value recognised in the Group Income Statement.

Unrealised gains and losses

Unrealised gains and losses resulting from the initial measurement of derivative financial instruments being hedge accounted 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.

At the beginning of 2010, £5 million of losses from the initial measurement of derivatives were deferred. After the realisation of £8 million deferred losses, the remainder is a deferred gain of £3 million at year end, which will be recognised in income as the contracts are fulfilled.

23 Additional disclosures on financial instruments

The following two tables show the carrying amounts of financial instruments, their grouping into IAS 39 categories, their fair values, and their classification levels according to the IFRS 7 fair value hierarchy:

At 31 December 2010	Carrying amount	Total carrying amounts within the scope of IFRS 7	Fair value	Fair value measurement techniques: Level 1 Quoted prices	Level 2 Market data	Level 3 Other data
	£m	£m	£m	£m	£m	£m
Available for sale financial assets						
Securities and fixed-term deposits	18	18	18	18	-	-
Loans and receivables						
Receivables from finance leases	142	142	142	-	142	-
Trade receivables	1,001	1,001	1,001	-	1,001	-
Cash and cash equivalents	48	48	48	48	-	-
Other operating assets	398	398	398	-	398	-
Other financial receivables	411	411	411	-	411	-
Financial assets/(liabilities) at FVPL						
Derivative assets with no hedging relationships	986	986	986	367	312	307
Derivative liabilities with no hedging relationships	(676)	(676)	(676)	(368)	(1)	(307)
Derivative financial assets/(liabilities) used for hedging						
Derivative assets with hedging relationships	3	3	3	-	3	-
Derivative liabilities with hedging relationships	(2)	(2)	(2)	-	(2)	-
Financial liabilities at amortised cost						
Trade payables	(188)	(188)	(188)	-	(188)	-
Other operating liabilities	(1,662)	(1,662)	(1,662)	-	(1,662)	-
Bonds	(491)	(491)	(502)	(502)	-	-
Bank loans/liabilities to banks	(21)	(21)	(21)	(21)	-	-
Borrowings: amounts falling due after more than one year	(1,635)	(1,635)	(1,491)	(10)	(1,481)	-
Borrowings: amounts falling due within one year	(1,116)	(1,116)	(1,116)	-	(1,116)	-

23 Additional disclosures on financial instruments (continued)

At 31 December 2009	Carrying amount	Total carrying amounts within the scope of IFRS 7	Fair value	Fair value measurement techniques: Level 1 Quoted prices	Level 2 Market data	Level 3 Other data
	£m	£m	£m	£m	£m	£m
Available for sale financial assets						
Securities and fixed-term deposits	17	17	17	17	-	-
Loans and receivables						
Receivables from finance leases	163	163	163	-	163	-
Trade receivables	1,014	1,014	1,014	-	1,014	-
Cash and cash equivalents	29	29	29	29	-	-
Other operating assets	245	245	245	-	245	-
Other financial receivables	-	-	-	-	-	-
Financial assets/(liabilities) at FVPL						
Derivative assets with no hedging relationships	3,051	3,051	3,051	2,654	116	281
Derivative liabilities with no hedging relationships	(2,938)	(2,938)	(2,938)	(2,654)	(3)	(281)
Derivative financial assets/(liabilities) used for hedging						
Derivative assets with hedging relationships	7	7	7	-	7	-
Derivative liabilities with hedging relationships	-	-	-	-	-	-
Financial liabilities at amortised cost						
Trade payables	(313)	(313)	(313)	-	(313)	-
Other operating liabilities	(1,211)	(1,211)	(1,211)	-	(1,211)	-
Bonds	(233)	(233)	(316)	(316)	-	-
Bank loans/liabilities to banks	(46)	(46)	(47)	(47)	-	-
Other short term loans	(11)	(11)	(11)	(11)	-	-
Borrowings: amounts falling due after more than one year	(2,159)	(2,159)	(2,451)	-	(2,451)	-
Borrowings: amounts falling due within one year	(376)	(376)	(376)	-	(376)	-

There were no transfers between fair value measurement levels 1 and 2 during the year (2009: none).

Valuation

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 securities held and bonds issued.

23 Additional disclosures on financial instruments (continued)

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.

The carrying amounts of cash and cash equivalents, borrowings under revolving short-term credit facilities, trade receivables, other operating assets, trade payables and other operating liabilities are considered reasonable estimates of their fair values because of their short maturity.

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 either quoted prices or 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 used for the valuation of derivative financial instruments, together with their classification according to the IFRS 7 fair value hierarchy, where they cannot be observed directly from quoted prices (level 1):

- Currency and commodity forward contracts and swaps are valued separately at their forward rates and prices as of the balance sheet date. Forward rates and prices are based on market quotations, with forward premiums and discounts taken into consideration (level 2).
- 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 (level 2).
- Certain long-term energy contracts are valued with the aid of valuation models that use internal data where market prices are not available (level 3). These models use probability weighted expected values for gas prices and other indices, taking into account individual contract details such as volume and price.

23 Additional disclosures on financial instruments (continued)

Level 3 fair value measurements

The following table reconciles the movements in fair value measurement level 3:

	Assets £m	Liabilities £m
At 1 January 2010	281	(281)
Gains/(losses) recognised in income	26	(26)
At 31 December 2010	**307**	**(307)**

There were no transfers into or out of level 3. Instruments in level 3 comprise long-term energy contracts for which no market data is available. These are valued with models which use probability weighted expected values for gas prices and other indices, taking into account individual contract details such as volume and price.

The key assumption used in the model is the expected value for future energy prices. A hypothetical 10 percent increase or decrease in this valuation parameter would lead to a respective gross increase or decrease of £3 million (2009: £12 million), in both the asset and liability positions. The net position of £nil is not sensitive to changes in the valuation parameters used in the model.

23 Additional disclosures on financial instruments (continued)

Cash flows of financial liabilities

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 2010	Cash outflows			
	2011 £m	2012 £m	2013-2015 £m	from 2016 £m
Bonds	20	28	84	997
Bank loans/liabilities to banks	17	1	2	3
Other financial liabilities	1,194	78	541	2,103
Cash outflows for financial liabilities	**1,231**	**107**	**627**	**3,103**
Trade payables	188	-	-	-
Derivative liabilities (with/without hedging relationships)	462	28	68	334
Other operating liabilities	1,662	-	-	-
Cash outflows for trade payables and other operating liabilities	**2,312**	**28**	**68**	**334**
Total cash outflows for liabilities under IFRS 7	**3,543**	**135**	**695**	**3,437**

At 31 December 2009	Cash outflows			
	2010 £m	2011 £m	2012-2014 £m	from 2015 £m
Bonds	16	16	49	418
Bank loans/liabilities to banks	41	-	2	4
Other financial liabilities	462	619	572	2,265
Cash outflows for financial liabilities	**519**	**635**	**623**	**2,687**
Trade payables	313	-	-	-
Derivative liabilities (with/without hedging relationships)	1,783	1,047	199	87
Other operating liabilities	1,211	-	-	-
Cash outflows for trade payables and other operating liabilities	**3,307**	**1,047**	**199**	**87**
Total cash outflows for liabilities under IFRS 7	**3,826**	**1,682**	**822**	**2,774**

Cash outflows for purchases of commodities that will be physically settled are included at their gross nominal amount. Cash outflows for sales and purchases of commodities that will be net-settled in cash are included at their net amount. For financial liabilities that bear floating interest rates, the rates that were in place on the balance sheet date are used to calculate future interest payments for subsequent periods. Financial liabilities that can be terminated at any time are assigned to the earliest maturity period.

23 Additional disclosures on financial instruments (continued)

Maturity of financial liabilities

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

	At 31 December 2010 £m	At 31 December 2009 £m
In more than one year but not more than two years	**-**	537
In more than two years but not more than five years	**735**	722
In more than five years	**1,395**	1,138
	2,130	2,397

At 31 December 2010 there was £4,854 million (2009: £4,759 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 2011 and 2015. Including current borrowings, these facilities comprised:

Counterparty	**Total facility £m**	**Amount undrawn at 31 December 2010 £m**	**Expiry date**	**Fees**
E.ON AG	870	870	15 December 2015	50bp
E.ON UK Holding Company Limited	3,000	2,480	6 March 2011	47.5bp
Powergen UK Securities	750	229	27 June 2011	75bp
Powergen Limited	1,100	881	30 June 2013	22.5bp
Powergen Limited	550	394	30 June 2013	22.5bp
	6,270	**4,854**		

Risk management

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 Treasury 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. Counterparty risks are monitored on an E.ON AG Group-wide basis by Treasury, with the support of a standard software package.

23 Additional disclosures on financial instruments (continued)

The following discussion of the Group's risk management activities and the estimated amounts generated from 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.

Foreign exchange risk management

Due to the international nature of some of its business activities, the Group is exposed to exchange risks related to sales, purchases, assets and liabilities denominated in foreign currencies and anticipated foreign exchange payments. The Group's exposure results mainly from transactions in Euros, Danish Krone and Swiss Francs.

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.

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 95%) 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 with no hedging relationships, amounted to £1 million (2009: £1 million) and resulted primarily from open positions denominated in Swiss Francs.

The one day VaR from foreign currency derivatives with hedging relationships amounted to £4 million (2009: £3 million) and resulted primarily from open positions denominated in Euros and Danish Krone.

Notes to the financial statements for the year ended 31 December 2010 (continued)

23 Additional disclosures on financial instruments (continued)

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

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. The interest rate risk profile of financial liabilities is detailed below:

			Fixed rate financial liabilities		
At 31 December 2010	Total £m	Floating rate financial liabilities £m	£m	Weighted average interest rate %	Weighted ave. period for which rate is fixed Years
Sterling	**3,263**	**1,518**	**1,745**	**5.9**	**20.7**

			Fixed rate financial liabilities		
At 31 December 2009	Total £m	Floating rate financial liabilities £m	£m	Weighted average interest rate %	Weighted ave. period for which rate is fixed Years
Sterling	**2,825**	**1,337**	**1,488**	**6.0**	**19.7**

The figures in the above table are stated after taking account of relevant interest rate swap contracts. Floating rate financial liabilities bear interest at variable rates determined with reference to LIBOR and EURIBOR. The Group seeks to maintain an appropriate mix of fixed and floating rate debt in its overall debt portfolio. As of 31 December 2010, the Group has entered into interest rate swaps with a nominal value of £nil (2009: £nil).

A sensitivity analysis was performed on the Group's short-term and variable-rate borrowings, including interest rate derivatives. A 1% increase/(decrease) in the level of interest rates would cause net interest expense to rise/(fall) by £15 million per annum (2009: £12 million).

23 Additional disclosures on financial instruments (continued)

Commodity price risk management

All commodity derivative financial instruments are matched with equal and opposite contracts with EET SE. This means that the Group bears no commodity price risk in relation to these contracts.

Certain commodity derivative instruments that are intended to meet forecast demand give rise to commodity price risk as there is a possibility that the instruments will be net-settled in future. The risk in the Group's commodity derivative portfolio therefore arises primarily from potential change in value of contracts which may be net-settled.

The risk metric used for these instruments is Close-out VaR with a 95% confidence interval. The VaR relating to the Group's commodity derivative instruments was £452 million as of 31 December 2010 (2009: £1 million). The measure was changed in 2010 to reflect more accurately the nature of commodity price risks faced by the Group.

As of 31 December 2010, E.ON UK had entered into electricity, gas, coal, oil and emissions-related derivatives with a nominal value of £10,624 million (2009: £14,579 million).

The restriction to financial instruments included in the scope of IFRS 7 that has been applied in these calculations does not reflect the economic position of the Group. Consequently, none of the off-balance sheet transactions, such as own-use contracts under normal trading relationships, may be included when calculating the VaR according to IFRS 7, even though such transactions represent a material component of the economic position.

Credit risk management

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 credit quality ratings established internally, and from Moody's and Standard & Poor's. 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.

23 Additional disclosures on financial instruments (continued)

The age analysis of unimpaired trade receivables is as follows:

	At 31 December 2010 £m	At 31 December 2009 £m
Not impaired and not past-due	**648**	549
Not impaired and up to 90 days past-due	**210**	199
Not impaired and 91 to 180 days past-due	**82**	166
Not impaired and 181 to 360 days past-due	**51**	81
Not impaired and over 360 days past-due	**10**	19
	1,001	1,014

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

	2010 £m	2009 £m
Balance as at 1 January	**(282)**	(223)
Impairment	**(100)**	(59)
Utilisation	**129**	-
Balance as at 31 December	**(253)**	(282)

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 £100 million was charged to the Group Income Statement during 2010 to write off trade receivables (2009: £118 million).

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 in the following table:

23 Additional disclosures on financial instruments (continued)

	At 31 December 2010		At 31 December 2009	
	Gross Investment £m	Net Investment £m	Gross Investment £m	Net Investment £m
Within 1 year	**23**	**23**	34	34
Within 1-5 years	**87**	**66**	89	66
After 5 years	**97**	**53**	120	63
	207	**142**	243	163

Unearned finance income at 31 December 2010 amounted to £65 million (2009: £80 million).

The credit ratings and maturities of the Group's derivative financial instruments are shown in the following two tables. 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. Derivative financial instruments transacted with the E.ON AG Group are excluded from this analysis.

Derivative transactions are generally executed on the basis of standard agreements that allow for the netting of all outstanding transactions with individual counterparties. Although most contracts do allow netting, the tables below do not show netting of positive and negative fair values of continuous transactions. This means that the counterparty risk is shown to be higher in the following two tables than it actually is.

31 December 2010 (£m)	**Total**		**up to 1 year**		**1 - 5 years**		**more than 5 years**	
Rating of counterparties: Standard & Poor's and/or Moody's	Nominal value	Counter party risk	Nominal value	Counter party risk	Nominal Value	Counter party risk	Nominal value	Counter party risk
AAA and Aaa through AA- and Aa3	2,300	28	2,296	28	4	-	-	-
AA- and A1 or A+ and Aa3 through A- and A3	982	99	982	99	-	-	-	-
A- and Baa1 or BBB+ and A3 through BBB- and Baa3	19	4	19	4	-	-	-	-
BBB- and Ba1 or BB+ and Baa3 through BB- and Ba3	-	-	-	-	-	-	-	-
Other	1,880	333	1,162	68	384	265	334	-
	5,181	**464**	**4,459**	**199**	**388**	**265**	**334**	**-**

23 Additional disclosures on financial instruments (continued)

31 December 2009 (£m)	Total		up to 1 year		1 - 5 years		more than 5 years	
Rating of counterparties: Standard & Poor's and/or Moody's	Nominal value	Counter party risk	Nominal value	Counter party risk	Nominal Value	Counter party risk	Nominal value	Counter party risk
AAA and Aaa through AA- and Aa3	2,265	483	1,505	342	760	141	-	-
AA- and A1 or A+ and Aa3 through A- and A3	3,249	964	1,802	467	1,150	277	297	220
A- and Baa1 or BBB+ and A3 through BBB- and Baa3	117	33	72	17	45	16	-	-
BBB- and Ba1 or BB+ and Baa3 through BB- and Ba3	-	-	-	-	-	-	-	-
Other	1,289	113	458	83	504	30	327	-
	6,920	**1,593**	**3,837**	**909**	**2,459**	**464**	**624**	**220**

Counterparties in the 'Other' category consist primarily of parties to contracts with respect to which the Group has received collateral from counterparties with ratings of the above categories or an equivalent internal rating.

Collateral

Collateral issued to third parties, measured at a fair value, amounts to £45 million (2009: £30 million). This collateral includes amounts pledged to customers if a default in supply of electricity occurs.

Notes to the financial statements for the year ended 31 December 2010 (continued)

24 Pension scheme arrangements

Defined Contribution Scheme

In December 2008, the Company opened a defined contribution retirement benefit scheme for all qualifying employees not already in a pension scheme and for new employees joining the Group. The assets of the scheme are held separately from those of the group funds in an independent administered fund held by the individual members. The total cost charged to the Group Income Statement of £5 million (2009: £3 million) represents contributions payable to these schemes by the Group at rates specified in the rules of the plan. As at 31 December 2010, all of the contributions due had been paid over to the scheme.

Defined Benefit Schemes

At 31 December 2010, E.ON UK had two registered pension schemes and one unfunded unregistered 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 2010.

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

	At 31 December 2010	At 31 December 2009
Average nominal rate of annual increase in salaries	**4.0%**	4.0%
Average nominal rate of annual increase in pensions	**3.3%**	3.3%
Discount rate	**5.4%**	5.7%
Expected return on assets	**5.8%**	6.1%
RPI inflation rate	**3.5%**	3.5%
CPI inflation rate	**2.5%**	-

24 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 65 will live on average for a further 22 years if they are male and for a further 25 years if they are female. For a member who retires in 2030 at age 65, the assumptions are that they will live on average for a further 24 years after retirement if they are male and for a further 25 years after retirement if they are female.

The indicative impact on Scheme liabilities of a change in the discount rate assumption by 0.25% is +/- 3.9%. The indicative impact on Scheme liabilities of a change in the inflation rate assumption by 0.25% is +/- 3.4%. The indicative impact on Scheme liabilities of increasing pensioner life expectancy by one year is 2.6%.

The amounts recognised in the Group Balance Sheet are as follows:

	At 31 December 2010 £m	At 31 December 2009 £m
Fair value of plan assets	**5,325**	4,951
Present value of funded obligations	**(5,872)**	(5,595)
	(547)	(644)
Present value of unfunded obligations	**(23)**	(19)
Net liability recognised in the balance sheet	**(570)**	(663)

The amounts recognised in the Group Income Statement are as follows:

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Current service cost	**67**	37
Interest cost	**314**	276
Expected return on plan assets	**(294)**	(258)
Curtailment	**13**	10
Net cost recognised in the income statement	**100**	65

Current service cost, settlements and curtailments are disclosed within operating costs in the Group Income Statement. Interest cost and expected return on plan assets are disclosed within finance costs.

24 Pension scheme arrangements (continued)

During 2010, E.ON UK transferred in employees as part of the acquisition of the Electricity Pensions Administration Limited business, which was acquired in 2009.

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

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Opening defined benefit obligation	**5,614**	4,417
Service cost	**67**	37
Interest cost	**314**	276
Net increase in liabilities from disposals/acquisitions	**6**	4
Actuarial losses	**163**	1,137
Curtailment	**13**	10
Contributions by plan participants	**3**	13
Benefits paid	**(285)**	(280)
	5,895	5,614

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

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Opening fair value of plan assets	**4,951**	4,889
Expected return on Scheme assets	**294**	258
Actuarial gains/(losses)	**198**	(74)
Net increase in assets from disposals/acquisitions	**8**	3
Contributions by employer	**156**	142
Contributions by plan participants	**3**	13
Benefits paid	**(285)**	(280)
	5,325	4,951

24 Pension scheme arrangements (continued)

The Group paid special contributions of £295 million to its defined benefit pension plans in March 2011. Special contributions of £120 million in 2012, £50 million in 2013 and approximately £37 million per annum from 2014 until 2016 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 2010	At 31 December 2009	**At 31 December 2010**	At 31 December 2009
	%	%	**%**	%
Equity instruments	**9.4**	9.4	**19**	19
Debt instruments	**3.7**	4.6	**65**	67
Property	**9.2**	9.6	**7**	5
Other assets	**10.5**	-	**9**	9
	5.8	6.1	**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 assumed long-term rate of return on each asset class is set out within this note. The overall expected return on assets is derived by aggregating the expected return for each asset class over the benchmark asset allocation. The benchmark asset allocation is 68% bonds, 5% equities, 7% property and 20% other assets.

The actual return on Scheme assets is shown below:

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Expected return on Scheme assets	**294**	258
Actuarial gain/(loss) on Scheme assets	**198**	(74)
Actual return on Scheme assets	**492**	184

Notes to the financial statements for the year ended 31 December 2010 (continued)

24 Pension scheme arrangements (continued)

Cumulative actuarial gains and losses recognised in equity:

	At 31 December 2010 £m	At 31 December 2009 £m
(Loss)/gain at start of year	**(639)**	572
Actuarial gains/(losses) recognised in the year	**35**	(1,211)
Loss at the year end	**(604)**	(639)

History of experience adjustments:

	At 31 December 2010 £m	At 31 December 2009 £m	At 31 December 2008 £m	At 31 December 2007 £m	At 31 December 2006 £m
Fair value of Scheme assets	**5,325**	4,951	4,889	5,103	4,969
Present value of defined benefit obligations	**(5,895)**	(5,614)	(4,417)	(5,241)	(5,034)
(Deficit)/surplus in the Scheme	**(570)**	(663)	472	(138)	(65)
Experience adjustments on plan liabilities					
Amounts (£m)	**163**	1,137	914	(112)	169
Experience adjustments on plan assets					
Amounts (£m)	**198**	(74)	(369)	11	(14)

Notes to the financial statements
for the year ended 31 December 2010 (continued)

25 Provisions

Movements on provisions comprise:

	At 31 December 2009 £m	Charged/ (released) to the income statement £m	Accretion of discount £m	Provisions utilised £m	**At 31 December 2010 £m**
Decommissioning	90	23	3	-	**116**
Contract provisions	245	(15)	20	(39)	**211**
Restructuring	4	2	-	(2)	**4**
Emissions obligations	69	57	-	(69)	**57**
ROCs	115	191	-	(163)	**143**
Share-based payments (Note 27)	1	-	-	-	**1**
	524	258	23	(273)	**532**

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

	At 31 December 2010 £m	At 31 December 2009 £m
Current	**255**	236
Non-current	**277**	288
	532	524

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 over the next 3 to 31 years.

Contract provisions at 31 December 2010 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 and Retail businesses and will be utilised in 2011.

25 Provisions (continued)

Emissions obligations provisions represent amounts payable to national authorities for emissions made during the year. Emissions obligations are settled on an annual basis.

ROCs represent the value of certificates payable to national authorities for the Group's activities during the year. ROCs are settled on an annual basis.

The Group's provisions include £211 million (2009: £245 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 the cash flows have been discounted in establishing the provisions. 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.

26 Deferred tax

An analysis of the provision for deferred tax recognised at 31 December 2010 is as follows:

	At 31 December 2010 £m	At 31 December 2009 £m
Accelerated capital allowances	**862**	832
Other temporary differences	**(62)**	(35)
Provision for deferred tax	**800**	797
Provision at 1 January	**797**	720
Deferred tax (credit)/charge for year	**(9)**	414
Taken to equity	**12**	(337)
Provision at end of year	**800**	797

The deferred tax on items taken directly to equity is that arising on movements in cash flow hedges and actuarial gains and losses.

26 Deferred tax (continued)

The deferred tax provision is analysed as follows:

	At 31 December 2010 £m	At 31 December 2009 £m
Intangibles	**45**	69
Investments	**(12)**	(13)
Property, plant and equipment	**862**	832
Receivables	**16**	-
Derivatives	**106**	88
Pensions provision	**(161)**	(200)
Other provisions	**(41)**	(19)
Unrealised capital losses	**9**	7
Other	**(24)**	33
	800	797

The deferred tax liability due after more than one year is £800 million (2009: £797 million).

The movement in deferred tax relating to pension provisions includes a decrease in the asset of £16 million (2009: decrease in the liability of £339 million) as a result of actuarial gains and losses, which has been recognised directly in equity. Included in this movement is a £6m tax charge for the change in tax rate from 28% to 27%. The movement in deferred tax relating to derivatives includes a decrease in the liability of £4 million (2009: increase in liability of £2 million) as a result of fair value gains and losses relating to cash flow hedges, which has been recognised directly in equity. All other deferred tax movements in the year were recognised in the Group Income Statement.

27 Share-based payments

Members of the EUEB and certain executives of E.ON UK receive share-based payment as part of their long-term variable compensation. Share-based payment can only be granted if the qualified executive owns a certain minimum number of shares of E.ON stock, which must be held until maturity or full exercise. The purpose of such compensation is to reward their contribution to E.ON's growth and to further the long-term success of the Company. This variable compensation component, comprising a long-term incentive effect along with a certain element of risk, provides for a sensible linking of the interests of shareholders and management.

The following discussion includes a report on the E.ON Share Performance Plan, introduced in 2006.

E.ON Share Performance Plan

In 2010, 89,203 virtual shares ("Performance Rights") from the fifth tranche of the E.ON Share Performance Plan were granted. The terms of the Performance Rights are based in Euros (€) and information is presented in Euros below:

	Tranche 5	Tranche 4	Tranche 3*
Date of issuance	1 January 2010	1 January 2009	1 January 2008
Term	4 years	3 years	3 years
Target value of compensation at issuance (€)	27.25	27.93	136.26
Number of participants in year of issuance	35	37	24
Number of Performance Rights issued	89,203	81,571	16,886
Maximum cash amount (€)	81.75	83.79	408.78

* issuance before share split in 2008

At the end of its three/four-year term, each Performance Right is entitled to a cash payment linked to the final E.ON share price established at that time. The amount of the payment is also linked to the relative performance of the E.ON 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 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.

27 Share-based payments (continued)

60-day average prices are used to determine the initial price, the final price and the relative performance, in order to mitigate the effects of incidental, short-lived price movements.

The calculation of the amount to be paid out takes place at the same time for all plan participants with effect on the last day of the term of the tranche. If the performance of the E.ON share matches that of the index, the amount paid out is not adjusted; the final share price is paid out. However, if the E.ON share outperforms the index, the amount paid out is increased proportionally. If, on the other hand, the E.ON share underperforms the index, disproportionate deductions are made. In the case of underperformance by 20 percent or more, no payment at all takes place.

The plan contains adjustment mechanisms to eliminate the effect of events such as interim corporate 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.

The fair value is determined for the Performance Rights in accordance with IFRS 2 using a recognised option pricing model. This model involves the simulation of a large number of different possible development tracks for the E.ON share price (taking into account the effects of reinvested dividends and capital adjustment factors) and the benchmark index (Monte Carlo simulation). The benchmark for this plan is the STOXX Europe 600 Utilities Index (Total Return EUR), which stood at 628.76 points on 31 December 2010. Since payments to all plan participants take place on a specified date, no assumptions concerning exercise behaviour are made in this plan structure, and such assumptions are therefore not considered in this option pricing model. The risk-free interest rate used for reference is the zero swap rate for the corresponding remaining maturity. The dividend yields of the E.ON share are also included in the pricing model. The E.ON 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 €24.42. Dividend payments and corporate actions are taken into account through corresponding factors that are analogous to those employed by the index provider.

27 Share-based payments (continued)

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

	Tranche 5	Tranche 4	Tranche 3**
Intrinsic value on 31 December 2010 (€)	5.88	7.77	31.52
Fair value on 31 December 2010 (€)	10.56	9.26	31.52
Swap rate (%)	1.90%	1.11%	-
Volatility of the E.ON AG stock (%)	38.10%	20.11%	-
Volatility of the STOXX European 600 Utilities Index (Total Return €) (%)	27.79%	16.84%	-
Correlation between the E.ON share price and STOXX European 600 Utilities (Total return €)	0.91	0.86	-
Dividend yield of the E.ON share (%)	6.53%	6.73%	-

** issuance before share split in 2008 and matured

The third tranche matured on 31 December 2010. The ordinary payout at the year end for the remaining third tranche performance rights was set at €31.52 per performance right. At 1 January 2010, a liability relating to 16,436 Performance Rights of third tranche, was recognised. The payout and elimination of the liability will take place in the first quarter of 2011. Provisions for the plan at the year-end totalled £1 million (2009: £1 million). Each provision is prorated for the respective period elapsed of the total three-year or four-year term. During 2010 there was an expense amounted to £nil for the E.ON Share Performance Plan (2009: expense of £1 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 5	Tranche 4	Tranche 3
Performance Rights outstanding as at 1 January 2009	-	-	16,836
Performance Rights granted in 2009	-	81,571	-
Performance Rights expired in 2009	-	-	(450)
Performance Rights outstanding as at 31 December 2009	-	81,571	16,436
Performance Rights granted in 2010	89,203	-	-
Performance Rights settled in 2010	-	-	(16,436)
Performance Rights outstanding as at 31 December 2010	**89,203**	**81,571**	**-**
Provision as at 1 January 2010 (£m)	-	1	-
Cash amount paid in 2010 (£m)	-	-	-
Expense in 2010 (£m)	-	-	-
Provision as at 31 December 2010 (£m)	**-**	**1**	**-**

At the balance sheet date, the fourth and fifth tranches were not yet payable on an ordinary basis.

28 Share capital

The share capital of the Company comprises:

	At 31 December 2010 £m	At 31 December 2009 £m
Authorised		
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	**1,325**	1,325

Notes to the financial statements for the year ended 31 December 2010 (continued)

29 Share premium account

	2010 £m	2009 £m
At 1 January and 31 December	**97**	97

The share premium account is not available for distribution.

30 Retained earnings

	£m
At 1 January 2009	2,302
Profit for the year	1,453
Actuarial gains and losses (net of tax)	(872)
Dividends paid	(480)
Transaction with minority shareholder	(2)
At 31 December 2009	2,401
Profit for the year	730
Actuarial gains and losses (net of tax)	19
Dividends paid	(240)
At 31 December 2010	**2,910**

31 Other reserves

	Capital redemption reserve £m	Special capital reserve £m	Available for sale investment reserve £m	Hedging reserve £m	Revaluation reserve £m	Total £m
At 1 January 2009	85	474	2	-	24	585
Disposal	-	-	(2)	-	-	(2)
Cash flow hedges (net of tax)	-	-	-	5	-	5
At 31 December 2009	85	474	-	5	24	588
Available for sale investments	-	-	1	-	-	1
Cash flow hedges (net of tax)	-	-	-	(8)	-	(8)
At 31 December 2010	**85**	**474**	**1**	**(3)**	**24**	**581**

31 Other reserves (continued)

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 EC&R UK business and Cottam Development Centre Limited. The reserve is not available for distribution.

32 Equity minority interests

	2010 £m	2009 £m
At 1 January	**3**	2
Income statement	**2**	5
Transaction with minority shareholder	**-**	(2)
Dividends paid to minority interests	**(2)**	(2)
At 31 December	**3**	3

33 Cash flows from operating activities

Reconciliation of net profit to cash generated from operations:

	Year ended 31 December 2010 £m	Year ended 31 December 2009 (restated – see note 1) £m
Net profit including discontinued operations	**732**	1,458
Adjustments for:		
Tax charge (Note 8)	**182**	512
Amortisation (Note 10)	**61**	64
Intangibles impairment charge (Note 10)	**-**	3
Depreciation (Note 11)	**327**	295
Impairment loss/(reversal) on generating assets (Note 11)	**64**	(9)
Onerous contract (release)/charge (Note 25)	**(15)**	75
Loss on disposal of property, plant and equipment, and intangibles (Note 3)	**40**	12
Gain on disposal of property, plant and equipment (Note 3)	**(7)**	(8)
Profit from discontinued operations (Note 9)	**(106)**	(1,222)
Profit on sale of investments (Note 5)	**-**	(56)
Net finance costs (Note 7)	**121**	99
Share of results of associates after taxation (Note 12)	**17**	(2)
Gain on settlement of cross currency swap (Note 3)	**-**	(100)
Gains on other derivative financial instruments (Note 3)	**(185)**	(97)
Other non-cash differences	**(2)**	3
Changes in working capital (excluding effects of acquisitions and disposal of subsidiaries)		
Decrease/(increase) in inventories	**46**	(22)
Decrease/(increase) in receivables and derivative financial assets	**2,318**	(2,894)
(Decrease)/ increase in payables and derivative financial liabilities	**(2,160)**	3,580
Pensions - difference between cash contributions and amount charged to operating profit	**(77)**	(77)
Increase in provisions	**38**	60
Cash generated from operations	**1,394**	1,674

34 Commitments and contingent liabilities

a) At 31 December 2010, the Group had commitments contracted but not provided for of £1,411 million (2009: £850 million) for capital expenditure relating to property, plant and equipment.

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 2010, the Group's future commitments for the supply of coal under all its contractual arrangements totalled £89 million (2009: £348 million).

34 Commitments and contingent liabilities (continued)

The Group is also committed to purchase gas under various gas supply contracts including the supply of gas to the Group's power stations and to meet retail demand. At 31 December 2010, the estimated minimum commitment for the supply of gas under all these contracts totalled £1,409 million (2009: £2,161 million).

The Group is also committed to power purchase contracts for the supply of electricity to meet retail demand. At 31 December 2010 the total contractual commitment for the Group was £3,827 million (2009: £3,405 million).

Following the disposal of the Energy Trading business on 1 January 2009, all existing fuel purchase contracts at that date were novated or matched by equal and opposite sales contracts with EET SE. The Group also has further commitments to sell all power and related renewables credits generated to EET SE. The volumes generated are at the discretion of EET SE and therefore this commitment cannot be quantified.

e) The Group has contingent liabilities in respect of claims and disputes arising in the ordinary course of business amounting to £36 million (2009: £36 million).

f) 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.

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

	31 December 2010		31 December 2009	
	Property £m	**Other assets £m**	Property £m	Other assets £m
Aggregate commitments under non-cancellable operating leases expiring:				
Within one year	**7**	**12**	9	11
Within two to five years	**21**	**27**	29	19
After five years	**27**	**15**	34	-
	55	**54**	72	30

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.

35 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

36 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 electricity and gas.

Income statement items	**Year ended 31 December 2010 £m**	Year ended 31 December 2009 £m
Income received from parent undertaking and fellow subsidiaries	**2,085**	1,829
Expenses incurred from parent undertaking and fellow subsidiaries	**4,656**	4,404

Balance sheet items with parent undertakings and fellow subsidiaries are disclosed in Notes 15, 17, 19, 20 and 21. Income statement interest payable and receivable are disclosed in Note 7.

36 Related party transactions (continued)

Associates

Purchases from associates were £nil in 2010 (2009: £nil). There were no other transactions or balances with associates in either year.

Joint ventures

Transactions and balances with joint ventures are summarised below. Recharges relate largely to operating costs recharged.

Income statement items	**Year ended 31 December 2010 £m**	Year ended 31 December 2009 £m
Recharges to joint ventures	**6**	6

Balance sheet items	**At 31 December 2010 £m**	At 31 December 2009 £m
Equity investment addition	**20**	30
Receivables from joint ventures	**1**	2
Payables to joint ventures	**-**	11

Directors and key management

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

37 Subsequent events

Assets held for sale at the year end of £60 million relating to offshore transmission cables held within the EC&R UK segment were sold in March 2011 for a gain of approximately £6 million.

On 1 April 2011 the Group disposed of its Central Networks business in line with the E.ON AG Group's strategy to divest €15 billion by the end of 2013. The purchase price for the equity and for the assumption of certain liabilities, including around £100 million of the Group's pension provision, was approximately £4.1 billion. E.ON UK will record a book gain of approximately £600 million through this transaction.

On 4 May 2011 the Group disposed of its stake in Corby Power Limited, which owns a 350MW gas-fired power station in Corby, for total consideration of £44 million. The Group expects to make a gain on disposal of approximately £20 million from this transaction.

E.ON UK PLC

COMPANY ACCOUNTS

for the year ended 31 December 2010

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

We have audited the parent company financial statements of E.ON UK plc for the year ended 31 December 2010 which comprise the Company Balance Sheet and the related Notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Statement of directors' responsibilities, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the parent company's affairs as at 31 December 2010;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of Companies Act 2006

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the parent company financial statements are prepared is consistent with the parent company financial statements.

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Other matter

We have reported separately on the group financial statements of E.ON UK plc for the year ended 31 December 2010.

Andrew Lyon BSc FCA (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
East Midlands
23 May 2011

E.ON UK PLC

COMPANY BALANCE SHEET
as at 31 December 2010

	Note	31 December 2010 £m	31 December 2009 £m
Fixed assets			
Intangible assets	5	**2**	3
Tangible assets	6	**2,429**	2,146
Investments			
Investments in associates and joint ventures	7	**50**	30
Investments in subsidiaries	7	**3,221**	3,466
Other	7	**18**	17
Total investments		**3,289**	3,513
		5,720	5,662
Current assets			
Stocks	8	**170**	204
Debtors: amounts falling due within one year	9	**4,727**	4,303
Commodity and other derivative financial instruments	13	**722**	3,055
Cash and short term deposits		**4**	4
		5,623	7,566
Creditors: amounts falling due within one year			
Loans and overdrafts	10	**(1,323)**	(570)
Commodity and other derivative financial instruments	13	**(679)**	(2,946)
Trade and other creditors	11	**(4,913)**	(4,324)
		(6,915)	(7,840)
Net current liabilities		**(1,292)**	(274)
Total assets less current liabilities		**4,428**	5,388

COMPANY BALANCE SHEET
as at 31 December 2010 (continued)

	Note	31 December 2010 £m	31 December 2009 £m
Creditors: amounts falling due after more than one year	12	**(1,250)**	(2,109)
Provisions for liabilities and charges	14	**(131)**	(115)
Net assets		**3,047**	3,164
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	**1,066**	1,183
Shareholders' funds	18	**3,047**	3,164

The financial statements on pages 123 to 148 were approved by the Board on 23 May 2011 and signed on its behalf by:

Brian Tear
Chief Financial Officer and Director
E.ON UK plc
Registered No: 2366970

23 May 2011

The accounting policies and Notes on pages 125 to 148 form an integral part of these financial statements.

1 Accounting policies

Nature of operations

The principal business in the UK during the year and at the year end was the generation and wholesale of electricity. The Company during the year and at the year end was 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 2006.

There is no difference between the profit on ordinary activities before taxation and the retained profit 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, 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 of electricity. Turnover excludes Value Added Tax.

Turnover from the generation of electricity from renewable sources represents the value of the sale of electricity from wind farms and related renewable credits and is recognised when the power is supplied. Turnover from other generation sources represents capacity fees received for making plant available to customers, plus exercise fees received when plant is used to generate power. Capacity fees are recognised over the period for which plant is made available for use. Exercise fees are charged on a cost-plus basis and recognised as costs are incurred.

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.

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 Company capitalises the costs of the provision by increasing the carrying amount of the tangible fixed assets. 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 tangible fixed assets and is not recognised in the profit and loss account.

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Company has a contract under which the unavoidable costs of meeting the obligations under contract exceed the economic benefits expected to be received under it.

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.

1 Accounting policies (continued)

Foreign exchange (continued)

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.

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 'Financial instruments: Disclosures' 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, associates and joint ventures 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 'Financial instruments: Recognition and measurement', 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.

1 Accounting policies (continued)

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 'Financial instruments: Recognition and measurement' 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.

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.

1 Accounting policies (continued)

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.

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.

1 Accounting policies (continued)

Depreciation

Provision for depreciation of generating and other assets is made so as to write off the cost (less residual value) of tangible fixed assets, on a straight line basis except in cases where a different method is deemed more suitable. 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.

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 2006 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.

1 Accounting policies (continued)

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 FRS 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 FRS 1 (revised 1996) 'Cash Flow Statements'.

Related party transactions

The Company is exempt under the terms of FRS 8 'Related Party Disclosures', 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

Payments to defined contribution schemes are charged against profits as incurred. The Company has no further payment obligation once contributions have been paid. Contributions are recognised in the profit and loss account as employee costs when they are due and prepaid contributions are recognised as an asset to the extent that a cash refund or reduction in the future payments is available.

1 Accounting policies (continued)

Pension costs (continued)

The Company also contributes to a funded group defined benefit 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.

When assets are leased out under an operating lease, the asset is included in the balance sheet based on the nature of the asset. Accordingly, generating assets leased out under operating leases are included within tangible assets. Income from operating leases is recognised on a straight line basis except where income receipts vary with output or other factors. Any variable element is recognised as earned.

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 Profit of the Company

The profit for the financial year of the Company is £123 million (2009: £1,066 million profit). The Company is not publishing a separate profit and loss account as permitted by Section 408 of the Companies Act 2006.

The audit fee for the Company is £0.2 million (2009: £0.2 million).

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 2010 £	Year ended 31 December 2009 £
Aggregate emoluments	**3,386,500**	3,858,925

Included within the above aggregate emoluments are the emoluments of J Crackett, which were recharged to Central Networks East plc and Central Networks West plc in equal proportions.

Retirement benefits are accruing to five (2009: 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 (2009: none). In 2010, five (2009: four) directors exercised Performance Rights over shares in the ultimate parent company, E.ON AG, which they were awarded for services to the E.ON UK Group.

Highest paid director	Year ended 31 December 2010 £	Year ended 31 December 2009 £
Annual salary	**574,975**	574,975
Annual bonus	**501,100**	500,000
Long-term incentive payments	**98,376**	426,636
Other benefits	**36,854**	38,263
Total emoluments, excluding gains on the exercise of share options and benefits accruing under long-term incentive schemes	**1,211,305**	1,539,874
Defined benefit pension scheme:		
- Accrued pension at end of year	**225,560**	183,090

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.

Notes to the parent company financial statements for the year ended 31 December 2010 (continued)

4 Employee information

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

	Year ended 31 December 2010	Year ended 31 December 2009
Total operations	**2,761**	2,756

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

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Wages and salaries	**108**	109
Social security costs	**9**	10
Other pension costs (Note 19)	**83**	82
	200	201

5 Intangible fixed assets

	Goodwill £m	**Total £m**
Cost		
At 1 January 2010	4	4
At 31 December 2010	**4**	**4**
Amortisation		
At 1 January 2010	1	1
Charge for the year	1	1
At 31 December 2010	**2**	**2**
Net book value at 31 December 2010	**2**	**2**
Net book value at 31 December 2009	3	3

Notes to the parent company financial statements for the year ended 31 December 2010 (continued)

6 Tangible fixed assets

	Generating assets £m	Other assets £m	Total £m
Cost			
At 1 January 2010	4,017	49	4,066
Additions	504	1	505
Disposals	(26)	(2)	(28)
At 31 December 2010	**4,495**	**48**	**4,543**
Depreciation			
At 1 January 2010	1,878	42	1,920
Charge for the year	168	2	170
Impairment	38	-	38
Disposal	(13)	(1)	(14)
At 31 December 2010	**2,071**	**43**	**2,114**
Net book value at 31 December 2010	**2,424**	**5**	**2,429**
Net book value at 31 December 2009	2,139	7	2,146

Generating assets include freehold land and buildings with a net book value of £143 million (2009: £176 million).

Generating assets include capitalised finance costs of £68 million (2009: £42 million).

7 Investments

	Subsidiary investment	Associate/ joint venture investment		
	Equity £m	Equity £m	Other investments £m	Total £m
At 31 December 2009	3,466	30	17	3,513
Additions	-	20	1	21
Disposals	(245)	-	-	(245)
At 31 December 2010	**3,221**	**50**	**18**	**3,289**

During the year the Company's subsidiary companies, Ergon Finance Limited, Ergon Properties Limited and E.ON UK Trading Limited were placed into member's voluntary liquidation as part of an ongoing project to remove unwanted companies from the Group. The investment value relating to each of these subsidiaries has been disposed of.

7 Investments (continued)

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 Solutions 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 and home installation services

Of the investments held by EME Distribution No. 2 Limited: Central Networks East plc, Central Networks West plc and Central Networks Limited have been disposed of since the year end. See note 37 within the Group accounts for further details.

Notes to the parent company financial statements for the year ended 31 December 2010 (continued)

7 Investments (continued)

Associates

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

	Accounting reference date	Country of incorporation or registration	Shares held	% of capital held directly by the Company
Horizon Nuclear Power Limited	31 December	England and Wales	Ordinary shares	50%

During 2009, the Company purchased a 50% investment in Horizon Nuclear Power Limited. The principal activity of the joint venture is the development of nuclear capacity in the UK. The remaining 50% is owned by RWE Npower, a wholly owned subsidiary of RWE AG. During 2010, the Company invested a further £20 million in this joint venture company.

Other investments

Other investments include the following:

	At 31 December 2010 £m	At 31 December 2009 £m
Listed gilts – UK	**18**	17
	18	17

8 Stocks

	At 31 December 2010 £m	At 31 December 2009 £m
Fuel stocks	**146**	178
Stores	**24**	26
	170	204

9 Debtors: amounts falling due within one year

	At 31 December 2010 £m	At 31 December 2009 £m
Trade debtors	**11**	20
Other debtors	**124**	85
Prepayments and accrued income	**66**	120
Other taxation and social security	**20**	66
Amounts due from group undertakings	**4,506**	4,012
	4,727	4,303

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 2010 £m	At 31 December 2009 £m
Bank overdrafts	**207**	194
Short-term loans from parent undertaking and fellow subsidiaries	**1,116**	376
	1,323	570

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 demand.

The weighted average interest rate on all short-term loans during the year was 1.17% (2009: 2.03%).

Notes to the parent company financial statements for the year ended 31 December 2010 (continued)

11 Trade and other creditors

	At 31 December 2010 £m	At 31 December 2009 £m
Trade creditors	**106**	223
Amounts owed to group undertakings	**3,805**	3,359
Other taxation and social security	**198**	187
Deferred Tax (Note 15)	**204**	206
United Kingdom corporation tax	**103**	122
Overseas tax	**20**	19
Deferred income	**88**	107
Accruals and other creditors	**389**	101
	4,913	4,324

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 Creditors: amounts falling due after more than one year

	At 31 December 2010 £m	At 31 December 2009 £m
Deferred income	-	88
Amounts owed to external debt holders		
6.25% Sterling Eurobond 2024	-	8
	-	8
Amounts owed to fellow group undertakings		
6.25% Sterling Eurobond 2024	-	226
Long-term loan 2011	-	537
Long-term loan 2014	**350**	350
Long-term loan 2037	**900**	900
	1,250	2,013
	1,250	2,109

12 Creditors: amounts falling due after more than one year (continued)

Amounts owed to fellow group undertakings are unsecured.

The long-term loan 2014 is repayable in 2014 and incurs interest at 5.775%. The long-term loan 2037 is repayable in 2037 and incurs interest at 6.075%. The Sterling Eurobond 2024 was redeemed early during 2010. The Sterling Eurobond 2024 had no financial covenants.

13 Financial instruments

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

	Assets (£m)		Liabilities (£m)	
	At 31 December 2010	At 31 December 2009	**At 31 December 2010**	At 31 December 2009
Foreign currency forward contracts	**6**	13	**(4)**	(11)
Commodity swaps	**67**	310	**(26)**	(208)
Commodity forward contracts	**649**	2,732	**(649)**	(2,727)
	722	3,055	**(679)**	(2,946)

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 2009	Charged to the profit and loss account	Accretion of discount	Provisions utilised	**At 31 December 2010**
	£m	£m	£m	£m	**£m**
Contract provisions	3	1	-	-	**4**
Decommissioning	45	23	2	-	**70**
Emissions obligations	67	57	-	(67)	**57**
	115	81	2	(67)	**131**

14 Provisions for liabilities and charges (continued)

The majority of contract provisions at 31 December 2009 and 2010 relate to onerous lease contract provisions.

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. Emission obligations are settled on an annual basis.

15 Deferred tax

An analysis of the full provision and discounted provision for deferred tax recognised at 31 December 2010 is as follows:

	At 31 December 2010 £m	At 31 December 2009 £m
Accelerated capital allowances	**283**	294
Other timing differences	**(3)**	2
Undiscounted provision for deferred tax	**280**	296
Discount	**(76)**	(90)
Discounted provision for deferred tax	**204**	206

	2010 £m	2009 £m
Provision/(asset) at 1 January	**206**	(88)
Deferred tax (credit)/charge for year	**(2)**	294
Provision at 31 December	**204**	206

As at 31 December 2010 the standard rate of corporation tax at the balance sheet date was 28% (2009: 28%). The Finance (No 2) Act 2010 was substantively enacted on 20 July 2010 and includes legislation to reduce the main rate of corporation tax from 28% to 27% from 1 April 2011. The deferred tax liability at 31 December 2010 has therefore been re-measured because that is the rate at which the timing differences are expected to reverse.

15 Deferred tax (continued)

Further reductions to the UK corporation tax rate were announced in the June 2010 Budget. These changes, which are expected to be enacted separately each year, propose to reduce the rate by 1% per annum to 24% by 1 April 2014. The Budget also included measures to reduce the rate of writing-down allowances on the main pool of plant and machinery expenditure to 18% and on the special rate pool to 8%, both with effect from 1 April 2012.

In addition to the changes in rates of Corporation tax disclosed above, a number of further changes to the UK Corporation tax system were announced in the March 2011 UK Budget Statement. A resolution passed by Parliament on 29 March 2011 has reduced the main rate of corporation tax to 26% from 1 April 2011. Legislation to reduce the main rate of corporation tax from 26% to 25% from 1 April 2012 is expected to be included in the Finance Act 2011. Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 23% by 1 April 2014.

The effect of the changes enacted by Parliament on 29 March 2011 is to reduce the deferred tax liability provided at the balance sheet date by £8 million. This decrease in the deferred tax liability is due to the additional reduction in the corporation tax rate to 26 per cent with effect from 1 April 2011.

The effect of the changes expected to be enacted in the Finance Act 2011 would be to further reduce the deferred tax liability provided at the balance sheet date by an additional £1 million. This decrease in the deferred tax liability is due to the reduction in the corporation tax rate from 26 per cent to 25 per cent and a reduction in the rate of writing-down allowances on the main pool of plant and machinery expenditure to 18 per cent and on the special rate pool to 8 per cent with effect from 1 April 2012.

The proposed reductions of the main rate of corporation tax by 1% per year to 23% by 1 April 2014 are expected to be enacted separately each year. The overall effect of the further changes from 25% to 23%, if these applied to the deferred tax balance at the balance sheet date, would be to reduce the deferred tax liability by an additional £9 million.

Notes to the parent company financial statements for the year ended 31 December 2010 (continued)

16 Share capital

The share capital of the Company comprises:

	At 31 December 2010 £m	At 31 December 2009 £m
Authorised		
3,050,000,002 (2009: 3,050,000,002) ordinary shares of 50p each	**1,525**	1,525
Allotted, called-up and fully paid		
2,649,241,799 (2009: 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 2009	97	474	85	1,183
Dividend	-	-	-	(240)
Profit for the year	-	-	-	123
At 31 December 2010	**97**	**474**	**85**	**1,066**

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 2010 £m	31 December 2009 £m
Profit for the financial year	**123**	1,066
Dividends	**(240)**	(480)
Retained (loss)/profit for the financial year	**(117)**	586
Disposal of listed investment (net of tax)	**-**	(2)
Net movement in shareholders' funds	**(117)**	584
Opening shareholders' funds	**3,164**	2,580
Closing shareholders' funds	**3,047**	3,164

19 Pension commitments

Defined Contribution Scheme

In December 2008, the Company opened a defined contribution retirement benefit scheme for all qualifying employees not already a pension scheme member and for new employees joining the Company. The assets of the scheme are held separately from those of the Group funds in an independent administered fund held by the individual members. The total cost charged to the income statement of £0.2 million (2009: £0.3 million) represents contributions payable to these schemes by the Company at rates specified in the rules of the plan. As at 31 December 2010, all of the contributions had been paid over to the scheme.

Defined Benefit Schemes

At 31 December 2010, the Company had two registered pension schemes and one unfunded unregistered 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 2010. The valuation of the Scheme at Group level (see to Note 24 on page 101) is not performed in accordance with FRS 17 "Retirement Benefits", therefore the deficit, as calculated in accordance with IAS 19 "Employee Benefits" ("IAS 19"), has been disclosed.

19 Pension commitments (continued)

The Group's deficit under IAS 19 is as follows:

	31 December 2010	31 December 2009
Valuation deficit	**£570m**	£663m
Market value of assets	**£5,325m**	£4,951m
Funding level	**90.3%**	88.2%
The Scheme was valued using the following assumptions		
– average nominal rate of return on investments (discount rate)	**5.4%**	5.7%
– average nominal rate of annual increase in salaries	**4.0%**	4.0%
– average nominal rate of annual increase in pensions	**3.3%**	3.3%
RPI inflation rate	**3.5%**	3.5%
CPI inflation rate	**2.5%**	-
Method of valuation used	**IAS 19**	IAS 19

The contributions paid by the Company are accounted as if the Scheme was 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 Scheme during the year amounted to £83 million (2009: £82 million), being 76.9% of pensionable salary (2009: 74.7%). This includes a special contribution of £61 million (2009: £61 million) paid during the year. Excluding the special contribution, the cost of contributions to the Scheme amount to £22 million (2009: £21 million), being 20.4% of pensionable salary (2009: 19.3%).

The amount outstanding included in other creditors relating to pension contributions to the Scheme is £12 million (2009: £12 million).

20 Commitments and contingent liabilities

a) At 31 December 2010, the Company had commitments contracted but not provided of £929 million (2009: £335 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.

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.

20 Commitments and contingent liabilities (continued)

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 2010, the Company's future commitments for the supply of coal under all its contractual arrangements totalled £89 million (2009: £348 million).

The Company is also committed to purchase gas under various gas supply contracts including the supply of gas to the Group's power stations. At 31 December 2010, the estimated minimum commitment for the supply of gas under all these contracts totalled £596 million (2009: £696 million).

Following the disposal of the Energy Trading business on 1 January 2009, all existing fuel purchase contracts at that date were novated or matched by equal and opposite sales contracts with EET SE. The Company also has further commitments to sell all power and related renewable credits generated to EET SE. The volumes generated are at the discretion of EET SE and therefore this commitment cannot be quantified.

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 2010, the credit risk exposure under financial guarantees issued by E.ON UK plc in support of its subsidiaries was £1,830 million (2009: £1,781 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.

20 Commitments and contingent liabilities (continued)

g) At 31 December 2010, the Company had the following operating lease commitments relating to property:

	31 December 2010 £m	31 December 2009 £m
Annual commitments expiring under non-cancellable operating leases expiring:		
Within one year	**1**	-
Within two to five years	**3**	4
After five years	**5**	5
	9	9

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 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:

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