E.ON UK plc Group Consolidated Segmental Report

for the year ended 31 December 2010

In accordance with the Electricity Generation Licence Condition 16 - Financial Information Reporting and the Electricity Supply and Gas Supply Licence Conditions 19A - Financial Information Reporting, the companies (Relevant Licensees) listed below have prepared this E.ON UK plc Group Consolidated Segmental Report for the year ended 31 December 2010.

This report includes:

1. E.ON's UK Consolidated Segmental Statement for the year ended 31 December 2010 (Table 1), which provides information relating to the revenues, costs and profits of the Relevant Licensees' activities in the generation of electricity and the supply of electricity and gas to any premises;

2. An explanation of how the Relevant Licensees define the terms: revenues, costs and profits used in the Consolidated Segmental Statement (Notes to Table 1);

3. A full reconciliation of the Consolidated Segmental Statement to the E.ON UK plc Annual Report and Accounts for the year ended 31 December 2010 (Table 2), which explains how the revenues, costs and profits are reconciled with the E.ON UK plc Annual Report and Accounts (Notes to Table 2); and

4. An explanation of the transfer pricing methodology used by the Relevant Licensees and how this relates to the revenues, costs and profit information in the Consolidated Segmental Statement.

Each of the Relevant Licensee's statutory accounts individually forms part of the E.ON UK plc Annual Report and Accounts and is included in the Consolidated Segmental Statement (Table 1). The E.ON UK plc Annual Report and Accounts set out the Group's principal activities, a review of its business and future developments and a segmental analysis of its UK operations. An extract of this segmental analysis is produced in Table 3 of this report.

Ofgem's Financial Information Reporting: Amended Guidance, which was published on 23 May 2011, replaced the previous set of guidelines published on 20 October 2009 and changed how the Segmental Statements are presented. Consequently, the Consolidated Segmental Statement for the year ended 31 December 2010 (Table 1) does not use the same format or allocations as were used for the Consolidated Segmental Statement for the year ended 31 December 2009 and therefore the two are not comparable. For this reason, comparative data for 2009 have not been included in this report.

Relevant Licensees

1, The E.ON UK plc Group's electricity supply licensees

- Citigen (London) Limited - LIC/ELEC/SUP/13 (following the company's request this licence was revoked on 12 November 2010)
- E.ON Energy Limited (the company is now E.ON Energy Solutions Limited) - LIC/ELEC/SUP/191
- E.ON UK plc - LIC/ELEC/SUP/53
- Economy Power Limited - LIC/ELEC/SUP/78

2, The E.ON UK plc Group's gas supply licensees

- E.ON Energy Gas (Eastern) Limited - LIC/SUP/158
- E.ON Energy Gas (North West) Limited - LIC/SUP/71
- E.ON Energy Limited (the company is now E.ON Energy Solutions Limited) - LIC/ELEC/SUP/191
- E.ON UK Gas Limited - LIC/SUP/13
- E.ON UK plc - LIC/SUP/30
- TXU Europe (AHG) Limited - LIC/SUP/106

3, The E.ON UK plc Group's generation licensees

- Citigen (London) Limited - LIC/ELEC/GEN/22
- Enfield Energy Centre Limited - LIC/ELEC/GEN/31
- E.ON UK plc - LIC/ELEC/GEN/58

4, Corby Power Limited - LIC/ELEC/GEN/23, which owns a 400 MW gas-fired power station in Corby, is also included in the Consolidated Segmental Statement (Table 1). As at 31 December 2010, the E.ON UK plc Group owned 50% of Corby Power Limited but was deemed to control Corby Power Limited. Consequently the E.ON UK plc Group consolidated Corby Power Limited's full results. However, on 4 May 2011, the E.ON UK plc Group disposed of its 50% shareholding in Corby Power Limited.

E.ON Energy Trading SE (EET), which was established to centralise all of E.ON AG's European trading operations, is a wholly owned subsidiary of E.ON AG and, as such, its activities are not included in the Consolidated Segmental Statement (Table 1) or in the segmental analysis of the E.ON UK plc Annual Report and Accounts (Table 3). EET purchases generation from the Relevant Licensees and provides electricity and gas for supply activities by the Relevant Licensees. These arrangements are covered by cross border contracts, which are prepared on an arm's length basis and subject to examination by the tax authorities in Germany and the UK. These arrangements are described below in the explanation of the transfer pricing methodology used by the Relevant Licensees.

E.ON UK plc has subsidiaries that carry out generation and supply activities which are not Relevant Licensees. These companies are not Relevant Licensees because they are exempt from requiring licences to carry out their generation and supply activities. Generation or supply activities by these companies is not included in the Consolidated Segmental Statement (Table 1), as it is only reporting on the generation and supply activities of the Relevant Licensees.

On 1 April 2011, the E.ON UK plc Group disposed of its electricity distribution business - Central Networks. Central Networks does not form part of the Consolidated Segmental Statement (Table 1) but is included in the segmental analysis of the E.ON UK plc Annual Report and Accounts (Table 3).

E.ON's UK Consolidated Segmental Statement for the year ended 31 December 2010

Table 1

	Note	Unit	Generation	Supply				
				Electricity supply		Gas supply		Aggregate supply business (see Note 11)
				Domestic	Non-domestic	Domestic	Non-domestic	
			2010	2010	2010	2010	2010	2010
Revenue from sales of electricity and gas	1	£m	**1,575**	2,303	2,172	1,666	547	**6,688**
Other revenue	2	£m	**18**	0	0	0	0	**0**
Total revenue		£m	**1,593**	2,303	2,172	1,666	547	**6,688**
Direct fuel costs	3	£m	**-860**	-1,214	-1,394	-1,047	-371	**-4,026**
Other direct costs	4	£m	**-140**	-643	-549	-392	-83	**-1,667**
Indirect costs	5	£m	**-330**	-361	-65	-241	-26	**-693**
Total operating costs		£m	**-1,330**	-2,218	-2,008	-1,680	-480	**-6,386**
EBITDA	6	£m	**263**	85	164	-14	67	**302**
DA	7	£m	**-192**	-32	-3	-20	-1	**-56**
EBIT	8	£m	**71**	**53**	**161**	**-34**	**66**	**246**
WACO F/E/G	9	£/MWh	28.86	57.64	51.27	-	-	-
		p/th	-	-	-	58.20	50.29	-
Volume	10	TWh	29.8	21.1	27.2	-	-	-
		Million Therms	-	-	-	1,800	737	-

Notes to Table 1

1. *Revenue from sales of electricity and gas* - for the Generation segment, this means revenue received from EET for sales of net electricity output generated by Relevant Licensees' plant and includes revenues received from capacity payments and remuneration for fuel and EU-ETS allowances used. For the respective Supply segments, this means electricity and gas sales by Relevant Licensees. Revenue for domestic supply is less dual fuel discounts where applicable; with the discount allocated according to billed value.

2. *Other revenue* - this means other segmental revenues of the Relevant Licensees not covered in revenues from sales of electricity and gas. For the Generation segment this also includes any ancillary services and other income received by the Generation Business, which for Citigen (London) Limited includes heat and cooling.

3. *Direct fuel costs* - for the Generation segment, this means the cost of fuel (e.g. gas, coal, etc.) consumed by the Relevant Licensees during the financial year and EU-ETS allowances. For the Supply segment, this means the cost of electricity and gas used by the Relevant Licensees and covers the wholesale energy cost and losses incurred by them.

4. *Other direct costs* - for the Generation segment, this includes use of system charges and ash disposal costs. For the Supply segment, this includes use of system charges, transportation costs, BSUOS and other costs (including ROCs, CESP and CERT) directly attributable to the supply of electricity and gas.

5. *Indirect costs* – this means the Relevant Licensees' own internal operating costs including sales and marketing costs, bad debt, costs to serve, IT, staffing costs, billing and all meter costs. For the Generation segment, this includes general office costs and repairs & maintenance. An element of corporate overheads has been allocated to each of the Generation and Supply segments for the purposes of this report.

6. *EBITDA* – this means earnings before interest, tax, depreciation and amortisation.

7. *DA* – this means depreciation and amortisation.

8. *EBIT* – this means earnings before interest and tax.

9. *WACO F/E/G* - for the Generation segment, this means the weighted average input cost of fuel (e.g. gas and coal) used by the Relevant Licensees, shown as £/MWh. For the Supply segment this means the weighted average cost of electricity (shown as £/MWh), or gas (shown as p/therm) used by the business, and covers the total wholesale energy cost, which includes purchases for sales recorded at the meter point and any losses incurred by the Relevant Licensees. The energy volumes used for calculating WACO F/E/G (TWh and Million therms) are the *Volumes* shown in Table 1 and described in Note 10 below.

10. *Volume* – for the Generation segment, this is the volume of electricity that can actually be sold in the wholesale market, i.e. generation volumes after the losses up to the point where electricity is received under the Balancing and Settlement Code, but before subsequent losses. It includes 0.8TWh production by Corby Power Limited. For the Supply segment, this is the volume as recorded at the meter point (i.e. net of losses).

11. *Aggregate supply business* – this column sums the horizontal supply figures of the Electricity Supply and Gas Supply columns. The Electricity Supply and Gas Supply columns provide a domestic and non domestic supply market breakdown. Where a direct allocation cannot be made to a particular customer group, the allocation between electricity and gas, and within each of those groups to domestic and non-domestic sales, has been made on a reasonable endeavours basis using the number of accounts in each category.

Reconciliation of E.ON's UK Consolidated Segmental Statement to the E.ON UK plc Annual Report & Accounts for the year ended 31 December 2010

Table 2

	Note	Generation Segment £'m	Retail Segment (Supply) £'m	All Other Segments £'m	**E.ON UK plc Group £'m**
Segment Result per the E.ON UK plc Annual Report & Accounts	1, 2	**134**	**323**	**385**	**842**
Reallocation of generation activities	3	17		-17	**0**
Allocation of Corporate overheads	4	-9	-41	50	**0**
Generation development write offs	5, 10	-71			**-71**
Restructuring costs	6, 10		-36	-5	**-41**
EBIT result per E.ON's UK Consolidated Segmental Statement		**71**	**246**	**413**	**730**
Energy Services impairment	7, 10				**-24**
Gas onerous contract	8, 10				**38**
Net derivative gains	9				**185**
Finance income					**33**
Finance costs					**-154**
Profit before tax per the E.ON UK plc Annual Report & Accounts (see Table 3)					**808**

Notes to Table 2

1. *Segment Result per the E.ON UK plc Annual Report & Accounts* is the statutory disclosure of E.ON UK's operating segments required under IFRS 8. Decision making for these segments is based on a measure of adjusted EBIT. This measurement basis is derived from the profit/loss from continuing operations before interest and taxes, and is adjusted to exclude certain exceptional items. The adjustments include derivative gains/losses, investment/business disposal gains/losses and other income/expenses of a non recurring nature.

2. *All Other Segments* is the combined Segment result of EC&R UK (£85m), Central Networks (£391m), Energy Services (£-5m) and All Other Segments (£-86m) totalling £385m.

3. *Reallocation of generation activities* is the net movement of the Generation Business's activities accounted for within EC&R UK in the E.ON UK plc Annual Report and Accounts to Generation and the activities of E.ON UK CHP Limited and E.ON UK Cogeneration Limited, (neither of which are Relevant Licensees) accounted for within Generation in the E.ON UK plc Annual Report and Accounts, to All Other Segments.

4. *Allocation of Corporate overheads* reflects the element of corporate overheads that has been allocated to the Generation and Retail segments for the purposes of this report. The Retail allocation includes spend on maintaining and supporting the brand centrally.

5. *Generation development write offs (£71m)* includes a fixed asset impairment of £40m at the Kingsnorth power station. It also includes project development write offs (£31m) in respect of the Kingsnorth and Seal Sands sites, following a Group decision not to develop these sites any further at the present time.

6. *Restructuring costs (£41m)* is the exceptional costs of restructuring the Retail business segment (£36m) and the UK Corporate Centre (£5m).

7. *Energy Services impairment (£24m)* is the cost of impairment of the meter assets employed in that particular business segment.

8. *Gas onerous contract (£38m)* is the release of certain CHP onerous contact provisions previously recognised. This followed falling wholesale gas prices on CHP contracts that receive a relatively fixed price per unit of output.

9. *Net derivative gains (£185m)* is the notional profit through changes in valuation of contracts with future delivery dates, due to changes in market price. As these contracts have not been realised in cash terms they do not form part of the performance measures used by management to make strategic decisions and therefore have not been allocated to the Operating Segments in this reconciliation.

10. The exceptional costs in Notes 5, 6, & 7 above, are partially offset by the release detailed in Note 8 above, to total the £98m being disclosed as *Contract provisions, impairment and restructuring costs* in the E.ON UK plc Annual Report and Accounts.

E.ON UK plc Annual Report and Accounts for the year ended 31 December 2010
Note 2: Segmental Reporting

For reporting purposes, the E.ON UK plc Group was organised into five main operating segments – Generation, E.ON Climate & Renewables UK (EC&R UK), Central Networks, Retail and Energy Services, all of which are based in the UK. Under IFRS 8 'Operating Segments' these are reported separately on page 59 of the E.ON UK plc Annual Report and Accounts, an extract of which is reproduced here:

Table 3

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**

The transfer pricing methodology used by the Relevant Licensees

Generation

Following the disposal by E.ON UK plc of the Energy Trading business to EET on 1 January 2009, the Relevant Licensees are no longer exposed to short term commodity price risks on fuel, EU-ETS allowances purchased and electricity sold.

Arrangements for the Generation Business accounted for within the E.ON UK Plc Company

E.ON UK plc has contracts with EET for the production capacity of its generation fleet. These contracts allow EET the right to schedule the generation fleet and to take all the electricity produced. EET undertakes to provide the Generation Business with all the fuel and EU-ETS allowances required. EET can then trade this production capacity on the market. The contracts mean that the key risk for the E.ON UK plc Group is the potential for unscheduled power station outages, for which it would incur financial penalties.

Under these contracts, the Generation Business sells its forecast economic electricity generation to EET ahead of time. The corresponding forward prices of electricity, fuel and EU-ETS allowances, at the time of the sale, determine the value of the availability performance related capacity payment that the Generation Business receives from EET. The Generation Business does not receive any revenue from external sales of electricity.

In addition to the availability performance related capacity payment, the Generation Business receives payment for the fuel and value of emission allowances used to generate. The price paid by EET for the fuel is the corresponding market price for the fuel at the time the fuel is used. Ancillary services are also covered by the contracts.

The price paid by the Generation Business for the fuel it receives is the corresponding market price at the time the fuel is delivered to the power station.

Arrangements for Generation Business plant operated by Citigen (London) Limited

Citigen (London) Limited operates under arm's length contracts with EET that differ from the above arrangements for delivery of electricity and the purchasing of fuel. This reflects that the core running of the Citigen (London) plant is to provide heating and cooling to local premises around the site, rather than the provision of generation capacity.

Under these contracts Citigen (London) Limited receives payment from EET for delivery of electricity. The price paid for the electricity is based on the price of the wholesale market's forward curve for the product shape over the contract period being entered at the time that the energy is contracted by EET. Variations between contract commitments and outturn are settled using the price agreed for the contracted energy less an adjustment for imbalance. Citigen (London) Limited's sales of heat and cooling are not covered by the contracts with EET.

EET provides the fuel for Citigen (London) Limited. The price paid for the fuel is based on the price of the wholesale market's forward curve for contract period being entered at the time that the fuel is contracted by Citigen (London) Limited. Variations between contract commitments and outturn are settled using current wholesale market prices subject to an imbalance fee. There are no other costs relating to the contracts with EET.

Arrangements for Generation Business plant accounted for within EC&R UK

Some of E.ON UK plc's generation plant is accounted for within EC&R UK in the E.ON UK plc Annual Report and Accounts. It is subject to arrangements between EET and EC&R UK. These arrangements are primarily for delivery of electricity. The prices are market based with imbalances between contracted and outturn covered by a balancing fee.

Supply

E.ON UK's Supply Business is the consolidated supply activities of the Relevant Licensees.

The revenues from sales of electricity and gas do not form part of the contract between EET and the Supply Business.

The Supply Business buys nearly all of its required supply of electricity and gas from EET on an arm's length contract using traded market instruments including derivative financial instruments. A small volume is also purchased from embedded generation and industry mechanisms.

The traded market instruments are used to smooth fluctuations in the wholesale cost of electricity and gas. The required supply is based on forecast demand and as a result, the key residual risk for the Supply Business relates to the accurate forecasting of fluctuations in demand. The full costs of these purchases are included in *Direct Fuel costs* in Table 1. However, any notional profit or loss through changes in valuation of contracts with future delivery dates, due to changes in market price, are excluded as explained in Note 9 to Table 2.

The price contracted by the Supply Business for purchases from EET reflects the forward curve price prevailing for the time of purchase. Variations between final contract commitments and outturn customer demand are settled using the corresponding short term prices in the electricity and gas markets. There are no other costs relating to the contracts with EET.

A number of purchasing strategies are operated to address the various characteristics and requirements of our customers and reflect the competitive market conditions. These strategies range from flexible purchase arrangements for some large corporate customers to longer term hedges for most tariff customers and can produce different WACO E/G for the different electricity and gas segments, as can be seen in the Consolidated Segmental Statement (Table 1).