E.ON UK PLC

FINANCIAL STATEMENTS

for the year ended 31 December 2011

Registered No: 2366970

E.ON UK PLC

Directors' report for the year ended 31 December 2011

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 2011.

Principal activities, review of business and future developments

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

E.ON UK's strategic aim is to deliver cleaner and better energy by offering innovative energy services and technologies tailored to meet its customers' needs and to help people across the UK become energy fit by becoming more energy efficient and by reducing their energy consumption.

The underlying level of the business during the year was in line with expectations given the difficult economic conditions. The loss before tax from continuing activities of £199 million for the year, compared to a profit before tax for the prior year of £415 million, was largely driven by net losses arising from derivatives, a reduction in profits from the E.ON Energy Solutions business and higher restructuring charges, offset by an improved performance from the Generation business due to higher market based transfer prices and increased generating capacity.

The profit for the year of £406 million was lower than the prior year profit of £732 million primarily due to the £637 million reduction in profits from continuing operations offset by a £311 million increase in profit from discontinued operations relating to the disposal of the Central Networks business.

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 and now forms our "downstream" business in the UK.

In March 2011, £60 million worth of assets relating to offshore transmission cables held within the E.ON Climate & Renewable UK ("EC&R UK") segment were sold, 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 £82 million of the Group's pension provision, was approximately £4.1 billion. The Group recorded a book gain of £548 million as a result of this transaction.

On 4 May 2011, the Group disposed of its interest in Corby Power Limited, which owns a 350 MW gas-fired power station in Corby, for a total consideration of £45 million. The net assets disposed of were £62 million resulting in a loss on disposal of £17 million.

On 29 March 2012, the Group announced that following a strategic review it would not proceed with plans to develop its 50-50 joint-venture, Horizon Nuclear Power. It will instead look to find a new owner for Horizon, and, in the UK, it will focus on other strategic projects that will deliver earlier benefit for customers and the Company. The other partner in Horizon, RWE Npower, simultaneously made the same announcement.

E.ON Energy Solutions

On 1 January 2011, the former Retail business combined with the former Energy Services business to create one, single, customer facing business named E.ON Energy Solutions providing end to end energy services and solutions across its customer base.

E.ON UK sells electricity, gas and other energy-related products to residential, business and industrial customers throughout Great Britain. As of 31 December 2011, E.ON UK supplied approximately 8.2 million customer accounts, of which 7.6 million (2010: 7.4 million) were residential customer accounts and 0.6 million (2010: 0.6 million) were small and medium sized businesses and industrial customer accounts. During the year, there was a net increase in the total number of customer accounts of approximately 0.2 million. E.ON UK continues to focus on reducing the costs of its E.ON Energy Solutions business, through efficiency improvements, more economical procurement of services and the utilisation of lower cost sales channels.

Residential Customers

The residential business had approximately 7.6 million customer accounts as of 31 December 2011 (2010: 7.4 million). Approximately 60% of E.ON UK's residential customer accounts are electricity customers and 40% are gas customers. Individual retail customers who buy more than one product (e.g. dual fuel customers) are treated as having a separate account for each product; although they may choose to receive a single bill for all E.ON UK provided services. In the residential customer sector, E.ON UK sold 20.0 TWh of electricity and 42.5 TWh of gas in 2011, as compared with 21.1 TWh of electricity and 52.8 TWh of gas in 2010. The decreases are due to the very cold weather experienced in 2010, coupled with the warmer than usual weather in 2011.

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. In order to help attract and retain its customer base, in November 2011, the Reset Review was announced. The Reset Review will examine every aspect of the Group's relationship with its customers. It will look at tariffs and billing, customer payments, how products are sold and how customers are supported. Part of the review involves the establishment of an Independent Customer Council, involving business leaders, politicians, consumer experts and customer representatives to pressure test and challenge existing ideas.

Electricity consumption in England, Scotland, and Wales was 307 billion kWh in 2011 compared with 320 billion kWh in 2010. Gas consumption (excluding power stations) was 544 billion kWh for 2011 compared with 647 billion kWh in 2010. The decreases are largely due .to the colder than normal weather in the first and fourth quarters of 2010 and warmer than normal weather in 2011.

Wholesale prices continued to be high for most of the year and, as a result, all of the 6 largest suppliers increased their prices during 2011. E.ON UK announced price increases which were effective from 4 February 2011 and 14 September 2011. In reflection of a falling wholesale market in late 2011, E.ON UK announced a price decrease of 6% on standard electricity products on 16 January 2012, effective from 27 February 2012.

Small and Medium-Sized Business ("SME") and Industrial and Commercial ("I&C") Customers
In this sector, E.ON UK sold 30.8 TWh of electricity and 17.5 TWh of gas in 2011, as compared with 27.2 TWh of electricity and 21.6 TWh of gas in 2010. The decrease in SME volumes was mainly driven by the warmer temperatures during the year compared to the colder weather in 2010. This was partially offset by gains of larger SME customers.

Sales of electricity to I&C customers increased, largely as a result of successful sales rounds which resulted in customer portfolio gains. Following a moderate recovery in 2010, economic conditions have resulted in a slight reduction in energy consumption in 2011, particularly in the final quarter.

Other Services
Following the merger of the Energy Services and Retail business areas in 2011, the new E.ON Energy Solutions business provides a range of other energy related services with the vision of providing customers with all the services they need to heat their homes and understand their energy use. These services are provided within the business units of Home Energy Solutions, Metering Operations, Sustainable Energy and Ignite.

The Home Energy Solutions stream offers a range of add-on products to residential customers such as boiler care, repair and maintenance. Sustainable Energy surveys, designs, builds, funds, operates and maintains a variety of low carbon solutions to help customers deliver a low carbon environment. This includes micro-generation activities and community energy products.

Metering 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. In addition, Ignite acts as the division which aims to innovate, develop and take to market the next generation of energy products through understanding future customer needs and testing tomorrow's technologies and policies.

Directors' report for the year ended 31 December 2011 (continued)

Generation

Generation forms part of E.ON AG's Generation global unit and focuses on maintaining a low cost, efficient and flexible conventional electricity generation business in order to compete effectively in the wholesale electricity market. As of 31 December 2011, E.ON UK owned conventional power stations in the UK with an attributable registered generating capacity of 10,838 MW (2010: 9,788 MW). E.ON UK's share of the generation market in the UK in 2011 was approximately 9% (2010: 9%).

E.ON UK generates electricity from a diverse portfolio of fuel sources. In 2011, 51% of the electricity output from the Generation business was fuelled by coal and 49% by gas. This compares with 49% fuelled by coal and 50.9% by gas, with the remaining 0.1% being generated from oil-fired plants in 2010. E.ON UK is continuing its effort to secure a balanced and diverse portfolio of fuel sources, giving it the flexibility to respond to market conditions and to minimise costs. E.ON UK regularly monitors the economic status of its 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. During the year a new gas plant was commissioned on the Isle of Grain in Kent with a generating capacity of 1,365 MW. The plant also has a combined heat and power ("CHP") element which is expected to export up to 340 MW of heat and is planned to be commissioned in 2012.

On 8 March 2012, the Group announced that power generation at its Kingsnorth power station will cease in March 2013. Like many other power stations around the country, Kingsnorth's closure is a result of the EU's Large Combustion Plant Directive legislation which requires it to close after generating for 20,000 hours from 1 January 2008 or at the end of 2015, whichever comes first.

On 29 March 2012 the Group announced that following a strategic review it would not proceed with plans to develop its 50-50 joint-venture, Horizon Nuclear Power. It will instead look to find a new owner for Horizon.

EC&R UK

EC&R UK forms part of E.ON AG's Climate and Renewables global market unit and combines 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 18 operational onshore and offshore wind farms and a fully dedicated biomass power station at Steven's Croft in Scotland.

EC&R UK continues to support the delivery of renewables, focussing on the commercial deployment of onshore and offshore wind and biomass. EC&R UK also aims to be at the forefront of marine development, having installed the innovative Pelamis wave power device in 2010, which is currently at the testing phase at the European Marine Energy Centre in Orkney.

During 2011, wind farm construction activities have increased across the UK. With our partners DONG Energy and Masdar, offshore construction commenced on the £2 billion investment in London Array, with the installation of 93 foundations, 2 offshore substations and starting the installation of the export and array cables. Three onshore wind farms also started construction in England and Scotland with a combined capacity of 119MW. By the end of 2013, the wind operating portfolio will have increased to 758MW. This is in continuation of the 'boutique to industry' strategic alignment of the EC&R market unit which shifts the focus from smaller, fragmented, 'boutique' type behaviour, towards a larger scale, industrial approach; achieving efficiencies and economies of scale along the way

Following the publication of the Renewables Obligation Banding Review proposals in October 2011, EC&R UK has sanctioned the investment in three new projects; Humber Gateway, our fifth offshore wind farm with a capacity of 219MW, Blackburn Meadows, a 30MW Biomass plant and our second in the UK, and Ironbridge, where two of the units of an existing coal fired power station will be converted to burn wood pellets from sustainable forestry sources over a trial period to the end of 2015, when the station will have to close as a result of the Large Combustion Plant Directive. The first of these was approved during the year and the second received approval in February 2012.

The wind development pipeline has also been growing over the last year with the award of exclusivity to investigate the potential for new wind farms in two areas of land owned by Forestry Commission Scotland, with a potential capacity of up to 800MW. Work on Rampion, our next offshore wind farm development off the Brighton coast has also progressed well with the formal consultation process due to start in 2012. Consent was also secured on two onshore wind farm developments with a capacity of 63MW.

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 2010 to 31 March 2011, E.ON UK achieved 63% of its renewables obligation through own generation and purchases, compared with 76% in the period from 1 April 2009 to 31 March 2010.

Other operating segments

Other operating segments includes the activities of our CHP fleet and central support services delivering facilities management, HR, procurement, insurance, property, legal and finance support for all of the Group's UK operations. During 2011, the UK business initiated a transformation under the project name Simplification. The project was established in order to transform the support functions in the UK to make them simpler, more efficient and to assist with the delivery of the Cleaner and Better energy strategy. Employees leaving as a result of Simplification will leave the business during 2012 and 2013 under voluntary severance arrangements. The project also aligns with the vision of the group wide E.ON 2.0 project which was initiated in 2011 and seeks to reduce cost, simplify structures, and improve administration.

Discontinued operations

Central Networks

In April 2011, E.ON UK sold its two Distribution Network Operator licences to a third party outside the Group, thereby disposing of the Central Networks business which had a total service area of 11,312 square miles and distributed electricity to approximately 5 million homes. As such, the 2011 results of E.ON UK include profits from the Central Networks business for the first 3 months of the year. A book gain was made upon the completion of the transaction.

The disposal was also in accordance with the group wide Cleaner and Better energy strategy which aims to continue changing the way energy is generated and improve the focus of the Group's efforts to best utilise its expertise. This includes making strategic divestments of elements of its business to ensure that focus is maximised.

Energy Trading

The Energy Trading business was legally transferred to E.ON Energy Trading SE ("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 Energy Trading business.

As part of the disposal a net gain on disposal relating to the new back to back arrangements was deferred to be recognised in the income statement as the contracts settled. During 2011, £96 million (2010: £106 million) of the deferred pre-tax gain was recognised in the income statement. The remaining £7 million pre-tax loss will be recognised during 2012.

Financial Review

Principal risks and uncertainties facing the Group are discussed further in the Financial Review on page 11. 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 owners of the parent and balance transferred to reserves for the year to 31 December 2011 was £408 million (2010: profit of £730 million).

The directors do not recommend the payment of a final dividend (2010: £nil). An interim dividend of £160 million was paid during the year (2010: an interim dividend of £240 million was paid).

Directors

The following directors served on the Board during the year and up to the date of signing these financial statements:

Dr Anthony Cocker	(appointed 3 October 2011)
Maria Antoniou	
Fiona Stark	(appointed 21 December 2011)
Brian Tear	(resigned 12 June 2012)
John Crackett	(resigned 1 April 2011)
Graham Bartlett	(resigned 30 September 2011)
Dr Paul Golby	(resigned 16 December 2011)

Directors' indemnities

The Group, which includes the Company, maintains liability insurance for directors and officers. This is a qualifying third party indemnity provision for the purposes of the Companies Act 2006 and was in force during the year and at the date of the approval of these financial statements.

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 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 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 year by the Group amounted to £235,929 (2010: £407,531). Don ations to charitable organisations during the year by the Company amounted to £223,829 (2010: £344,951). 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, but 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, Labo ur and Liberal Democrats party conferences. The total cost required to be disclosed as political donations was £30,000 (2010: £30,000).

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 15 days (2010: 20 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 18 days (2010: 11 days).

Going concern

The directors have prepared these 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 2012 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 to 6
- financial review, including principal risks and uncertainties, on pages 11 to 25

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 year to 31 December 2011 was £96 million (2010: profit of £123 million). The directors do not recommend the payment of a final dividend (2010: £nil). An interim dividend of £160 million was paid during the year (2010: an interim dividend of £240 million was paid). These financial statements of the Company are included on pages 111 to 134.

Disclosure of information to 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 Company'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 Company'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.

On behalf of the Board

Dr Anthony Cocker
Chief Executive Officer and Director
E.ON UK plc
Registered number: 2366970
Westwood Way
Westwood Business Park
Coventry
CV4 8LG

28 June 2012

Financial review for the year ended 31 December 2011

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 2011, E.ON UK owned or through joint ventures had an attributable interest in 10,838 MW (2010: 10,757 MW) of conventional generation capacity, as well as 460 MW (2010: 359 MW) of CHP plants and 439 MW (2010: 427 MW) of operational wind capacity. E.ON UK served 8.2 million electricity and gas customer accounts as of 31 December 2011 (2010: 8.0 million).

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

The markets within which the Group operates are subject to strong competition from new market entrants and existing participants. In connection with the ongoing economic uncertainty, E.ON UK faces risks from declining demand, primarily from I&C customers who could reduce their energy use. E.ON 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 are 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 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 objective is to minimise its reputational risks and garner public support so that the Group can continue to operate its business successfully.

Financial review for the year ended 31 December 2011 (continued)

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 E.ON Energy Solutions 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 Group. EET SE then trades 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 'Operational risks'.

The Group's E.ON Energy Solutions business uses long-term and short-term derivative financial instruments to buy its required supply of power and gas from EET SE for which it is exposed to significant commodity price risk. 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 E.ON Energy Solutions 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 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. In addition, unseasonal fluctuations of warm or cold weather expose the Group to commodity price risks as hedged volumes are corrected in the short term market. The Group uses a demand management system and weather derivatives to manage these risks.

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 2011	2010	Commentary
UK Business			
Safety LTIF (The Lost Time Injury Frequency is measured by the number of lost time injuries per 1,000,000 hours worked)	2.29	3.29	LTIF has improved on 2010 performance in line with the continued focus on reducing injuries in the workplace.
Generation			
Plant scheduled availability (taking account of planned outages)	88%	84%	Availability has increased primarily because 2010 data was heavily affected by two fires at Kingsnorth power station.
Available generating capacity at year end (MW)*	10,838	9,788	Generating capacity increased from 9,788 MW in 2010 to 10,838 MW at the end of 2011. This is due to the new CCGT plant on the Isle of Grain offset by the divestment of our share in the Corby joint venture.

Financial review for the year ended 31 December 2011 (continued)

KPIs	Results 2011	Results 2010	Commentary
Generation production during the year (TWh)*	25.9	29.0	The decrease was primarily due to reduced production in gas stations, plus a small decrease in production in coal stations, driven by lower current market spreads which made some plant in our UK fleet less economic to operate.

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

EC&R UK			
Available generating capacity at year end (MW)	439	427	Capacity has increased mainly due to the commissioning of the Butterwick onshore wind farm.
Generation production during the year (GWh) (Note: 1TWh = 1,000GWh)	1,317	1,032	Generation production has increased due to the additional capacity operating throughout 2011.
E.ON Energy Solutions			
Customer numbers (million)	8.2	8.0	Customer numbers have increased by 0.2 million, primarily due to an increase in the number of residential gas customers.
Volumes of electricity sold (TWh)	50.8	48.3	E.ON UK sold more electricity to customers largely as a result of successful sales rounds to industrial and commercial customers.
Volumes of gas sold (TWh)	60.0	74.4	Gas sales fell from last year, mainly due to the extremely cold weather in 2010 in addition to the warmer than normal weather in 2011.
Home Energy Services - number of boiler service and maintenance customers (thousand)	126	110	The number of customers increased due to sales and marketing efforts.

Financial review for the year ended 31 December 2011 (continued)

KPIs	Results 2011	Results 2010	Commentary
SMART meters fitted (thousand)	65	2	Installation of SMART meters in accordance with the Government mandate has increased in line with E.ON UK's target of 1 million fitted meters by the end of 2014.
Sustainable Energy Microgeneration plants installed	2,651	637	The increase is mainly due to an increase in commercial installations, an activity which was less developed in 2010.

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

Group financial results

The loss before tax from continuing operations was £199 million compared with a £415 million profit before tax for the prior year. The income statement comparatives have been restated to reflect the revised segmentation and to reclassify the results of the disposed Central Networks business to discontinued operations.

Revenue

Group revenue from continuing operations increased by £514 million during the year to £9,221 million, an increase of 6%. This increase in external turnover has arisen primarily in the Generation and E.ON Energy Solutions businesses.

Revenue is further analysed below:

	Year ended 31 December 2011 £m	Year ended 31 December 2010 (restated) £m
UK Operations		
Generation	**1,767**	1,561
EC&R UK	**278**	195
E.ON Energy Solutions	**7,026**	6,767
All other segments	**150**	184
Revenue from continuing operations	**9,221**	8,707
Statutory reporting adjustment (Note 2)	**19**	-
	9,240	8,707

The increase in the E.ON Energy Solutions business was largely due to a higher number of customers compared to last year, although this was partially offset by a decrease in the volume of sales due to the weather and lower metering volumes.

Revenue (continued)

The increase in revenues from the Generation business was mainly due to an increase in capacity fee due to higher prices in 2011 and higher fuel burn income.

The increase in the EC&R business was primarily attributable to an increase in sales from the Robin Rigg site, which became fully operational in 2011 and also an increase in power purchase sales due to volume increases.

Operating costs

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

	Year ended 31 December 2011 £m	Year ended 31 December 2010 (restated) £m
Power purchases and other costs of sales	**7,642**	7,104
Employee costs	**497**	476
Depreciation, including relevant impairments	**251**	273
Intangible asset amortisation, including relevant impairments	**54**	61
Unrealised derivative losses	**693**	1
Other operating charges, including restructuring costs	**473**	580
	9,610	8,495

Power purchases and other costs of sales have increased from £7,104 million in 2010 to £7,642 million in 2011 due to increased fuel burn costs, higher energy costs and an increase in volumes purchased.

Employee costs, at £497 million, were 4% higher than in the previous year primarily due to restructuring charges offset by a reduction in headcount which is mainly attributable to efficiency enhancement and restructuring measures in the E.ON Energy Solutions business.

The depreciation charge, including relevant impairments, decreased from £273 million in 2010 to £251 million in 2011 due primarily to a reduction in impairment charges compared to the prior year. The amortisation charge was lower than prior year at £54 million (2010: £61 million) relating to lower intangible software amortisation charges.

Derivative losses were higher in 2011 due to increased 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 2011 compared to 2010, primarily due to lower advertising expenses and lower losses from disposals of property, plant and equipment.

Financial review for the year ended 31 December 2011 (continued)

Other operating income

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

	Year ended 31 December 2011 £m	Year ended 31 December 2010 (restated) £m
Derivative gains	**-**	186
Gains on disposal of property, plant and equipment	**6**	7
Foreign exchange gains	**8**	-
Other income	**194**	146
	208	339

Derivative gains were lower in 2011 compared to 2010 due to increased volatility in forward gas and power prices. The gains on the disposal of property, plant and equipment are consistent with prior year at £6 million (2010: £7 million). Other income has increased from 2010 primarily due to higher rental income and income from other commercial settlements.

Adjusted Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA")

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 exceptional items. The adjustments include unrealised gains and losses on derivatives, profit and losses on investment/business disposals, contract provisions, impairments and restructuring costs. 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.

A more detailed analysis of the Group's adjusted EBITDA and reconciliation to profit before tax from continuing operations is set out below:

Financial review for the year ended 31 December 2011 (continued)

Adjusted EBITDA (continued)

	Year ended 31 December 2011 £m	Year ended 31 December 2010 (restated) £m
UK Operations		
Generation	**518**	323
EC&R UK	**157**	103
E.ON Energy Solutions	**319**	397
All other segments	**(14)**	(67)
Group adjusted EBITDA	**980**	756
Depreciation and amortisation	**(306)**	(305)
Contract provisions, impairment and restructuring costs	**(131)**	(98)
Losses on disposal of businesses	**(17)**	-
Net derivative (losses)/gains	**(693)**	185
Other adjustments	**5**	13
Group operating (loss)/profit	**(162)**	551
Net finance costs	**(21)**	(119)
Share of results of joint venture's loss after tax	**(16)**	(17)
(Loss)/profit before tax from continuing operations	**(199)**	415

Group adjusted EBITDA from continuing operations totalled £980 million for the year compared with £756 million in the same period to 31 December 2010. Adjusted EBITDA has increased compared to the prior year as set out below.

Generation adjusted EBITDA was £518 million compared to £323 million in 2010, an increase of £195 million. This primarily reflects higher market based transfer prices and increased generating capacity following the commission of the gas-fired generating plant on the Isle of Grain in Kent.

EC&R UK's adjusted EBITDA increased by £54 million to £157 million in 2011 mainly due to the Robin Rigg wind farm becoming fully operational. Additional factors contributing to this increase in EBITDA were income from the disposal of assets and the sales of developments, partially offset by increased maintenance costs and use of network system charges.

E.ON Energy Solution's adjusted EBITDA was £319 million for 2011 compared to £397 million for 2010. This was mainly as a result of the exceptionally high sales volume coupled with low wholesale costs in the first quarter of 2010 which inflated the prior year result. Additionally, costs that were previously reported in other segments for brand and communications were incurred by E.ON Energy Solutions in 2011.

Financial review for the year ended 31 December 2011 (continued)

Adjusted EBITDA (continued)

All other segments' losses decreased from £67 million to £14 million primarily due to brand and communication activities being transferred to E.ON Energy Solutions, lower research and development costs and increased goods and services being recharged. All other segments' losses also include the costs of servicing the Group's operating businesses.

Contract provisions, impairment and restructuring costs

Included in operating costs in 2011 were contract provisions, impairment and restructuring costs before tax of £131 million (2010: £98 million). During 2011 restructuring costs of £84 million were recognised, £32 million relating to the E.ON Energy Solutions business, £19 million relating to the Generation business and £33 million relating to other segments. An impairment of £11 million was recorded in 2011 relating to the assets associated with the Port of Liverpool development. An additional onerous contract provision of £36 million was also recognised during the year relating to certain CHP contracts. This follows rising wholesale gas prices resulting in increased costs on CHP contracts that receive a relatively fixed price per unit of output. A tax credit of £35 million arose as a result of all these charges. The above charges relate solely to continuing operations.

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 E.ON Energy Solutions business was also recognised in respect of meter assets. Restructuring costs of £35 million relating to the E.ON Energy Solutions business and £6 million relating to other segments were also recorded. An onerous contract provision of £38 million previously recognised was released during the year relating to certain CHP contracts which form part of the Regional Heat business that is reported within other segments. 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.

Losses on disposal of businesses

On 4 May 2011, the Group disposed of its interest in Corby Power Limited, which owns a 350 MW gas-fired power station in Corby, for a total consideration of £45 million. The net assets disposed of were £62 million resulting in a loss on disposal of £17 million.

Unrealised net derivative (losses)/gains

Unrealised net derivative losses were £693 million in 2011 compared to gains of £185 million in 2010. The decrease was primarily due to increased volatility in forward gas and power prices.

Financial review for the year ended 31 December 2011 (continued)

Other adjustments

Other adjustments were £5 million in 2011 (2010: £13 million) relating primarily to 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 from continuing operations decreased from £119 million to £21 million primarily due to repayment of debt during the year following the receipt of proceeds from the sale of the Central Networks business.

Share of results of joint venture's loss after tax

E.ON UK's share of results of joint venture's losses is relatively consistent with prior year at £16 million (2010: net loss of £17 million). These relate to losses arising from the start up of the Horizon Nuclear Power, the joint venture with RWE Npower.

Assets and liabilities

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

	31 December 2011 £m	31 December 2010 £m
Non-current assets	**6,698**	10,279
Current assets	**4,132**	3,060
Assets of disposal group classified as held-for-sale	**-**	60
Total assets	**10,830**	13,399
Current liabilities	**3,263**	4,264
Non-current liabilities	**2,306**	4,219
Equity	**5,261**	4,916
Total liabilities and equity	**10,830**	13,399

The decrease in non-current assets is primarily driven by the sale of the Central Networks business offset by a £747 million increase in property, plant and equipment arising from capital expenditure on generating assets.

Current assets have increased significantly due to increased financial receivables from fellow group subsidiaries offset by the settlement of commodity derivatives. Trade receivables (net) have reduced compared to the prior year to £822 million (2010: £1,001 million) due to further improvements in debt collection.

Financial review for the year ended 31 December 2011 (continued)

Assets and liabilities (continued)

The Group's total borrowings have decreased from £3,263 million in 2010 to £1,452 million in 2011 primarily due to the repayment of debt using the proceeds obtained from the sale of the Central Networks business and the disposal of debt as part of this sale. Derivative liabilities are higher than the prior year due to increased volatility in forward gas and power prices offset by the settlement of commodity derivatives.

Actuarial gains, increased employer contributions and the disposal of the Central Networks business resulted in a reduced pension liability of £70 million at the year end compared to a liability of £570 million in 2010.

In equity, the Group's profit for the year of £408 million was offset by a £160 million dividend that was paid in 2011, 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 2011 £m	Year ended 31 December 2010 £m
Net cash inflow from operating activities	**579**	1,252
Net cash generated from/(used in) investing activities	**810**	(1,418)
Net cash (outflow)/inflow from financing activities	**(1,414)**	185
Net movement in cash and cash equivalents	**(25)**	19

The net cash inflow from operating activities was £579 million in 2011 compared to £1,252 million in 2010. The reduction was mainly due to higher pension contributions paid in 2011 compared to 2010, and the impact of the sale of the Central Networks business on the cash generated from operations.

Net cash inflow from investing activities was £810 million in 2011 compared to a £1,418 million outflow in 2010 primarily due to proceeds received from the sale of the Central Networks business and E.ON UK's interest in Corby Power Limited, which were sold in April 2011 and May 2011 respectively. A proportion of the Central Network's proceeds were then deposited with fellow group undertakings.

E.ON UK invested £834 million in 2011 in property, plant and equipment (2010: £1,034 million). This expenditure is mainly due to a further £315 million investment in the London Array, Tween Bridge and Rosehall wind farms. Expenditure also includes £146 million on the Ratcliffe Environmental Upgrade and £64 million on the Grain Combined Cycle Gas Turbine new build.

Net cash outflow from financing activities was £1,414 million compared to an inflow of £185 million in 2010 primarily due to the repayment of borrowings following the receipt of the Central Networks sale.

Financial review for the year ended 31 December 2011 (continued)

Capital and treasury management

E.ON UK, in common with other major E.ON AG subsidiaries, must comply with E.ON AG capital management, 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. Further information on the E.ON AG Group's policies and procedures is available in the financial statements of the E.ON AG Group.

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 financing 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 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 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.

Financial review for the year ended 31 December 2011 (continued)

Foreign exchange risk management

E.ON UK primarily trades in Sterling but its principal currency exposures are to the Euro, US Dollar, Danish Krone and Swiss Franc. 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 t he 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, swaps and other financial instruments are set out in Notes 22 and 23 to these financial statements.

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 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.

Borrowings and facilities

Details of the Group's borrowing facilities are set out in Notes 20 and 21 to these financial statements. At 31 December 2011, the Group had total borrowings of £1,452 million (2010: £3,263 million) including £1,154 million of long-term loans and £298 million of short-term loans and overdrafts.

At 31 December 2011, the Group had cash and short-term investments £23 million (2010: £48 million) and £2,265 million of financial receivables from group undertakings (2010: £411 million). 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 depositing position at 31 December 2011 was £986 million, compared to a net debt position of £2,644 millio n at 31 December 2010. Net debt includes borrowings, cash and cash equivalents, financial receivables, finance lease receivables and available for sale investments.

A summary of the Group's net depositing position is shown below:

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
Available for sale investments (note 14)	**23**	18
Finance lease receivables (note 15)	**105**	130
Financial receivables owed by group undertakings (note 15)	**-**	1
Finance lease receivables (note 17)	**22**	12
Financial receivables owed by group undertakings (note 17)	**2,265**	410
Cash and cash equivalents (note 18)	**23**	48
Borrowings (note 20)	**(298)**	(1,133)
Borrowings (note 21)	**(1,154)**	(2,130)
Net deposit/(debt)	**986**	(2,644)

The weighted average interest rate for 2011, when compared to the average net deposit position, was (27.3)%. In 2010, this was 3.6%, when compared to average net borrowings. The 2011 weighted average interest rate is distorted as a result of the Group borrowing long term whilst depositing short term following the sale of the Central Networks business. The Group is in the process of utilising funds to repay long term borrowing

Financial review for the year ended 31 December 2011 (continued)

Borrowings and facilities (continued)

The gearing for the Group was nil at 31 December 2011 (40% at 31 December 2010). 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. The reason for the nil gearing position for 2011 is due to the significant repayments of borrowings following the proceeds from the sale of Central Networks.

Taxation

The tax charge from continuing operations amounted to £112 million for the year compared with an £89 million charge for the same period to 31 December 2010. The effective rate on continuing operations was (56%) compared with 21% in the year to 31 December 2010. The main reasons for the effective rate not being 26.5% (2010: 28%) in the year 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.

Discontinued operations

The Energy Trading business was sold to EET SE, a fellow group undertaking, on 1 January 2009. As part of the disposal a gain on disposal relating to the new back to back arrangements was deferred to be recognised in the income statement as the contracts settled. During 2011, £96 million (2010: £106 million) of the deferred pre-tax gain relating to deferred income was recognised in the income statement.

In April 2011, E.ON UK sold its two Distribution Network Operator licences to a third party outside the Group; thereby disposing of the Central Networks business which had a total service area of 11,312 square miles and distributed electricity to approximately 5 million homes. As such, the results of the Group include pre-tax profits from Central Networks for the first 3 months of the year only of £104 million (2010: £393 million). A book gain of £548 million was made upon the completion of the transaction. The operating results of the Central Networks business have also been presented within discontinued operations and the prior year comparatives restated.

Statement of directors' responsibilities

The directors are responsible for preparing these 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve these 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 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 IFRSs issued by IASB 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 these financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and 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 these financial statements may differ from legislation in other jurisdictions.

On behalf of the Board

Tony Cocker

Dr Anthony Cocker
Chief Executive Officer and Director

28 June 2012

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 2011 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 page 26, 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 these financial statements sufficient to give reasonable assurance that these 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 these financial statements. In addition, we read all the financial and non-financial information in these financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2011 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 matter 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 matters where the Companies Act 2006 requires us 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 2011.

Andrew Lyon BSc FCA (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
East Midlands
29 June 2012

GROUP INCOME STATEMENT
for the year ended 31 December 2011

	Note	Year ended 31 December 2011 £m	Year ended 31 December 2010 (restated) £m
Continuing operations			
Revenue	2	**9,240**	8,707
Total operating costs	3	**(9,610)**	(8,495)
Other operating income	3	**208**	339
Operating (loss)/profit		**(162)**	551
Finance income	7	**23**	42
Finance costs	7	**(44)**	(161)
Group's share of joint venture's loss after tax	12	**(16)**	(17)
(Loss)/profit before tax from continuing operations		**(199)**	415
Taxation	8	**(112)**	(89)
(Loss)/profit for the year from continuing operations		**(311)**	326
Profit for the year from discontinued operations	9	**717**	406
Profit for the year		**406**	732
Profit/(loss) attributable to:			
Owners of the parent - continuing		**(309)**	324
Owners of the parent - discontinued		**717**	406
Owners of the parent	30	**408**	730
Non-controlling interest	33	**(2)**	2
		406	732

GROUP STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2011

	Note	**Year ended 31 December 2011 £m**	Year ended 31 December 2010 £m
Profit for the year		**406**	732
Other comprehensive income:			
Actuarial gains on pension scheme arrangements	30	**115**	35
Tax charge on actuarial gains/losses	30	**(15)**	(16)
Cash flow hedge losses	32	**(4)**	(12)
Tax credit on cash flow hedges	32	**1**	4
Available for sale financial assets	32	**2**	1
Total other comprehensive income		**99**	12
Total comprehensive income for the year		**505**	744
Total comprehensive income attributable to:			
Non-controlling interest	33	**(2)**	2
Owners of the parent		**507**	742
		505	744

E.ON UK PLC

GROUP BALANCE SHEET
as at 31 December 2011

	Note	31 December 2011 £m	31 December 2010 £m
Non-current assets			
Intangible assets	10	**2,269**	2,615
Property, plant and equipment	11	**3,798**	7,119
Interests in joint ventures	12	**173**	29
Available for sale investments	14	**23**	18
Commodity and other derivative financial instruments	22	**308**	354
Trade and other receivables	15	**127**	144
		6,698	10,279
Current assets			
Inventories	16	**216**	233
Trade and other receivables	17	**3,738**	2,144
Commodity and other derivative financial instruments	22	**155**	635
Cash and cash equivalents	18	**23**	48
		4,132	3,060
Assets of disposal group classified as held-for-sale	9	-	60
		4,132	3,120
Total assets		**10,830**	13,399

GROUP BALANCE SHEET
as at 31 December 2011

	Note	31 December 2011 £m	31 December 2010 £m
Current liabilities			
Borrowings	20	**298**	1,133
Commodity and other derivative financial instruments	22	**308**	350
Trade and other payables	19	**2,302**	2,039
Current tax liabilities		**102**	487
Provisions	25	**253**	255
		3,263	4,264
Non-current liabilities			
Borrowings	21	**1,154**	2,130
Commodity and other derivative financial instruments	22	**536**	328
Trade and other payables	19	**1**	114
Provisions	25	**299**	277
Deferred tax liability	26	**246**	800
Pension liability	24	**70**	570
		2,306	4,219
Total liabilities		**5,569**	8,483
Shareholders' equity			
Ordinary shares	28	**1,325**	1,325
Share premium account	29	**97**	97
Retained earnings	30	**3,258**	2,910
Other reserves	32	**580**	581
Total shareholders' equity		**5,260**	4,913
Non-controlling interest in equity	33	**1**	3
Total equity		**5,261**	4,916
Total liabilities and equity		**10,830**	13,399

The financial statements on pages 29 to 110 were approved by the Board on 28 June 2012 and signed on its behalf by:

Tony Cocker

Dr Anthony Cocker
Chief Executive Officer and Director
E.ON UK plc
Registered No: 2366970

28 June 2012

The accounting policies and the Notes on pages 35 to 110 form part of these financial statements.

GROUP STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2011

	Note	Attributable to owners of the parent					Non-controlling interest	Total equity
		Ordinary shares £m	Share premium £m	Retained earnings £m	Other reserves £m	Total £m	£m	£m
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	32	-	-	-	(8)	(8)	-	(8)
Available for sale investment	32	-	-	-	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 owners	31	-	-	(240)	-	(240)	-	(240)
Dividends to non-controlling interest	33	-	-	-	-	-	(2)	(2)
Total transactions with owners during the year		-	-	**(240)**	-	**(240)**	**(2)**	**(242)**
Balance at 1 January 2011		**1,325**	**97**	**2,910**	**581**	**4,913**	**3**	**4,916**
Comprehensive income for the year ended 31 December 2011								
Profit		-	-	408	-	408	(2)	406
Other comprehensive income for the year								
Cash flow hedges, net of tax	32	-	-	-	(3)	(3)	-	(3)
Available for sale investment	32	-	-	-	2	2	-	2
Actuarial gains, net of tax	30	-	-	100	-	100	-	100
Total other comprehensive income		-	-	100	(1)	99	-	99
Total comprehensive income for the year		-	-	**508**	**(1)**	**507**	**(2)**	**505**
Transactions with owners during the year ended 31 December 2011								
Dividends to owners	31	-	-	(160)	-	(160)	-	(160)
Dividends to non-controlling interest	33	-	-	-	-	-	(4)	(4)
Disposal of non-controlling interest	33						4	4
Total transactions with owners during the year		-	-	**(160)**	-	**(160)**	-	**(160)**
Balance at 31 December 2011		**1,325**	**97**	**3,258**	**580**	**5,260**	**1**	**5,261**

GROUP CASH FLOW STATEMENT
for the year ended 31 December 2011

	Note	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
Cash flows from operating activities			
Cash generated from operations	34	**730**	1,394
Interest received		**9**	19
Interest paid		**(81)**	(118)
Net tax paid		**(79)**	(43)
Net cash generated from operating activities		**579**	1,252
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		**(834)**	(1,034)
Investment in joint venture		**(160)**	(20)
Purchase of other financial assets and receivables		**(2,307)**	(410)
Finance lease principal receipts		**23**	24
Receipts from other financial assets		**374**	5
Proceeds from sale of property, plant and equipment and intangible assets		**75**	17
Proceeds from sale of discontinued operations		**3,594**	-
Proceeds from sale of businesses		**45**	-
Net cash generated from/(used in) investing activities		**810**	(1,418)
Cash flows from financing activities			
Proceeds from issue of new borrowings		**463**	1,091
Repayment of borrowings		**(1,713)**	(664)
Dividends paid to non-controlling interests	33	**(4)**	(2)
Dividends paid to owners of the parent	31	**(160)**	(240)
Net cash (used in)/ generated from financing activities		**(1,414)**	185
Net (decrease)/increase in cash and cash equivalents		**(25)**	19
Cash and cash equivalents at 1 January		**48**	29
Cash and cash equivalents at 31 December	18	**23**	48

Notes to the financial statements for the year ended 31 December 2011

1 Accounting policies

Basis of preparation of accounts

These 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. These financial statements are prepared under the historical cost convention, except for derivative financial instruments, available for sale investments and assets and liabilities held-for-sale that have been measured at fair value. The principal accounting policies have been applied consistently throughout the year.

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 these financial statements are disclosed separately below.

The comparative figures in these financial statements have been restated accordingly as a result of discontinued operations and a change to the operating segments. See the Segmental reporting accounting policy for further details.

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 2011 through 31 December 2011:

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
Improvements to IFRSs 2010	Various amendments to IFRSs	1 January 2011

Notes to the financial statements
for the year ended 31 December 2011 (continued)

1 Accounting policies (continued)

The adoption of the new standards or interpretations or alterations to existing standards effective for 2011 year end have had no material impact on these financial statements.

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 these 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 these financial statements:

IFRS/IAS and IFRIC		Effective for periods beginning on or after
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

*Not currently adopted into European law by the EU

The potential effects to these 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
IAS 1 (amended)	Presentation of financial statements, on the other comprehensive income (OCI)	1 July 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 19 (revised)	Employee benefits	1 January 2013
IAS 27 (revised)*	Separate financial statements	1 January 2013
IAS 28 (revised)*	Investments in associates and joint ventures	1 January 2013
IFRS 7 (amended)*	Financial instruments: Disclosures	1 January 2013
IFRS 1 (amended)*	Government Loans	1 January 2013
Improvements to IFRSs*	Various amendments to IFRSs	1 January 2013
IAS 32	Financial instruments: Presentation on Offsetting financial assets and financial liabilities	1 January 2014

*Not currently adopted into European law by the EU

1 Accounting policies (continued)

Going concern

The directors have prepared these financial statements on the going concern basis. The directors have put in place sufficient committed borrowing facilities such that the Group 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 these 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 these financial statements.

Areas of judgement in application of accounting policies and critical accounting estimates that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Impairment of goodwill

The Group performs impairment tests for goodwill 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 fair values less costs to sell or value-in-use of the cash generating units to which goodwill are allocated. When determining the fair value less costs to see or 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 fair value less costs to see or value-in-use requires the Group to make an estimation of the expected future cash flows from the cash generating unit, discounted by an appropriate weighted average cost of capital. Estimated cash flows are based on the Group's medium term planning data for the next three years and projections for the following years are based on an expected growth rate based on industry and internal projections. Further detail on the assumptions used in determining value-in-use calculations is provided in Note 10.

1 Accounting policies (continued)

Revenue recognition – unread gas and electricity meters

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

Determination of fair values of derivatives

Derivative contracts are carried in the 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.

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.

1 Accounting policies (continued)

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

Key assumptions used in determining the value-in-use of 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.

Decommissioning costs

Significant judgements and estimates are made about the costs of decommissioning the Group's power stations at the end of their useful lives. The estimated costs of decommissioning and subsequent site restoration are reviewed periodically and a provision is made for the estimated decommissioning cost at the balance sheet date. The payment dates of total expected future decommissioning costs are uncertain and dependent on the lives of the power stations, but are currently anticipated to be over the next 2 to 30 years.

1 Accounting policies (continued)

Provisions for onerous contracts

Onerous contract provisions relate primarily to certain out of the money CHP contracts. Where the unavoidable costs of meeting the obligations under these contracts exceed the associated, expected future net revenues, an onerous contract provision is recognised. The calculation of these provisions will involve the use of estimates. The provisions will be utilised over the onerous portions of the contracts, currently estimated to be years up to and including 2020.

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"). They are valued as open transactions subject to the rules of IAS 37.

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 operating costs. 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 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.

1 Accounting policies (continued)

Basis of consolidation (continued)

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 non-controlling 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. Acquisition related costs are expensed as incurred.

The Group's share of profits and losses of joint venture undertakings are included in the Group Income Statement 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. The results of 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 joint venture undertakings are set out in Note 12. Where the accounting policies of 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.

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.

1 Accounting policies (continued)

Joint ventures (continued)

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.

Transactions with non-controlling interests

The Group applies a policy of treating transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling 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 non-controlling interests are also recorded in equity.

Revenue

Revenue comprises revenue from the sale of electricity, gas and energy services to I&C and domestic customers; revenue from electricity generation; and revenue from the distribution of electricity. 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 from providing energy services to customers is recognised as the work is performed and the services provided to the customer.

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 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.

1 Accounting policies (continued)

Segmental reporting

In accordance with the so-called management approach required by IFRS 8 'Operating Segments' (the internal reporting organisation used by management for making decisions on operating matters is used to identify the Group's reportable segments), the Group is currently organised into three operating divisions – Generation, EC&R UK and E.ON Energy Solutions, all of which are based in the UK. Under IFRS 8, these divisions are reported separately in Note 2 as reportable segments. This follows a restructure at the beginning of 2011 where the Retail and Energy Services business were combined to create a new E.ON Energy Solutions business and the regional CHP businesses that were previously reported as part of the Generation segment are now reported within all other segments. The carbon sourcing business is also now reported within the EC&R UK segment (previously reported within other segments). The comparatives have been restated.

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.

Provisions for 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.

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 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.

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

Deferred income

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

1 Accounting policies (continued)

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 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 other comprehensive income until realised. Realised gains and losses are recorded based on the specific identification method. Unrealised losses previously recognised in equity are recognised in financial results in the case of substantial impairment. Reversals of impairment losses relating to equity instruments are recognised exclusively in equity.

Loans and receivables (including trade receivables) are primary financial assets with fixed or determinable payments that are not traded in an active market. Loans and receivables are reported on the 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 net of transaction costs incurred. In subsequent periods, the amortisation and accretion of any premium or discount is included in finance costs/income.

Derivative financial instruments and hedging transactions

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

1 Accounting policies (continued)

Financial instruments (continued)

Derivative financial instruments and hedging transactions (continued)

IAS 39 sets requirements for the designation and documentation of hedging relationships, the hedging strategy, as well as ongoing retrospective and prospective measurement of effectiveness in order to qualify for hedge accounting. The Group does not exclude any component of derivative gains and losses from the measurement of hedge effectiveness. Hedge accounting is considered to be appropriate if the assessment of hedge effectiveness indicates that the change in fair value of the designated hedging instrument is 80% to 125% 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 other comprehensive income 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.

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.

1 Accounting policies (continued)

Financial instruments (continued)

Derivative financial instruments and hedging transactions (continued)

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 from a business combination 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. 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.

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 on a straight line basis over their estimated useful lives (3 to 5 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 internally generated 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 (3 to 5 years).

1 Accounting policies (continued)

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. 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. Other intangibles are stated at cost less accumulated amortisation and impairment losses. They are amortised over the useful economic life of the schemes to which they relate (5 to 25 years).

Research and development

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

1 Accounting policies (continued)

Property, plant and equipment (continued)

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.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other operating costs or other operating income in the Group Income Statement.

Customer contributions (for contributions received after 1 July 2009)

Following the adoption of IFRIC 18 in 2010, 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. 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 assets	3-40

1 Accounting policies (continued)

Overhaul of generation plant

Major periodic overhaul costs on generation plant are capitalised as part of generating assets and depreciated on a straight line basis over their estimated useful life, typically the period until the next major overhaul. That period is usually four years. Repairs and maintenance that do not constitute significant replacement capital expenditure are expensed as incurred.

Impairment

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

Recoverable amount is defined as the higher of fair value less costs to sell and estimated value-in-use at the date the impairment review is undertaken. E.ON UK determines the recoverable amount of the cash-generating unit on the basis of the fair value (less costs to sell) using generally accepted valuation procedures. This is based on the medium-term planning data of the respective cash-generating unit. Valuation is performed using the discounted cash flow method, and accuracy is verified through the use of appropriate multiples, to the extent available. In addition, market transactions or valuations prepared by third parties for comparable assets are used to the extent available. 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 within total operating costs 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.

1 Accounting policies (continued)

Discontinued operations (continued)

The profits and losses resulting from the measurement of components held for sale at fair value less any remaining costs to sell, as well as the gains and losses arising from the disposal of discontinued operations, are reported separately on the face of the income statement under profit/loss from discontinued operations, net, as is the profit from the ordinary operating activities of these divisions. Prior year income statement figures are adjusted accordingly. The relevant assets and liabilities are reported in a separate line on the balance sheet. The cash flows of discontinued operations are reported separately in the cash flow statement, with prior year figures adjusted accordingly. However, there is no reclassification of prior year balance sheet line items attributable to discontinued operations.

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 and income recognised within other operating income. 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.

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.

1 Accounting policies (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value after due regard for obsolete and slow moving stocks. 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.

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.

1 Accounting policies (continued)

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 not yet recognised past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

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.

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. Ordinary shares are classified as equity. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

1 Accounting policies (continued)

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 shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are approved.

2 Segmental reporting

Year ended 31 December 2011	Generation £m	EC&R UK £m	E.ON Energy Solutions £m	All other segments £m	Total £m
Revenue					
External revenue+	1,767	278	7,026	150	9,221
Inter-segment revenue	-	21	27	2	50
Total segment revenue	**1,767**	**299**	**7,053**	**152**	**9,271**
Result					
Segment result++	518	157	319	(14)	980
Depreciation and amortisation	(191)	(28)	(77)	(10)	(306)
Contract provisions, impairment and restructuring costs	(30)	-	(32)	(69)	(131)
Losses on disposal of businesses					(17)
Net derivative losses					(693)
Other adjustments					5
Operating loss					(162)
Finance income					23
Finance costs					(44)
Group's share of joint ventures' loss after tax	(16)	-	-	-	(16)
Loss before tax					(199)
Tax charge					(112)
Loss for the year from continuing operations					**(311)**
Other segment items					
Capital expenditure	345	357	56	8	766
Intangible expenditure	-	27	6	-	33
Depreciation	191	28	23	10	252
Amortisation of intangible assets	-	-	54	-	54
Goodwill	56	54	2,547	-	2,657

\+ 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 on page 57

See Note 4 for impairments by segment.

Notes to the financial statements for the year ended 31 December 2011 (continued)

2 Segmental reporting (continued)

Year ended 31 December 2010 (Restated+++)	Generation £m	EC&R UK £m	E.ON Energy Solutions £m	All other segments £m	Total £m
Revenue					
External revenue+	1,561	195	6,767	184	8,707
Inter-segment revenue	-	-	149	3	152
Total segment revenue	**1,561**	**195**	**6,916**	**187**	**8,859**
Result					
Segment result++	323	103	397	(67)	756
Depreciation and amortisation	(194)	(24)	(79)	(8)	(305)
Contract provisions, impairment and restructuring costs	(71)	-	(59)	32	(98)
Losses on disposal of businesses					-
Net derivative gains					185
Other adjustments					13
Operating profit					551
Finance income					42
Finance costs					(161)
Group's share of joint ventures' loss after tax					(17)
Profit before tax					415
Tax charge					(89)
Profit for the year from continuing operations					**326**
Other segment items					
Capital expenditure	488	178	32	22	720
Intangible expenditure	-	4	5	-	9
Depreciation	194	24	22	4	244
Amortisation of intangible assets	-	-	57	4	61
Goodwill	56	54	2,547	-	2,657

\+ 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 on page 57
+++ The segment comparatives have been restated following the disposal of the Central Networks business which has been presented as a discontinued operation

See Note 4 for impairments by segment.

2 Segmental reporting (continued)

Reported segments

In accordance with IFRS 8, the Group is organised into three reportable segments – Generation, EC&R UK and E.ON Energy Solutions. 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
E.ON Energy Solutions	Sale of energy and related services to customers
All other segments	Support functions for other segments and ancillary services including CHP

Under IFRS 5, segments or material business units that have been sold or are held-for-sale must be reported as discontinued operations. In 2011 and 2010, this includes the gains and results relating to the disposals of the Central Networks and Energy Trading businesses. 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 EBITDA. This measurement basis is derived from the profit/loss from continuing operations before interest, taxes, depreciation, amortisation and adjusted to exclude certain exceptional items. The adjustments include derivative gains and losses, gains and losses on investment/business disposals, contract provisions, impairments and restructuring costs.

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 2011, Generation, EC&R UK and other segments recognised sales of £2,031 million (2010: £1,819 million) to a major customer 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 loss reported in these financial statements:

- Depreciation and amortisation – see Notes 10 and 11 for further details.
- Contract provisions, impairment and restructuring costs – see Note 4 for further details.
- Losses on disposals of businesses – see Note 5 for further details.
- Net derivative losses/gains - 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 statutory reporting adjustments.

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

2011 (£m)	Revenue	Capital expenditure	Depreciation	Goodwill
Total per reportable segments	9,271	766	252	2,657
Inter-segment eliminations	(50)	-	-	-
Discontinued operations	-	106	19	-
Other adjustments	19	14	(11)	(496)
Total per financial statements	**9,240**	**886**	**260**	**2,161**

2010 (£m) (Restated)	Revenue	Capital expenditure	Depreciation	Goodwill
Total per reportable segments	8,859	720	244	2,657
Inter-segment eliminations	(152)	-	-	-
Discontinued operations	-	360	108	327
Other adjustments	-	-	(25)	(508)
Total per financial statements	**8,707**	**1,080**	**327**	**2,476**

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

3 Operating costs and other operating income

Operating costs were as follows:

	Continuing operations 2011 £m	Continuing operations 2010 £m	**Discontinued operations 2011 £m**	Discontinued operations 2010 £m	**Total 2011 £m**	Total 2010 £m
Power purchases and other costs of sales	**7,642**	7,104	**-**	(146)	**7,642**	6,958
Employee costs (Note 6)	**497**	476	**14**	102	**511**	578
Depreciation, including relevant impairments	**251**	273	**20**	108	**271**	381
Intangible asset amortisation, including relevant impairments	**54**	61	**-**	-	**54**	61
Derivative losses	**693**	1	**-**	-	**693**	1
Other operating charges	**473**	580	**36**	84	**509**	664
Operating costs, after contract provisions, impairment and restructuring costs	**9,610**	8,495	**70**	148	**9,680**	8,643
Operating costs, before contract provisions, impairment and restructuring costs	**9,479**	8,397	**70**	148	**9,549**	8,545
Contract provisions, impairment and restructuring costs (Note 4)	**131**	98	**-**	-	**131**	98

Foreign exchange gains of £8 million were recognised in the Group Income Statement (2010: £1 million loss).

3 Operating costs and other operating income (continued)

Operating costs also include:		Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
Research and development costs		**7**	14
Operating lease charges		**22**	33
Loss on disposal of property, plant and equipment		**17**	27
Loss on disposal of intangible fixed assets		**4**	13
Auditors' remuneration for:			
Audit services:	Audit of the Company and consolidated accounts	**1**	1
Other services:	Audit of the Company's subsidiaries pursuant to legislation	**1**	1
	Tax services	**-**	1
	All other services	**2**	-

The above figures all relate to continuing operations which the exception of operating lease charges where £1 million (2010: £11 million) relates to discontinued operations.

All other services include fees of £2 million paid for advice in relation to the sale of Central Networks.

Other operating income

Other operating income in 2011 includes goods and services recharged to E.ON AG Group members of £42 million, gains on disposal of property, plant and equipment of £6 million and income from claims and commercial settlements. Of the total 2011 operating income, £9 million relates to discontinued operations.

The largest component of other operating income in 2010 was derivative gains of £186 million which had arisen from the mark to market gains on the commodity forward contracts within the E.ON Energy Solutions business following a change in hedging strategy. Other operating income also includes goods and services recharged to E.ON AG 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. Of the total 2010 operating income, £9 million relates to discontinued operations.

4 Contract provisions, impairment and restructuring costs

Contract provisions, impairment and restructuring costs comprise:

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
Contract provisions, impairment and restructuring costs	**131**	136
Release of contract provision	**-**	(38)
Net costs before taxation	**131**	98
Taxation	**(35)**	(27)
Net costs after taxation	**96**	71

During 2011 restructuring costs of £84 million were recognised, £32 million relating to the E.ON Energy Solutions business, £19 million relating to the Generation business and £33 million relating to other segments. An impairment of £11 million was recorded in 2011 relating to the assets associated with the Port of Liverpool development. An additional onerous contract provision of £36 million was also recognised during the year relating to certain CHP contracts which form part of the Regional Heat business that is now reported within other segments. This follows rising wholesale gas prices resulting in increased costs on CHP contracts that receive a relatively fixed price per unit of output. A tax credit of £35 million arose as a result of all these charges. The above relates solely to continuing operations.

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 E.ON Energy Solutions business was also recognised in respect of meter assets. Restructuring costs of £35 million relating to the E.ON Energy Solutions business and £6 million relating to other segments were also recorded. An onerous contract provision of £38 million previously recognised was released during the year relating to certain CHP contracts which form part of the Regional Heat business that is reported within other segments. 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 relates solely to continuing operations.

5 Losses on disposal of businesses

Losses on disposal of businesses comprise:

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
Losses on disposal of businesses before taxation	**17**	-
Tax on losses on disposal of businesses	-	-
Losses on disposal of businesses after taxation	**17**	-

On 4 May 2011, the Group disposed of its 50% interest in Corby Power Limited, which owns a 350 MW gas-fired power station in Corby, for a total cash consideration of £45 million. The net assets disposed of were £62 million resulting in a loss on disposal of £17 million. All of the above amounts relate to continuing operations.

6 Employee information

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

	Continuing operations 2011	Continuing operations 2010	**Discontinued operations 2011**	Discontinued operations 2010	**Total 2011**	Total 2010
Generation	**1,123**	1,140	-	-	**1,123**	1,140
EC&R UK	**188**	168	-	-	**188**	168
Central Networks	-	-	**3,573**	3,515	**3,573**	3,515
E.ON Energy Solutions	**8,917**	9,547	-	-	**8,917**	9,547
All other segments	**1,231**	1,453	-	-	**1,231**	1,453
Total	**11,459**	12,308	**3,573**	3,515	**15,032**	15,823

6 Employee information (continued)

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

	Continuing operations 2011 £m	Continuing operations 2010 £m	**Discontinued operations 2011 £m**	Discontinued operations 2010 £m	**Total 2011 £m**	Total 2010 £m
Wages and salaries	**411**	389	**25**	121	**436**	510
Social security costs	**31**	33	**3**	16	**34**	49
Pension costs – defined benefit plans (Note 24)	**57**	57	**6**	23	**63**	80
Pension costs – defined contribution plans (Note 24)	**5**	5	-	-	**5**	5
Share-based payments (Note 27)	**1**	-	-	-	**1**	-
	505	484	**34**	160	**539**	644
Capitalised in property, plant and equipment	**(8)**	(8)	**(20)**	(58)	**(28)**	(66)
Charged in income statement as employee costs	**497**	476	**14**	102	**511**	578

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

The key management compensation costs were:

	Year ended 31 December 2011 £	Year ended 31 December 2010 £
Salaries and short-term employee benefits	**5,618,152**	5,674,569
Post-employment benefits	**1,951,338**	1,387,370
Share-based payments	**31,282**	249,767
	7,600,772	7,311,706
Termination benefits	**4,033,685**	-
	11,634,457	7,311,706

Key management of the Group consists of directors and other key management of the Company and its principal trading subsidiaries. During 2011, a significant reorganisation of the business took place, during which a number of key management left the business. Termination benefits relate to the contractual rights of those members of management. For details of the directors' emoluments, including the highest paid director's remuneration see Note 3 of the Company financial statements.

Notes to the financial statements
for the year ended 31 December 2011 (continued)

7 Net finance costs

	Continuing operations 2011 £m	Continuing operations 2010 £m	**Discontinued operations 2011 £m**	Discontinued operations 2010 £m	**Total 2011 £m**	Total 2010 £m
Loans to fellow E.ON AG Group undertakings	**12**	1	**-**	-	**12**	1
Interest on finance lease receivables	**11**	15	**-**	-	**11**	15
Gains on interest rate swaps	**-**	26	**-**	-	**-**	26
Finance income	**23**	42	**-**	-	**23**	42
Loans from fellow E.ON AG Group undertakings	**(45)**	(149)	**-**	-	**(45)**	(149)
Net pensions interest (Note 24)	**(4)**	(20)	**-**	-	**(4)**	(20)
Other loans	**(9)**	(7)	**(26)**	(2)	**(35)**	(9)
Unwinding of discount in provisions (Note 25)	**(20)**	(23)	**-**	-	**(20)**	(23)
Capitalised interest (Note 11)	**34**	38	**-**	-	**34**	38
Finance costs	**(44)**	(161)	**(26)**	(2)	**(70)**	(163)
Net finance costs	**(21)**	(119)	**(26)**	(2)	**(47)**	(121)

Notes to the financial statements for the year ended 31 December 2011 (continued)

8 Taxation

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
Current tax:		
UK corporation tax at 26.5% (2010: 28%)	**75**	194
Under/(over) provision in prior years	**22**	(3)
Total current tax charge	**97**	191
Less current tax on discontinued operations	**2**	(65)
Current tax on continuing operations	**99**	126
Deferred tax:		
Origination and reversal of temporary timing differences	**(64)**	82
Impact of change in rate	**(31)**	(33)
Under/(over) provision in prior years	**141**	(58)
Total deferred tax charge/(credit) (Note 26)	**46**	(9)
Less deferred tax on discontinued operations	**(33)**	(28)
Deferred tax on continuing operations	**13**	(37)
Tax charge on profit on continuing activities	**112**	89

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 26.5% (2010: 28%) can be explained as follows:

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
(Loss)/profit on continuing activities before tax	**(199)**	415
Less: Group's share of joint ventures' loss after tax	**16**	17
(Loss)/profit on continuing activities excluding associates' profit	**(183)**	432
Profit on discontinued activities before tax	**748**	499
Accounting profit before tax	**565**	931
Tax charge on profit on ordinary activities at 26.5% (2010: 28%)	**150**	261
Effects of:		
Impact of change in rate	**(31)**	(33)
Under/(over) provision in prior years	**163**	(61)
(Income)/expenses not deductible for tax purposes	**(139)**	15
Total tax charge	**143**	182
Tax charge on continuing operations	**112**	89
Tax charge on discontinued operations (Note 9)	**31**	93
Total tax charge	**143**	182

A resolution passed by Parliament on 29 March 2011 reduced the main rate of corporation tax from 28% to 26% from 1 April 2011.

The Finance Act 2011 was substantively enacted on 5 July 2011 and included legislation to reduce the main rate of corporation tax from 26% to 25% from 1 April 2012. In addition, the Finance Act 2011 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. The deferred tax liability at 31 December 2011 has been re-measured accordingly.

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 2012 UK Budget Statement. A resolution passed by Parliament on 26 March 2012 reduced the main rate of corporation tax to 24% from 1 April 2012. Legislation to reduce the main rate of corporation tax from 24% to 23% from 1 April 2013 is expected to be included in the Finance Act 2012. A further reduction to the main rate is also proposed to reduce the rate to 22% from 1 April 2014. None of these rate reductions had been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements.

The effect of the change in the corporation tax rate from 25% to 24% is to reduce the deferred tax liability provided at the balance sheet date by £31 million.

The overall effect of the further changes from 24% to 22%, if applied to the deferred tax balance at the balance sheet date, would be to reduce the deferred tax liability by an additional £21 million.

9 Discontinued operations and assets held for sale

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 £82 million of the Group's pension provision, was approximately £4.1 billion.

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 relating to back to back contract arrangements was deferred (within deferred income) and is being 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 2011 (2010: none).

9 Discontinued operations and assets held for sale (continued)

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

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
External revenue	**191**	534
Operating costs	**(70)**	(148)
Operating income	**9**	9
Finance costs	**(26)**	(2)
Profit before tax of discontinued operations	**104**	393
Pre-tax gain on disposal – Central Networks	**548**	-
Pre-tax gain on disposal – Energy Trading	**96**	106
	748	499
UK corporation tax	**2**	(65)
Deferred tax	**(33)**	(28)
Profit for the year from discontinued operations	**717**	406

b) Analysis of cashflows relating to discontinued operations:

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
Operating cashflows	**93**	452
Investing cashflows	**(114)**	(411)
Financing cashflows	**-**	491
Total cashflows	**(21)**	532

Cashflows in 2011 exclude the £3,594 million sale proceeds received from the sale of the Central Networks business.

9 Discontinued operations and assets held for sale (continued)

c) Details of the disposal of the discontinued Central Networks business in 2011:

	£m	Year ended 31 December 2011 £m
Non-current assets		
Intangible assets	308	
Property, plant and equipment	3,870	
Current assets		**4,178**
Inventories	30	
Trade and other receivables	81	
Current liabilities		**111**
Trade and other payables	(187)	
Borrowings	(13)	
Non-current liabilities		**(200)**
Borrowings	(491)	
Deferred tax liability	(494)	
Pension liability	(82)	
		(1,067)
Net assets disposed of		**3,022**
Sale proceeds – cash inflow	3,594	
Costs of disposal	(24)	
		3,570
Gain on disposal		**548**

d) Assets held-for-sale in 2010

Assets held for sale of £60 million at the end of 2010 related 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.

10 Intangible assets

	Goodwill	Software	Customer lists	Other	Total
	£m	£m	£m	£m	£m
Cost					
At 1 January 2011	2,476	158	464	88	3,186
Additions	-	4	-	29	33
Disposals	(315)	(51)	(1)	(13)	(380)
At 31 December 2011	**2,161**	**111**	**463**	**104**	**2,839**
Accumulated amortisation					
At 1 January 2011	-	145	380	46	571
Amortisation for the year	-	7	47	-	54
Disposals	-	(50)	-	(5)	(55)
At 31 December 2011	**-**	**102**	**427**	**41**	**570**
Net book value					
At 1 January 2011	2,476	13	84	42	2,615
At 31 December 2011	**2,161**	**9**	**36**	**63**	**2,269**

	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**
Accumulated amortisation					
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**

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.

10 Intangible assets (continued)

Goodwill is reviewed annually for impairment in the fourth quarter 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.

The recoverable amounts of goodwill have been assessed based on either fair values less costs to sell or value-in-use calculations using cash flow projections based on approved financial plans. The calculations are generally based on the three planning years of the medium term plan plus two additional detailed planning years. Growth rate assumptions used were based on historical analysis and prospective forecasting. 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 key assumptions used to determine the recoverable amounts for specific cash generating units are:

E.ON Energy Solutions

A 5 year cash flow forecast is built up from the 3 year medium term plan plus two additional detailed planning years (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.

Generation

A 5 year cash flow forecast is built up from the 3 year medium term plan plus two additional detailed planning years (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

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.

The goodwill of all the cash generating units whose goodwill is material in relation to the total carrying amount of all goodwill shows a surplus of recoverable amounts over the respective carrying amounts and, therefore, based on the current assessment of the economic situation, only a significant change in the discount rates and growth rates would necessitate the recognition of goodwill impairment.

Notes to the financial statements
for the year ended 31 December 2011 (continued)

11 Property, plant and equipment

	Generating assets £m	Distribution and transmission networks £m	Other operating assets £m	Total £m
Cost				
At 1 January 2011	5,899	5,336	262	11,497
Additions	747	104	35	886
Disposals	(633)	(5,440)	(115)	(6,188)
At 31 December 2011	**6,013**	**-**	**182**	**6,195**
Accumulated depreciation				
At 1 January 2011	2,687	1,581	110	4,378
Charge for the year	215	18	27	260
Impairment	11	-	-	11
Disposals	(565)	(1,599)	(88)	(2,252)
At 31 December 2011	**2,348**	**-**	**49**	**2,397**
Net book value				
At 1 January 2011	3,212	3,755	152	7,119
At 31 December 2011	**3,665**	**-**	**133**	**3,798**

	Generating assets £m	Distribution and transmission networks £m	Other operating assets £m	Total £m
Cost				
At 1 January 2010	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**
Accumulated 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	2,754	3,422	301	6,477
At 31 December 2010	**3,212**	**3,755**	**152**	**7,119**

11 Property, plant and equipment (continued)

Additions in 2011 include capitalised borrowing costs amounting to £34 million (2010: £38 million). The capitalisation rate used is 5.0% (2010: 4.5%). The net book value of property, plant and equipment held under finance leases is £nil (2010: £46 million). All assets held under finance leases related to generating assets.

An impairment of £11 million was recorded in 2011 relating to the assets associated with the Port of Liverpool development to write down the asset to its recoverable value. An impairment of £64 million was recorded in 2010 relating to assets associated with the Kingsnorth and Seal Sands developments and also an impairment of metering assets. Reclassifications in 2010 related to a transfer to intangible assets of assets previously under construction and also various reclassifications of assets between property, plant and equipment asset categories.

The Group's assets include assets in the course of construction at a cost of £981 million (2010: £1,062 million) primarily relating to generating assets.

12 Interests in joint ventures

	2011 £m	2010 £m
At 1 January	**29**	26
Share of losses	**(16)**	(17)
Additions	**160**	20
At 31 December	**173**	29

Interest in joint ventures

No goodwill is recorded within interest in 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 Limited	31 December	England	Ordinary shares	50%

E.ON UK and RWE Npower each have a 50% interest 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 additions during 2011 and 2010 relate to further capital injections into this joint venture company. On 29 March 2012, the Group announced that following a strategic review it will not proceed with plans to develop the joint venture. RWE Npower simultaneously made the same announcement.

12 Interests in joint ventures (continued)

	31 December 2011 £m	31 December 2010 £m
Assets		
Non-current assets	**325**	50
Current assets	**45**	24
	370	74
Liabilities		
Current liabilities	**(25)**	(17)
	(25)	(17)
Net assets	**345**	57
Equity		
Share capital	**420**	100
Retained earnings	**(75)**	(43)
	345	57
Share of joint venture's net assets	**173**	*29*
Revenue	**-**	-
Expenses	**(32)**	(34)
Loss after income tax	**(32)**	(34)
Share of joint venture's loss after income tax	**(16)**	*(17)*
Proportionate interest in joint venture's commitments	**31**	*145*

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
Powergen International Limited*	Ordinary shares	100	England and Wales	Intermediate holding company
Ergon Overseas Holdings Limited +	Ordinary shares	100	England and Wales	Investment company
Powergen Holdings BV +	Ordinary shares	100	The Netherlands	Intermediate holding company
Powergen (East Midlands) Loan Notes *	Ordinary shares	100	England and Wales	Intermediate holding company for distribution activities prior to the sale of the Central Networks business
East Midlands Electricity Distribution Holdings+	Ordinary shares	100	England and Wales	Intermediate holding company for distribution activities prior to the sale of the Central Networks business
E.ON Energy Solutions Limited*	Ordinary shares	100	England and Wales	Sale of electricity, gas and other energy-related products to residential, business and industrial customers throughout Great Britain

* direct interest + indirect interest

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

14 Available for sale investments

	At 31 December 2011 £m	At 31 December 2010 £m
At 1 January	**18**	17
Additions	**3**	1
Available for sale reserves movement	**2**	-
At 31 December	**23**	18

Available for sale financial assets include the following:

	At 31 December 2011 £m	At 31 December 2010 £m
Listed gilts – UK	**23**	18

15 Trade and other receivables: non-current

	At 31 December 2011 £m	At 31 December 2010 £m
Finance lease receivables	**105**	130
Operating receivables owed by group undertakings	-	6
Financial receivables owed by group undertakings	-	1
Other receivables	**22**	7
	127	144

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

16 Inventories

	At 31 December 2011 £m	At 31 December 2010 £m
Fuel stocks	**164**	148
Stores	**52**	85
	216	233

Notes to the financial statements
for the year ended 31 December 2011 (continued)

17 Trade and other receivables: current

	At 31 December 2011 £m	At 31 December 2010 £m
Trade receivables	**1,000**	1,254
Less: provision for impairment of receivables	**(178)**	(253)
Trade receivables - net	**822**	1,001
Operating receivables owed by group undertakings	**494**	178
Financial receivables owed by group undertakings	**2,265**	410
Finance lease receivables	**22**	12
Prepayments and accrued income	**78**	336
Other receivables	**57**	207
	3,738	2,144

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 2011, the Group held £23 million (2010: £48 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.

Notes to the financial statements
for the year ended 31 December 2011 (continued)

19 Trade and other payables

	At 31 December 2011 £m	At 31 December 2010 £m
Current		
Trade payables	**69**	188
Amounts owed to group undertakings	**1,504**	990
Other taxation and social security	**75**	65
Accruals and other payables	**653**	672
Deferred income	**1**	124
	2,302	2,039

	At 31 December 2011 £m	At 31 December 2010 £m
Non-current		
Deferred income	**1**	114

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

20 Borrowings: current

	At 31 December 2011 £m	At 31 December 2010 £m
Bank overdrafts	**43**	17
Short-term loans owed to group undertakings	**255**	1,116
	298	1,133

Short-term funding is provided through unsecured inter-company facilities. The short term loans include 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 1.21% (2010: 1.17%). Bank overdrafts are unsecured, incur interest at floating rates and are repayable on demand.

21 Borrowings: non-current

	At 31 December 2011 £m	At 31 December 2010 £m
Amounts owed to external debt holders		
5.75% Sterling Bond 2040	-	245
5.50% Sterling Bond 2025	-	246
2023 Loan	**4**	4
	4	495
Amounts owed to fellow group undertakings		
Long-term loan 2014	**250**	350
Long-term loan 2037	**900**	900
Other long-term loans	-	385
	1,150	1,635
	1,154	2,130

The long-term loan 2014 is unsecured, repayable in 2014 and incurs interest at 5.775%. During the year an early repayment of £100 million was made resulting in a one-time expense of approximately £6 million. The long-term loan 2037 is unsecured, repayable in 2037 and incurs interest at 6.075%. The 2023 loan is unsecured, payable in 2023 and incurs interest at 5%.

Further details on financial instruments are provided in Note 23.

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 2011	At 31 December 2010	**At 31 December 2011**	At 31 December 2010
Non-current assets/(liabilities)				
Foreign currency forward contracts	**1**	1	**(1)**	-
Commodity swaps	**-**	38	**-**	(13)
Commodity forward contracts	**307**	315	**(535)**	(315)
	308	354	**(536)**	(328)
Current assets/(liabilities)				
Foreign currency forward contracts	**1**	1	**(8)**	(3)
Commodity swaps	**-**	29	**-**	(13)
Commodity forward contracts	**154**	605	**(300)**	(334)
	155	635	**(308)**	(350)
	463	989	**(844)**	(678)

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.

The notional principal amounts of derivatives are as follows:

	At 31 December 2011 £m	At 31 December 2010 £m
Foreign currency forward contracts	**478**	473
Commodity swaps	**-**	6,965
Commodity forward contracts	**7,040**	3,659
	7,518	11,097

22 Commodity and other derivative financial instruments (continued)

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, US Dollar and Danish Krone. The amount of ineffectiveness for cash flow hedges recorded for the year produced results of £nil (2010: £nil).

As of 31 December 2011, the hedged transactions in place included foreign currency cash flow hedges with maturities of up to 5 years (2010: 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 - 2011

	Carrying amount	2012	2013	2014-2016	>2016
	£m	£m	£m	£m	£m
Other reserves – Currency cash flow hedges	(7)	-	-	-	(7)

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

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

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 2011, £3 million of gains (2010: £5 million of losses) from the initial measurement of derivatives were deferred. After the realisation of £4 million deferred losses (2010: £8 million deferred losses), the remainder is a deferred gain of £7 million at year end (2010: £3 million), which will be recognised in income as the contracts are fulfilled.

Notes to the financial statements
for the year ended 31 December 2011 (continued)

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 2011	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	23	23	23	23	-	-
Loans and receivables						
Receivables from finance leases	127	127	127	-	127	-
Trade receivables	822	822	822	-	822	-
Cash and cash equivalents	23	23	23	23		-
Other operating assets	573	573	573	-	573	-
Other financial receivables	2,265	2,265	2,265	-	2,265	-
Financial assets/(liabilities) at FVPL						
Derivative assets with no hedging relationships	463	463	463	81	167	215
Derivative liabilities with no hedging relationships	(838)	(838)	(838)	(81)	(542)	(215)
Derivative financial assets/(liabilities) used for hedging						
Derivative assets with hedging relationships	-	-	-	-	-	-
Derivative liabilities with hedging relationships	(6)	(6)	(6)	-	(6)	-
Financial liabilities at amortised cost						
Trade payables	(69)	(69)	(69)	-	(69)	-
Other operating liabilities	(2,157)	(2,157)	(2,157)	-	(2,157)	-
Bonds	-	-	-	-	-	-
Bank loans/liabilities to banks	(47)	(47)	(47)	(47)	-	-
Borrowings: amounts falling due after more than one year	(1,150)	(1,150)	(1,689)	-	(1,689)	-
Borrowings: amounts falling due within one year	(255)	(255)	(255)	-	(255)	-

23 Additional disclosures on financial instruments (continued)

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)	-

There were no transfers between fair value measurement levels 1 and 2 during the year (2010: none).

23 Additional disclosures on financial instruments (continued)

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. 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 2011	307	(307)
(Losses)/gains recognised in income	(92)	92
At 31 December 2011	**215**	**215**

	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% increase or decrease in this valuation parameter would lead to a respective gross increase or decrease of £2 million (2010: £3 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 2011	Cash outflows			
	2012 £m	2013 £m	2014-2016 £m	from 2017 £m
Bonds	-	-	-	-
Bank loans/liabilities to banks	43	-	2	3
Other financial liabilities	393	138	844	2,048
Cash outflows for financial liabilities	**436**	**138**	**846**	**2,051**
Trade payables	69	-	-	-
Derivative liabilities (with/without hedging relationships)	527	129	184	58
Other operating liabilities	2,157	-	-	-
Cash outflows for trade payables and other operating liabilities	**2,753**	**129**	**184**	**58**
Total cash outflows for liabilities under IFRS 7	**3,189**	**267**	**1,030**	**2,109**

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**

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 2011 £m	At 31 December 2010 £m
In more than one year but not more than two years	**-**	-
In more than two years but not more than five years	**250**	735
In more than five years	**900**	1,395
	1,150	2,130

At 31 December 2011, there was £5,661 million (2010: £4,854 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 2013 and 2016. Including current borrowings, these facilities comprised:

Counterparty	**Total facility £m**	**Amount undrawn at 31 December 2011 £m**	**Expiry date**	**Fees**
E.ON AG	870	870	15 December 2015	50bp
E.ON UK Holding Company Limited	3,000	3,000	6 March 2016	50bp
Powergen Limited	1,100	1,100	30 June 2013	22.5bp
Powergen Limited	550	393	30 June 2013	22.5bp
	5,520	**5,363**		

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 of the E.ON AG Treasury team.

23 Additional disclosures on financial instruments (continued)

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 E.ON AG Treasury, with the support of a standard software package.

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 (2010: £1 million) and resulted primarily from open positions denominated in Euros, US Dollars and Swiss Francs.

23 Additional disclosures on financial instruments (continued)

The one day VaR from foreign currency derivatives with hedging relationships amounted to £2 million (2010: £4 million) and resulted primarily from open positions denominated in Danish Krone.

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:

		Floating rate financial liabilities	Fixed rate financial liabilities		
At 31 December 2011	Total £m	£m	£m	Weighted average interest rate %	Weighted ave. period for which rate is fixed Years
Sterling	**1,452**	**298**	**1,154**	**6.0**	**20.6**

		Floating rate financial liabilities	Fixed rate financial liabilities		
At 31 December 2010	Total £m	£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

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 2011, the Group had entered into interest rate swaps with a nominal value of £nil (2010: £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 £3 million per annum (2010: £15 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 £459 million as of 31 December 2011 (2010: £452 million).

As of 31 December 2011, E.ON UK had entered into electricity, gas, coal, oil and emissions-related derivatives with a nominal value of £7,040 million (2010: £10,624 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 2011 £m	At 31 December 2010 £m
Not impaired and not past-due	**538**	648
Not impaired and up to 90 days past-due	**197**	210
Not impaired and 91 to 180 days past-due	**42**	82
Not impaired and 181 to 360 days past-due	**34**	51
Not impaired and over 360 days past-due	**11**	10
	822	1,001

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

	2011 £m	2010 £m
Balance as at 1 January	**(253)**	(282)
Impairment (reported within other operating charges)	**(92)**	(100)
Utilisation	**167**	129
Balance as at 31 December	**(178)**	(253)

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.

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 2011		At 31 December 2010	
	Gross Investment £m	Net Investment £m	Gross Investment £m	Net Investment £m
Within 1 year	**22**	**22**	23	23
Within 1-5 years	**82**	**67**	87	66
After 5 years	**70**	**38**	97	53
	174	**127**	207	142

Unearned finance income at 31 December 2011 amounted to £47 million (2010: £65 million) of which £15 million (2010: £21 million) is due within 1 to 5 years and £32 million (2010: £44 million) is due after 5 years.

Collateral

Collateral issued to third parties, measured at a fair value, amounts to £67 million (2010: £45 million). This collateral includes amounts pledged to customers if a default in supply of electricity occurs. Collateral issued by third parties to the Group, measured at fair value, amounts to £17 million (2010: £17 million) This collateral primarily includes security deposits to cover unpaid debts in the event that the customer does not pay.

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 (2010: £5 million) represents contributions payable to these schemes by the Group at rates specified in the rules of the plan.

Defined Benefit Schemes

At 31 December 2011, 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

24 Pension scheme arrangements

Defined Benefit Schemes (continued)

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 these financial statements were:

	At 31 December 2011	At 31 December 2010
Average nominal rate of annual increase in salaries	**3.4%**	4.0%
Average nominal rate of annual increase in pensions	**2.8%**	3.3%
Discount rate	**4.6%**	5.4%
Expected return on assets	**4.9%**	5.8%
RPI inflation rate	**2.9%**	3.5%
CPI inflation rate	**1.9%**	2.5%

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 2031 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 +/- 4.0%. The indicative impact on Scheme liabilities of a change in the inflation rate assumption by 0.25% is +/- 3.2%. The indicative impact on Scheme liabilities of increasing pensioner life expectancy by one year is 2.8%.

Notes to the financial statements
for the year ended 31 December 2011 (continued)

24 Pension scheme arrangements (continued)

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

	At 31 December 2011 £m	At 31 December 2010 £m
Fair value of plan assets	**3,714**	5,325
Present value of funded obligations	**(3,761)**	(5,872)
	(47)	(547)
Present value of unfunded obligations	**(23)**	(23)
Net liability recognised in the balance sheet	**(70)**	(570)

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

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
Current service cost	**57**	67
Interest cost	**222**	314
Expected return on plan assets	**(218)**	(294)
Past service costs	**6**	13
Net cost recognised in the income statement	**67**	100

Current service cost, settlements and past service costs 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 2011 the Group disposed of its Central Networks business. A net pension provision of £82 million relating to this business was included as part of this disposal.

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

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
Opening defined benefit obligation	**5,895**	5,614
Service cost	**57**	67
Interest cost	**222**	314
Net (decrease)/increase in liabilities from disposals/acquisitions	**(2,317)**	6
Actuarial losses	**116**	163
Past service costs	**6**	13
Contributions by plan participants	**1**	3
Benefits paid	**(196)**	(285)
	3,784	5,895

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

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
Opening fair value of plan assets	**5,325**	4,951
Expected return on Scheme assets	**218**	294
Actuarial gains	**231**	198
Net (decrease)/increase in assets from disposals/acquisitions	**(2,233)**	8
Contributions by employer	**368**	156
Contributions by plan participants	**1**	3
Benefits paid	**(196)**	(285)
	3,714	5,325

24 Pension scheme arrangements (continued)

The Group paid special contributions of £295 million to its defined benefit pension plans in March 2011. In addition the Group paid special contributions in the form of gilts of £120 million to its defined benefit pension plans in January 2012 and is expecting to make normal contributions of around £50 million during 2012. Special contributions of £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 2011	At 31 December 2010	**At 31 December 2011**	At 31 December 2010
	%	%	**%**	%
Equity instruments	**10.1**	9.4	**9**	19
Debt instruments	**2.3**	3.7	**67**	65
Property	**8.1**	9.2	**6**	7
Other assets	**8.7**	10.5	**18**	9
	4.9	5.8	**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 is an asset allocation of 60% bonds, 8% equities, 8% property and 25% other assets.

The actual return on Scheme assets is shown below:

	Year ended 31 December 2011	Year ended 31 December 2010
	£m	£m
Expected return on Scheme assets	**218**	294
Actuarial gain on Scheme assets	**231**	198
Actual return on Scheme assets	**449**	492

Notes to the financial statements for the year ended 31 December 2011 (continued)

24 Pension scheme arrangements (continued)

Cumulative actuarial gains and losses recognised in equity:

	At 31 December 2011 £m	At 31 December 2010 £m
Loss at start of year	**(604)**	(639)
Actuarial gains recognised in the year	**115**	35
Loss at the year end	**(489)**	(604)

History of experience adjustments:

	At 31 December 2011 £m	At 31 December 2010 £m	At 31 December 2009 £m	At 31 December 2008 £m	At 31 December 2007 £m
Fair value of Scheme assets	**3,714**	5,325	4,951	4,889	5,103
Present value of defined benefit obligations	**(3,784)**	(5,895)	(5,614)	(4,417)	(5,241)
(Deficit)/surplus in the Scheme	**(70)**	(570)	(663)	472	(138)
Experience adjustments on plan liabilities	**116**	163	1,137	914	(112)
Experience adjustments on plan assets	**231**	198	(74)	(369)	11

25 Provisions

Movements on provisions comprise:

	At 1 January 2011 £m	Charged to the income statement £m	Accretion of discount £m	Provisions utilised £m	At 31 December 2011 £m
Decommissioning	116	25	4	-	**145**
Contract provisions	211	64	16	(59)	**232**
Restructuring	4	46	-	(4)	**46**
Emissions obligations	57	10	-	(57)	**10**
ROCs	143	118	-	(143)	**118**
Share-based payments (Note 27)	1	1	-	(1)	**1**
	532	264	20	(264)	**552**

25 Provisions (continued)

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

	At 31 December 2011 £m	At 31 December 2010 £m
Current	**253**	255
Non-current	**299**	277
	552	532

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 2 to 30 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 E.ON Energy Solutions business and central support functions and will be utilised in 2012 and 2013.

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 £232 million (2010: £211 million) for contract provisions which meet the definition of financial liabilities under IAS 39, but which are exempt. 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 2011 is as follows:

	At 31 December 2011 £m	At 31 December 2010 £m
Accelerated capital allowances	**376**	862
Other temporary differences	**(130)**	(62)
Provision for deferred tax	**246**	800
Provision at 1 January	**800**	797
Deferred tax charge/(credit) for year	**46**	(9)
Transferred out	**(517)**	-
Reclassifications	**(98)**	-
Taken to equity	**15**	12
Provision at end of year	**246**	800

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

The deferred tax provision is analysed as follows:

	At 31 December 2011 £m	At 31 December 2010 £m
Intangibles	**46**	45
Investments	**-**	(12)
Property, plant and equipment	**376**	862
Receivables	**29**	16
Derivatives	**(97)**	106
Financial liabilities	**(1)**	-
Pensions provision	**(18)**	(161)
Other provisions	**(86)**	(41)
Unrealised capital losses	**-**	9
Other	**(3)**	(24)
	246	800

The deferred tax liability due after more than one year is £246 million (2010: £800 million).

26 Deferred tax (continued)

The movement in deferred tax relating to pension provisions includes a decrease in the asset of £15 million (2010: decrease in the liability of £16 million) as a result of actuarial gains and losses, which has been recognised directly in equity. Included in this movement is a £12 million tax charge (2010: £6 million) for the change in tax rate from 27% to 25%. The movement in deferred tax relating to derivatives includes a decrease in the liability of £1 million (2010: decrease in liability of £4 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.

Finance Act 2011 included legislation to reduce the main rate of corporation tax to 25% and 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. The deferred tax liability at 31 December 2011 has been re-measured accordingly.

27 Share-based payments

Members of the E.ON UK Board and certain executives of E.ON UK receive share-based payment as a voluntary 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 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, which was introduced in 2006 and modified in 2010 and 2011 for subsequent tranches.

E.ON Share Performance Plan

Since 2006, E.ON has been granting virtual shares ("Performance Rights") under the E.ON Share Performance Plan. At the end of its term, each Performance Right is entitled to a cash payout linked to the final E.ON share price established at that time, as well as to the performance during the term of the E.ON share price relative to its benchmark, the STOXX Europe 600 Utilities (Net Return) index. The amount paid out is equal to the target value at issuance if the E.ON share price is maintained at the end of the term and the performance of the E.ON share price matches that of the benchmark index. 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% or more, payments are discontinued altogether. The maximum amount to be paid out to each participant per Performance Right is limited to three times the target value originally set.

27 Share-based payments (continued)

E.ON Share Performance Plan (continued)

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

The plan contains adjustment mechanisms to eliminate the effect of events such as interim corporate actions. Starting with tranche five, the term was extended to four years from the previous three. The following are the base parameters of the two tranches still active during 2011:

	Tranche 5	Tranche 4
Date of issuance	1 January 2010	1 January 2009
Term	4 years	3 years
Target value of compensation at issuance (€)	27.25	27.93

The fourth tranche matured on 31 December 2011. A liability for the outstanding options relating to the fourth tranche was recognised at the year-end. The payout and elimination of the liability will take place in the first quarter of 2012.

In 2011, Performance Rights were granted under the sixth tranche of the E.ON Share Performance Plan with a target value at issuance of €22.43. At the end of its term each Performance Right is entitled to a cash payout linked to the final E.ON share price established at that time. Under the modified terms of the plan applicable to future tranches, the number of rights to be settled at the end of the term is now governed by the degree to which specific corporate financial measures are achieved on average over the term. The benchmark is the average return on capital, expressed as the return on average capital employed compared with the weighted-average cost of capital, averaged over the unchanged four year term of the new tranche. At the same time, starting with the sixth tranche, the maximum payout was further limited to 2.5 times the target value originally set.

60-day average prices are used to determine the target value at issuance and the final price in order to mitigate the effects of incidental, short-lived price movements. The plan contains adjustment mechanisms to eliminate the effects of interim corporate actions. The 60-day average of the E.ON share price as of the balance sheet date is used to measure the fair value of the rights.

Provisions for the plan at the year-end totalled £1 million (2010: £1 million). Each provision is prorated for the respective period elapsed of the total three or four year term. During 2011 there was an expense amounting to £1 million for the E.ON Share Performance Plan (2010: £nil).

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 6	Tranche 5	Tranche 4
Performance Rights outstanding as at 1 January 2010	-	-	81,571
Performance Rights granted in 2010	-	89,203	-
Performance Rights expired in 2010	-	-	-
Performance Rights outstanding as at 1 January 2011	-	89,203	81,571
Performance Rights granted in 2011	121,647	-	-
Performance Rights settled in 2011	-	(12,887)	(11,115)
Performance Rights outstanding as at 31 December 2011	**121,647**	**76,316**	**70,456**
Provision as at 1 January 2011 (£m)	-	-	1
Cash amount paid in 2011 (£m)	-	-	(1)
Expense in 2011 (£m)	1	-	-
Provision as at 31 December 2011 (£m)	**1**	-	-

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

28 Ordinary shares

The share capital of the Company comprises:

	At 31 December 2011 £m	At 31 December 2010 £m
Allotted, called-up and fully paid		
2,649,241,799 ordinary shares of 50p each	**1,325**	1,325

29 Share premium account

	2011 £m	2010 £m
At 1 January and 31 December	**97**	97

The share premium account is not available for distribution.

Notes to the financial statements for the year ended 31 December 2011 (continued)

30 Retained earnings

	£m
At 1 January 2010	2,401
Profit for the year	730
Actuarial gains and losses (net of tax)	19
Dividends paid	(240)
At 31 December 2010	2,910
Profit for the year	408
Actuarial gains and losses (net of tax)	100
Dividends paid	(160)
At 31 December 2011	**3,258**

31 Dividends

	At 31 December 2011 £m	At 31 December 2010 £m
Equity - ordinary		
Interim paid (2011: 6.04p (2010: 9.06p)) per 50p share	**160**	240

32 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 2010	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
Available for sale investments	-	-	2	-	-	2
Cash flow hedges (net of tax)	-	-	-	(3)	-	(3)
At 31 December 2011	**85**	**474**	**3**	**(6)**	**24**	**580**

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.

32 Other reserves (continued)

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.

33 Non-controlling interests in equity

	2011	2010
	£m	£m
At 1 January	**3**	3
Income statement	**(2)**	2
Dividends paid to non-controlling interests	**(4)**	(2)
Disposal of business (Note 5)	**4**	-
At 31 December	**1**	3

Notes to the financial statements for the year ended 31 December 2011 (continued)

34 Cash flows from operating activities

Reconciliation of net profit to cash generated from operations:

	Year ended 31 December 2011	Year ended 31 December 2010
	£m	£m
Net profit including discontinued operations	406	732
Adjustments for:		
Tax charge (Note 8)	143	182
Amortisation (Note 10)	54	61
Depreciation (Note 11)	260	327
Impairment loss on generating assets (Note 11)	11	64
Onerous contract charge/(release) (Note 25)	64	(15)
Loss on disposal of property, plant and equipment, and intangibles (Note 3)	21	40
Gain on disposal of property, plant and equipment (Note 3)	(6)	(7)
Gain on disposal of discontinued operations (Note 9)	(644)	(106)
Net finance costs (Note 7)	47	121
Share of results of joint ventures after taxation (Note 12)	16	17
Losses/(gains) on other derivative financial instruments (Note 3)	693	(185)
Other non-cash differences	(8)	(2)
Changes in working capital (excluding effects of disposal of subsidiaries)		
(Increase)/decrease in inventories	(17)	46
Decrease in receivables and derivative financial assets	506	2,318
Decrease in payables and derivative financial liabilities	(447)	(2,160)
Pensions - difference between cash contributions and amount charged to operating profit	(305)	(77)
(Decrease)/increase in provisions	(64)	38
Cash generated from operations	**730**	1,394

35 Commitments and contingent liabilities

a) At 31 December 2011, the Group had commitments contracted but not provided for of £1,215 million (2010: £1,411 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) 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 2011, the Group's future commitments for the supply of coal under all its contractual arrangements totalled £43 million (2010: £89 million).

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 2011, the estimated minimum commitment for the supply of gas under all these contracts totalled £1,623 million (2010: £1,409 million).

The Group is also committed to power purchase contracts for the supply of electricity to meet retail demand. At 31 December 2011 the total contractual commitment for the Group was £3,951 million (2010: £3,827 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.

d) The Group has contingent liabilities in respect of claims and disputes arising in the ordinary course of business amounting to £51 million (2010: £36 million).

35 Commitments and contingent liabilities (continued)

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

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

	31 December 2011		31 December 2010	
	Property £m	**Other assets £m**	Property £m	Other assets £m
Aggregate commitments under non-cancellable operating leases expiring:				
Within one year	**8**	**9**	7	12
Within two to five years	**24**	**45**	21	27
After five years	**21**	**37**	27	15
	53	**91**	55	54

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.

36 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

37 Related party transactions

Information about material related party transactions is set out below:

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 2011 £m**	Year ended 31 December 2010 £m
Income received from parent undertaking and fellow subsidiaries	**2,222**	2,085
Expenses incurred from parent undertaking and fellow subsidiaries	**6,137**	4,656

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

Joint venture

Transactions and balances with the Group's joint venture are summarised below. Recharges relate largely to operating costs recharged.

Income statement Items	**Year ended 31 December 2011 £m**	Year ended 31 December 2010 £m
Recharges to joint venture	**5**	6

Balance sheet items	**At 31 December 2011 £m**	At 31 December 2010 £m
Equity investment addition	**160**	20
Receivables from joint venture	**1**	1
Payables to joint venture	**-**	-

Directors and key management

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

38 Subsequent events

On 29 March 2012, the Group announced that following a strategic review it would not proceed with plans to develop its 50-50 joint-venture, Horizon Nuclear Power. It will instead look to find a new owner for Horizon, and, in the UK, it will focus on other strategic projects that will deliver earlier benefit for customers and the Company. The other partner in Horizon, RWE Npower, simultaneously made the same announcement.

Company number: 2366970

E.ON UK plc

Company Financial Statements

for the Year Ended 31 December 2011

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 2011 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 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 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. In addition, we read all the financial and non-financial information in the Company financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the financial statements

In our opinion the parent Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2011;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter 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 by the parent Company, 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 2011.

....
Andrew Lyon BSc FCA (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

East Midlands

Date: 28 June 2012

E.ON UK plc

(Company number: 2366970)

Balance Sheet as at 31 December 2011

	Note	2011 £ 000 000	2010 £ 000 000
Fixed assets			
Intangible assets	4	-	2
Tangible assets	5	**2,531**	2,429
Investments	6	**3,521**	3,289
		6,052	5,720
Current assets			
Stocks	7	**183**	170
Debtors	8	**5,767**	5,449
Cash at bank and in hand		**4**	4
		5,954	5,623
Creditors: amounts falling due within one year	9	**(7,459)**	(6,711)
Net current liabilities		**(1,505)**	(1,088)
Total assets less current liabilities		**4,547**	4,632
Creditors: amounts falling due after more than one year	10	**(1,150)**	(1,250)
Provisions for liabilities	12	**(414)**	(335)
Net assets		**2,983**	3,047
Capital and reserves			
Called up share capital	13	**1,325**	1,325
Share premium account	15	**97**	97
Capital redemption reserve	15	**85**	85
Special capital reserve	15	**474**	474
Profit and loss account	15	**1,002**	1,066
Total shareholders' funds	16	**2,983**	3,047

Approved by the Board on 28 June 2012 and signed on its behalf by:

....

Dr Anthony Cocker
Director

E.ON UK plc

The notes on pages 115 to 134 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 retail companies.

Basis of preparation

These financial statements are prepared on the going concern basis, under the historical cost convention, in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The principal accounting policies, which have been applied consistently throughout the year, are set out below.

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.

Government grants

Government grants in respect of capital expenditure are credited to a deferred income account and are released to profit over the expected useful lives of the relevant assets by equal annual instalments. Grants of a revenue nature are credited to income so as to match them with the expenditure to which they relate.

Goodwill
Positive goodwill is capitalised, classified as an asset on the balance sheet and amortised on a straight line basis over its useful economic life. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Amortisation
Amortisation is provided on intangible fixed assets so as to write off the cost or valuation over its expected useful economic life as follows:

Asset class	Amortisation method and rate
Goodwill	Straight-line basis over its useful economic life of 20 years

Tangible fixed assets
Tangible fixed assets are stated at original cost 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. Land and buildings and plant and machinery relate primarily to generating assets.

Major assets in the course of construction are included in tangible fixed assets on the basis of expenditure incurred at the balance sheet date. In the case of assets constructed by the Company, directly related overheads and commissioning costs are included in cost. Where borrowings are used to finance the construction of a major capital project with a long period of development, interest payable is capitalised as part of the cost of the asset and written off over the economic useful life of the asset. Where specific borrowings are used, the amount capitalised is based on actual interest payable. Where general borrowings are used, the amount capitalised is based on the weighted average cost of capital of the Group, not exceeding the actual expenditure incurred during the relevant period of construction.

Depreciation
Depreciation is provided on tangible fixed assets so as to write off the cost, less any estimated residual value, over their expected useful economic life as follows:

Asset class	Depreciation method and rate
Land and buildings	Straight-line basis over 25-40 years
Plant and machinery	Straight-line basis over 25-40 years
Fixtures and fittings	Straight-line basis over 3-40 years

Estimated useful lives are reviewed periodically. No depreciation is provided on freehold land or assets in the course of construction.

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 useful economic life, typically the period until the next major overhaul. That period is usually four years.

Decommissioning costs
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 directly in the profit and loss account.

Research and development
Research and development expenditure is written off as incurred.

Fixed asset investments
Fixed asset investments are stated at historical cost less provision for any diminution in value.

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.

Stock
Stock is valued at the lower of cost and net realisable value, after due regard for obsolete and slow moving stocks. Net realisable value is based on selling price less anticipated costs to completion and selling costs. 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.

Foreign currency
Transactions in foreign currencies are recorded at the exchange rate ruling at the date of the transaction, unless related or matching forward foreign exchange contracts have been entered into, when the rate specified in that contract is used. Monetary assets and liabilities denominated in foreign currencies are retranslated at the closing rates at the balance sheet date.

Foreign exchange differences 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, 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 Financial review section 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.

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.

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.

Inter-company balances
Inter-company payable and receivable trading balances within the E.ON Group are consolidated at each month end into a single balance with each group company. These transactions are net settled. As a result the directors consider it appropriate to present inter-company balances within these financial statements on a net basis. Formal loan balances are settled gross.

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.

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.

Future operating costs are not provided for.

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

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.

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.

Taxation
The tax charge for the year is based on the profits or losses on ordinary activities for the year.

This 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.

Deferred tax provisions are now presented within provisions for liabilities whereas previously they were reported within creditors. The comparatives have been re-presented accordingly.

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.

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.

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.

2 Profit of the Company

The profit for the financial year of the Company is £96 million (2010: profit of £123 million). 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 (2010: £0.2 million).

3 Directors' remuneration

The directors' remuneration for the year was as follows:

	2011 £	2010 £
Remuneration (including benefits in kind)	**2,851,880**	3,386,500
Compensation for loss of office	**3,468,402**	-

During 2011, a significant reorganisation of the business took place, during which certain directors left the business. Compensation for loss of office relates to the contractual rights of those directors.

During the year the number of directors who were receiving benefits and share incentives was as follows:

	2011 No.	2010 No.
Accruing benefits under defined benefit pension scheme	**7**	5

During the year six (2010: five) directors 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.

In respect of the highest paid director:

	2011 £	2010 £
Annual salary	**599,798**	574,975
Annual bonus	**461,158**	501,100
Benefits under long-term incentive schemes (excluding shares)	**12,206**	98,376
Other benefits	**24,339**	36,854
Termination benefits	**957,447**	-
	2,054,948	1,211,305
Defined benefit accrued pension entitlement at the end of the year	**262,322**	225,560

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.

The termination benefits relates to contractual notice payments which the highest paid director was entitled to receive on termination of their employment.

4 Intangible assets

	Goodwill £ 000 000	Total £ 000 000
Cost		
At 1 January 2011	4	4
Disposals	(4)	(4)
At 31 December 2011	-	-
Accumulated amortisation		
At 1 January 2011	2	2
Eliminated on disposals	(2)	(2)
At 31 December 2011	-	-
Net book value		
At 31 December 2011	-	-
At 31 December 2010	2	2

5 Tangible assets

	Freehold land and buildings £ 000 000	Long leasehold land and buildings £ 000 000	Plant and machinery £ 000 000	Fixtures and fittings £ 000 000	Total £ 000 000
Cost					
At 1 January 2011	444	7	4,044	48	4,543
Additions	2	-	345	-	347
Disposals	(32)	(9)	(205)	(7)	(253)
Transfers	(12)	23	(31)	14	(6)
At 31 December 2011	402	21	4,153	55	4,631
Accumulated depreciation					
At 1 January 2011	301	7	1,763	43	2,114
Charge for the year	3	1	169	2	175
Eliminated on disposals	(11)	(2)	(163)	(7)	(183)
Transfers	-	-	(20)	14	(6)
At 31 December 2011	293	6	1,749	52	2,100
Net book value					
At 31 December 2011	109	15	2,404	3	2,531
At 31 December 2010	143	-	2,281	5	2,429

Plant and machinery include capitalised finance costs of £92 million (2010: £68 million).

6 Investments

	2011 £ 000 000	2010 £ 000 000
Shares in group undertakings and participating interests	**3,498**	3,271
Other investments	**23**	18
	3,521	3,289

Shares in group undertakings and participating interests

	Subsidiary undertakings £ 000 000	Joint ventures and associates £ 000 000	Total £ 000 000
Cost			
At 1 January 2011	3,356	50	3,406
Additions	-	160	160
Disposals	(1)	-	(1)
At 31 December 2011	3,355	210	3,565
Provision for impairment			
At 1 January 2011	135	-	135
Charge for the year	(68)	-	(68)
At 31 December 2011	67	-	67
Net book value			
At 31 December 2011	3,288	210	3,498
At 31 December 2010	3,221	50	3,271

Other investments

	Listed investments £ 000 000
Cost	
At 1 January 2011	18
Additions	5
At 31 December 2011	23
Net book value	
At 31 December 2011	23
At 31 December 2010	18

Details of undertakings

Details of the principal investments in which the Company holds 20% or more of the nominal value of any class of share capital are as follows:

Undertaking	Holding	Proportion of voting rights and shares held	Principal activity
Subsidiary undertakings			
Powergen International Limited	Ordinary shares	100%	Intermediate holding company
E.ON Energy Solutions Limited	Ordinary shares	100%	Sale of electricity, gas and other energy-related products to residential, business and industrial customers throughout Great Britain
Powergen (East Midlands) Investments	Ordinary shares	100%	Intermediate holding company for distribution activities prior to the sale of the Central Networks business
E.ON Climate & Renewables UK Limited	Ordinary shares	100%	Intermediate holding company for renewable activities
EME Distribution No. 2 Limited	Ordinary shares	100%	Intermediate holding company for distribution activities
E.ON UK Energy Services Limited	Ordinary shares	100%	Supply of metering and home installation services
Joint ventures			
Horizon Nuclear Power Limited	Ordinary shares	50%	Development of nuclear capacity in the UK

The changes to the group structure in the year have resulted in a reassessment of previous impairment assessments. The directors have concluded that following this reassessment an impairment reversal of £66 million should be recorded in the year.

7 Stocks

	2011 £ 000 000	2010 £ 000 000
Fuel stocks	**163**	146
Stores	**20**	24
	183	170

8 Debtors

	2011 £ 000 000	2010 £ 000 000
Trade debtors	**16**	11
Amounts owed by group undertakings	**5,195**	4,506
Commodity and other derivative financial instruments	**435**	722
Other taxation and social security	**39**	20
Other debtors	**45**	124
Prepayments and accrued income	**37**	66
	5,767	5,449

Amounts owed by group undertakings are unsecured, a combination of interest free and interest bearing, denominated in Sterling, Euro and US Dollar and are repayable on predetermined dates. Interest bearing loans are set at LIBOR minus 5 to plus 75 basis points.

Debtors includes £17 million (2010: £nil) receivable after more than one year.

This can be analysed as follows:

	2011 £ 000 000	2010 £ 000 000
Other debtors	**17**	-

9 Creditors: amounts falling due within one year

	2011 £ 000 000	2010 £ 000 000
Trade creditors	**81**	106
Bank loans and overdrafts	**45**	207
Other loans	**21**	-
Amounts owed to group undertakings	**6,814**	4,921
Commodity and other derivative financial instruments	**305**	679
Corporation tax	**51**	123
Other taxes and social security	**-**	198
Other creditors	**39**	322
Accruals and deferred income	**103**	155
	7,459	6,711

Other loans are unsecured, incur interest set at LIBOR less 5 basis points, are denominated in Sterling and are repayable on predetermined date.

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 minus 12.5 to plus 75 basis points. During 2012 the Company has agreed to defer repayment of amounts owed to certain group undertakings to after more than 12 months from the date of the signing of these accounts.

The weighted average interest rate on all short-term bank loans and overdrafts during the year was 1.21% (2010: 1.17%).

10 Creditors: amounts falling due after more than one year

	2011 £ 000 000	2010 £ 000 000
Amounts owed to group undertakings	**1,150**	1,250

Amounts owed to group undertakings are unsecured and includes a long-term loan of £250 million (2010: £350 million) that is repayable in 2014 and incurs interest at 5.775% and a long term loan of £900 million (2010: £900 million) that is repayable in 2037 and incurs interest at 6.075%. An early repayment of £100 million was made in relation to the 2014 loan during the year.

All amounts owed to group undertakings are non-instalment debts.

11 Financial instruments

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

	Assets		Liabilities	
	2011	2010	2011	2010
	£ 000 000	£ 000 000	£ 000 000	£ 000 000
Foreign currency forward contracts	**2**	6	**(9)**	(4)
Commodity swaps	**-**	67	**-**	(26)
Commodity forward contracts	**433**	649	**(296)**	(649)
	435	722	**(305)**	(679)

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.

12 Provisions for liabilities

	Deferred tax £ 000 000	Emissions obligations £ 000 000	Decommissioning provision £ 000 000	Restructuring £ 000 000	Other provisions £ 000 000	Total £ 000 000
At 1 January 2011	204	57	70	-	4	335
Charged to profit and loss	57	14	18	47	3	139
Utilised during the year	-	(59)	-	(1)	(1)	(61)
Accretion of discount	-	-	1	-	-	1
	57	(45)	19	46	2	79
At 31 December 2011	261	12	89	46	6	414

Deferred tax provisions are now presented within provisions for liabilities whereas previously they were reported within creditors. The comparatives have been re-presented accordingly.

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.

Restructuring provisions relate primarily to the restructuring of central support functions and will be utilised over the next two years.

Other provisions relate primarily to onerous lease contract provisions.

Analysis of deferred tax

	2011 £ 000 000	2010 £ 000 000
Difference between accumulated depreciation and amortisation and capital allowances	**295**	283
Other timing differences	**(3)**	(3)
	292	280
Discount	**(31)**	(76)
Discounted liability for deferred tax	**261**	204

The Finance Act 2011 included legislation to reduce the main rate of corporation tax to 25% and 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. The deferred tax liability at 31 December 2011 has been re-measured accordingly.

Within the current year deferred tax charge of £57 million, the amounts that relate to the change in the tax rate and the reduction in the capital allowances are £16 million and £7 million respectively.

13 Called up share capital

Allotted and fully paid

	2011		2010	
	No.	**£ 000 000**	**No.**	**£ 000 000**
Ordinary shares of £0.50 each	2,649,241,799	1,325	2,649,241,799	1,325

14 Dividends

	2011 £ 000 000	2010 £ 000 000
Dividends paid		
Current year interim dividend paid	**160**	240

15 Reserves

	Share premium account £ 000 000	Capital redemption reserve £ 000 000	Special capital reserve £ 000 000	Profit and loss account £ 000 000	Total £ 000 000
At 1 January 2011	97	85	474	1,066	1,722
Profit for the financial year	-	-	-	96	96
Dividends	-	-	-	(160)	(160)
At 31 December 2011	97	85	474	1,002	1,658

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.

16 Reconciliation of movement in sharsholders' funds

	2011 £ 000 000	2010 £ 000 000
Profit attributable to the members of the Company	**96**	123
Dividends	**(160)**	(240)
Net reduction to shareholders' funds	**(64)**	(117)
Shareholders' funds at 1 January	**3,047**	3,164
Shareholders' funds at 31 December	**2,983**	3,047

17 Pension schemes

Defined contribution scheme
The Company operates 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 profit and loss account of £4 million (2010: £0.2 million) represents contributions payable to these schemes by the Company at rates specified in the rules of the plan. As at 31 December 2011, all of the contributions had been paid over to the scheme (2010: all).

Defined benefit schemes
At 31 December 2011, 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 Note 24 of the Group financial statements) 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.

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 £221 million (2010: £83 million), being 214.6% of pensionable salary (2010: 76.9%). This includes a special contribution of £200 million (2010: £61 million) paid during the year. Excluding the special contribution, the cost of contributions to the Scheme amount to £21 million (2010: £22 million), being 20.4% of pensionable salary (2010: 20.4%).

The amount outstanding included in other creditors relating to pension contributions to the Scheme is £nil (2010: £12 million).

18 Contingent liabilities

The Company has issued guarantees to third parties to support its subsidiaries' activities, particularly around gas and power procurement and banking activities. The amount guaranteed is £1,827 million (2010: £1,830 million).

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.

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.

19 Commitments

Capital commitments

Amounts contracted for but not provided for in the financial statements amounted to £431 million (2010: £929 million).

Operating lease commitments

As at 31 December 2011, the Company had annual commitments under non-cancellable operating leases as follows:

Operating leases which expire:

	2011 £ 000 000	2010 £ 000 000
Land and buildings		
Within one year	1	1
Within two and five years	4	3
Over five years	4	5
	9	9

Other commitments

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 2011, the Company's future commitments for the supply of coal under all its contractual arrangements totalled £43 million (2010: £89 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 2011, the estimated minimum commitment for the supply of gas under all these contracts totalled £nil (2010: £596 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 E.ON Energy Trading SE ('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.

20 Ultimate parent

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

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