

E.ON UK plc Group Consolidated Segmental Report
for the year ended 31 December 2011

In accordance with the Electricity Generation Licence Condition 16 - Financial Information Reporting and the Electricity Supply and Gas Supply Licence Conditions 19A - Financial Information Reporting, the companies (Relevant Licensees) listed below have prepared this E.ON UK plc Group Consolidated Segmental Report for the year ended 31 December 2011. This report includes:

1. E.ON's UK Consolidated Segmental Statement for the year ended 31 December 2011 (Table 1), which provides information relating to the revenues, costs and profits of the Relevant **Licensees' activities in the generation** of electricity and the supply of electricity and gas to any premises;
2. An explanation of how the Relevant Licensees define the terms: revenues, costs and profits used in the Consolidated Segmental Statement (Notes to Table 1);
3. A full reconciliation of the Consolidated Segmental Statement to the [E.ON UK plc Annual Report and Accounts](#) for the year ended 31 December 2011 (Table 2), which explains how the revenues, costs and profits are reconciled with the [E.ON UK plc Annual Report and Accounts](#) (Notes to Table 2);
4. An extract taken from the [E.ON UK plc Annual Report and Accounts](#), which shows the segmental analysis of its UK operations (Table 3);
5. An explanation of the transfer pricing methodology used by the Relevant Licensees and how this relates to the revenues, costs and profit information in the Consolidated Segmental Statement; and
6. A table that forms an explanation of where individual business functions are captured in the Consolidated Segmental Statement, as specified by Appendix 2 of the Guidelines to the Licence Conditions (Table 4).

The [E.ON UK plc Annual Report and Accounts](#) set out the Group's financial positions, its principal activities, a review of its business and future developments. Each of the **Relevant Licensee's statutory accounts individually form part of the [E.ON UK plc Annual Report and Accounts](#)** and are included in the Consolidated Segmental Statement (Table 1).

The Amended Licence Conditions and Guidance, which came into force on 24 October 2012, replaced the previous set of guidelines published on 23 May 2011 and changed some of the requirements as to how the Segmental Statements are presented.

Relevant Licensees

- 1, The E.ON UK plc **Group's** electricity supply licensees
 - E.ON Energy Solutions Limited
 - E.ON UK plc
 - Economy Power Limited
- 2, The E.ON UK plc **Group's** gas supply licensees
 - E.ON Energy Gas (Eastern) Limited
 - E.ON Energy Gas (North West) Limited
 - E.ON Energy Solutions Limited
 - E.ON UK Gas Limited
 - E.ON UK plc
 - TXU Europe (AHG) Limited

- 3, The E.ON UK plc Group's generation licensees
 - Citigen (London) Limited
 - Enfield Energy Centre Limited
 - E.ON UK plc

- 4, On 4 May 2011, the E.ON UK plc Group disposed of its 50% shareholding in Corby Power Limited. Corby Power Limited owns a 400 MW gas-fired power station in Corby. This activity is also included in the Consolidated Segmental Statement (Table 1) up to the date of its disposal. While the E.ON UK plc Group owned 50% of Corby Power Limited it was deemed to control Corby Power Limited. Consequently the E.ON UK plc Group consolidated **Corby Power Limited's full** results.

- 5, The E.ON UK plc Group owns 30% of London Array Limited, which has a generation licence. Throughout 2011, London Array Limited was engaged in the construction of the London Array offshore wind farm, but did not carry out any generation. Consequently London Array Limited is not included in this report.

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

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

On 1 January 2011, the former Retail business combined with the former Energy Services business to create a single customer facing business E.ON Energy Solutions Limited, providing end to end energy services and solutions to customers. The Consolidated Segmental Statement (Table 1) only includes the result of the licensed Supply business and the adjustment required for the other activities is shown on the reconciliation in Table 2.

On 1 April 2011, the E.ON UK plc Group disposed of its electricity distribution business Central Networks. Central Networks did not form part of the Consolidated Segmental Statement (Table 1), and is excluded from the segmental analysis of the [E.ON UK plc Annual Report and Accounts](#) (Table 3) as a discontinued operation.

E.ON's UK Consolidated Segmental Statement
for the year ended 31 December 2011

Table 1

	Note	Unit	Generation	Supply				Aggregate supply business (see Note 11)
				Electricity supply		Gas supply		
				Domestic	Non-domestic	Domestic	Non-domestic	
			2011	2011	2011	2011	2011	
Revenue from sales of electricity and gas	1	£m	1,785	2,426	2,530	1,507	481	6,944
Other revenue	2	£m	8	0	0	0	0	0
Total revenue		£m	1,793	2,426	2,530	1,507	481	6,944
Direct fuel costs	3	£m	-970	-1,236	-1,666	-919	-340	-4,161
Other direct costs	4	£m	-186	-674	-662	-406	-84	-1,826
Indirect costs	5	£m	-140	-326	-75	-243	-28	-672
Total operating costs		£m	-1,296	-2,236	-2,403	-1,568	-452	-6,659
EBITDA	6	£m	497	190	127	-61	29	285
DA	7	£m	-204	-31	-3	-20	-1	-55
EBIT	8	£m	293	159	124	-81	28	230
WACO F/E/G	9	£/MWh p/th	35.79 -	61.82 -	54.08 -	- 63.28	- 57.00	- -
Volume	10	TWh Million Therms	27.1 -	20.0 -	30.8 -	- 1,453	- 596	- -

Notes to Table 1

1. *Revenue from sales of electricity and gas* - for the Generation segment, this means revenue received from EET for sales of net electricity output generated by Relevant Licensees' plant and includes revenues received from capacity payments and remuneration for fuel and EU-ETS allowances used. For the respective Supply segments, this means electricity and gas sales by Relevant Licensees. Revenue for domestic supply is less dual fuel discounts where applicable; with the discount allocated according to billed value.
2. *Other revenue* - this means other segmental revenues of the Relevant Licensees not covered in revenues from sales of electricity and gas. For the Generation segment this also includes any ancillary services and other income received by the Generation Business, which for Citigen (London) Limited includes heat and cooling.

3. **Direct fuel costs** - for the Generation segment, this means the cost of fuel (e.g. gas, coal, etc.) consumed by the Relevant Licensees during the financial year and EU-ETS allowances. For the Supply segment, this means the cost of electricity and gas used by the Relevant Licensees and covers the wholesale energy cost and losses incurred by them.
4. **Other direct costs** - for the Generation segment, this includes use of system charges and ash disposal costs. For the Supply segment, this includes use of system charges, transportation costs, BSUOS and other costs (including ROCs, CESP and CERT) directly attributable to the supply of electricity and gas.
5. **Indirect costs** – this means **the Relevant Licensees’ own internal operating costs** including sales and marketing costs, bad debt, costs to serve, IT, staffing costs, billing and all meter costs. For the Generation segment, this includes general office costs and repairs & maintenance. An element of corporate overheads has been allocated to each of the Generation and Supply segments for the purposes of this report.
6. **EBITDA** – this means earnings before interest, tax, depreciation and amortisation.
7. **DA** – this means depreciation and amortisation.
8. **EBIT** – this means earnings before interest and tax.
9. **WACO F/E/G** - for the Generation segment, this means the weighted average input cost of fuel (e.g. gas and coal) used by the Relevant Licensees, shown as £/MWh. For the Supply segment this means the weighted average cost of electricity (shown as £/MWh), or gas (shown as p/therm) used by the business, and covers the total wholesale energy cost, which includes purchases for sales recorded at the meter point and any losses incurred by the Relevant Licensees. The energy volumes used for calculating WACO F/E/G (TWh and Million Therms) are the **Volumes** shown in Table 1 and described in Note 10 below.
10. **Volume** – for the Generation segment, this is the volume of electricity that can actually be sold in the wholesale market, i.e. generation volumes after the losses up to the point where electricity is received under the Balancing and Settlement Code, but before subsequent losses. It includes production by Corby Power Limited prior to disposal. For the Supply segment, this is the volume as recorded at the meter point (i.e. net of losses).
11. **Aggregate supply business** – this column sums the horizontal supply figures of the Electricity Supply and Gas Supply columns. The Electricity Supply and Gas Supply columns provide a domestic and non domestic supply market breakdown. Where a direct allocation cannot be made to a particular customer group, the allocation between electricity and gas, and within each of those groups to domestic and non-domestic sales, has been made on a reasonable endeavours basis using the number of accounts in each category.

**Reconciliation of E.ON's UK Consolidated Segmental Statement to the
E.ON UK plc Annual Report & Accounts for the year ended 31 December 2011**

Table 2

	Note	Generation Segment £'m	Supply Segment £'m	All Other Segments £'m	E.ON UK plc Group £'m
Segment Result per the E.ON UK plc Annual Report & Accounts	1, 2	518	319	143	980
Depreciation and amortisation	3	-191	-77	-38	-306
Adjusted EBIT		327	242	105	674
Reallocation of generation activities	4	17		-17	0
Reallocation of other Retail business	5		22	-22	0
Allocation of Corporate overheads	6	-4	-2	6	0
Generation impairment and loss on disposal of business	7, 11	-28			-28
Restructuring costs	8, 11	-19	-32	-33	-84
EBIT result per E.ON's UK Consolidated Segmental Statement		293	230	39	562
Gas onerous contract	9, 11				-36
Net derivative losses	10				-693
Other consolidation adjustments					-11
Net finance costs					-21
Loss before tax per the E.ON UK plc Annual Report & Accounts (see Table 3)					-199

Notes to Table 2

1. **Segment Result per the E.ON UK plc Annual Report & Accounts** is the statutory disclosure of E.ON UK's operating segments required under IFRS 8. Decision making for these segments is based on a measure of adjusted EBITDA. This measurement basis is derived from the profit/loss from continuing operations before interest, taxes, depreciation and amortisation, and is adjusted to exclude certain exceptional items. The adjustments include derivative gains/losses, investment/business disposal gains/losses and other income/expenses of a non recurring nature.
2. **All Other Segments** is the combined Segment result of EC&R UK (£157m), and All Other Segments (£-14m), including the regional heat businesses, forming a total of £143m.
3. **Depreciation and amortisation** is also taken from the segmental analysis shown in the [E.ON UK plc Annual Report and Accounts](#) and is different to the values disclosed in Table 1, due to the impact of adjustments made in Notes 4 and 7 below.
4. **Reallocation of generation activities (£17m)** is the movement of the Generation business's activities accounted for within EC&R UK and All Other Segments in the [E.ON UK plc Annual Report and Accounts](#) to Generation.
5. **Reallocation of other Retail business (£22m)** is the movement of the old Energy Services activities accounted for within E.ON Energy Solutions in the [E.ON UK plc Annual Report and Accounts](#) to All Other Segments.
6. **Allocation of Corporate overheads (£6m)** reflects the element of corporate overheads that has been allocated to the Generation and Retail segments for the purposes of this report.
7. **Generation impairment and loss on disposal of business (£28m)** includes a fixed asset impairment of £11m and a loss on disposal of Corby Power Limited of £17m.
8. **Restructuring costs (£84m)** is the exceptional costs of restructuring the Generation business (£19m), the Retail business (£32m) and the UK Corporate Centre (£33m).
9. **Gas onerous contract (£36m)** is an additional onerous contract provision relating to certain CHP contracts. This followed rising wholesale gas prices on these CHP contracts that receive a relatively fixed price per unit of output.
10. **Net derivative losses (£693m)** is the notional loss through changes in valuation of contracts with future delivery dates, due to changes in market price. As these contracts have not been realised in cash terms they do not form part of the performance measures used by management to make strategic decisions and therefore have not been allocated to the Operating Segments in this reconciliation.
11. The exceptional costs in Notes 7, 8 & 9 above, totalling £148m are disclosed as **Contract provisions, impairment and restructuring costs** and **losses on disposal of businesses** in the [E.ON UK plc Annual Report and Accounts](#).

E.ON UK plc Annual Report and Accounts for the year ended 31 December 2011
Note 2: Segmental Reporting

For reporting purposes, the E.ON UK plc Group was organised into three main operating segments – Generation, E.ON Climate & Renewables UK (EC&R UK) and E.ON Energy Solutions, all of which are based in the UK. Under IFRS 8 'Operating Segments' these are reported separately on page 55 of the [E.ON UK plc Annual Report and Accounts](#), an extract of which is reproduced here:

Table 3

Year ended	Generation	EC&R UK	E.ON Energy Solutions	All Other Segments	Total
31 December 2011	£'m	£'m	£'m	£'m	£'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

The transfer pricing methodology used by the Relevant Licensees

Generation

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

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

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

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

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

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

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

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

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

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

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

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

Supply

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

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

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

The traded market instruments are used to smooth fluctuations in the wholesale cost of electricity and gas. The required supply is based on forecast demand and as a result, the key residual risk for the Supply Business relates to the accurate forecasting of fluctuations in demand. The full costs of these purchases are included in **Direct Fuel costs** in Table 1. However, any notional profit or loss through changes in valuation of contracts with future delivery dates, due to changes in market price, are excluded as explained in Note 10 to Table 2.

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

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

Table 4

Business function	Generation	Supply	Another part of the business¹
Operates and maintains generation assets	√		
Responsible for scheduling decisions ²			√
Responsible for interactions with the Balancing Market			√
Responsible for determining hedging policy	P/L	√	F
Responsible for implementing hedging policy / makes decisions to buy/sell energy		√	√
Interacts with wider market participants to buy/sell energy ³			√
Holds unhedged positions (either short or long)	√ ⁴	√ ⁵	√
Procures fuel for generation			√
Procures allowances for generation			√
Holds volume risk on positions sold (either internal or external)	√	√	
Matches own generation with own supply ⁶			
Forecasts total system demand ⁷			
Forecasts wholesale price			√
Forecasts customer demand		√	
Determines retail pricing and marketing strategies		√	
Bears shape risk after initial hedge until market allows full hedge		√	√
Bears short term risk for variance between demand and forecast		√	

Key

- √ Indicates that the business function and the profits or losses reside in the same business.
- F Indicates where the business function resides in cases where it is not in the same business as where the profit or loss is recorded.
- P/L Indicates where the profit and loss is recorded in cases where the business function does not reside in the same business.

Notes to Table 4

1. Excluding generation and supply by E.ON companies that are not Relevant Licensees.
2. Generation that is reported within the E.ON UK plc Company is scheduled by EET. Generation from plant operated by Citigen (London) Limited, or accounted for in EC&R UK is scheduled by the Generation Business. This generation accounts for less than 5% of the total generation volume reported in Table 1 and therefore, to avoid overcomplicating this table, it is not shown. If it were included there would be a tick in the Generation column for this business function.
3. Excluding a small volume purchased from embedded generation and industry mechanisms by the Supply Business.
4. Generation capacity that is not, or has not yet been, contracted with EET.
5. Supply's forecast sales, the energy for which has not yet been contracted and its residual exposure to volume changes.
6. **E.ON's transfer pricing arrangements mean that there is no matching of the Group's, or Relevant Licensees', own generation with own supply.**
7. Transmission System Operator forecasts of total system demand.