



**E.ON's UK Consolidated Segmental Report
for the year ended 31 December 2012**



Introduction

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 E.ON companies (Relevant Licensees) listed below have prepared this Consolidated Segmental Report for the year ended 31 December 2012. This report comprises:

1. **E.ON's UK Consolidated Segmental Statement** for the year ended 31 December 2012, 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 (Table 1);
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 reconciliation of the Revenues and EBITDA contained within the Consolidated Segmental Statement to the audited data published in the Annual Report of E.ON SE for the year ended 31 December 2012 (Table 2);
4. An explanation of the definitions used and reconciling items (Notes to Table 2);
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 3).

Relevant Licensees

- 1, Electricity supply licensees
 - E.ON Energy Solutions Limited
 - E.ON UK plc
 - Economy Power Limited
- 2, 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, Generation licensees
 - Citigen (London) Limited
 - Enfield Energy Centre Limited
 - E.ON UK plc
- 4, All the Relevant Licensees, are wholly owned subsidiaries of E.ON SE.

For this report, the electricity generation activity of the Relevant Licensees forms "**Generation**" and their electricity and gas supply activities form "**Supply**".

E.ON Global Commodities SE (EGC) was established (formerly as E.ON Energy Trading SE) to centralise all of E.ON SE's **European trading operations**. While a wholly owned subsidiary of E.ON SE, EGC is not a Relevant Licensee. As such, **EGC's** activities are not included in the Consolidated Segmental Statement (Table 1). **EGC's** activities include purchasing generation from the Relevant Licensees and providing 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 (meaning that although the transactions are between two related or affiliated parties, they are conducted as if the two parties were unrelated) and are 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.



Under the Guidelines to License Conditions, in preparing the Consolidated Segmental Statement (Table 1), the Relevant Licensee should account for Joint Ventures and Associates (which hold a generation or electricity/gas supply licence in the UK). The E.ON UK plc Group has one such company, London Array Limited. This company has a generation licence and is 30% owned by the E.ON UK plc Group. Consequently, the Consolidated Segmental Statement (Table 1) includes:

- The revenues arising from E.ON UK plc Group's 30% shareholding in London Array Limited;
- The EBITDA arising from E.ON UK plc Group's 30% shareholding in London Array Limited; and
- 30% of London **Array Limited's** generation volume.

London Array **Limited's** activities do not form part the transfer pricing methodology used by the Relevant Licensees and are not covered in Table 3.

The Relevant Licensees also have Affiliates, Associates and Joint Ventures that are not licensees, but carry out generation and supply activities in Great Britain. As these companies are not licensees their activities are not included in the Consolidated Segmental Statement (Table 1).

E.ON's UK Consolidated Segmental Report for the year ended 31 December 2012



Table 1	Note	Unit	Generation	Supply				Aggregate supply business (see Note 11)
				Electricity supply		Gas supply		
				Domestic	Non-domestic	Domestic	Non-domestic	
			2012	2012	2012	2012	2012	2012
Revenue from sales of electricity and gas	1	£m	1,728	2,486	2,663	1,850	609	7,608
Other revenue	2	£m	22	0	0	0	0	0
Total revenue		£m	1,750	2,486	2,663	1,850	609	7,608
Direct fuel costs	3	£m	-971	-1,147	-1,709	-1,115	-454	-4,425
Other direct costs	4	£m	-170	-858	-806	-497	-91	-2,252
Indirect costs	5	£m	-217	-327	-82	-256	-31	-696
Total operating costs		£m	-1,358	-2,332	-2,597	-1,868	-576	-7,373
EBITDA	6	£m	392	154	66	-18	33	235
DA	7	£m	-219	-23	-2	-15	-1	-41
EBIT	8	£m	173	131	64	-33	32	194
WACO F/E/G	9	£/MWh p/th	35.42 -	59.44 -	56.78 -	- 69.13	- 65.51	- -
Volume	10	TWh Million Therms	27.4 -	19.3 -	30.1 -	- 1,613	- 693	- -

Notes to Table 1

1. **Revenue from sales of electricity and gas** - for the Generation segment, this means revenue received from EGC for sales of the Relevant Licensees' net generation and includes revenues received from capacity payments and remuneration for fuel and EU emissions trading system (EU-ETS) allowances used. For the respective Supply segments, this means electricity and gas sales by the Relevant Licensees. Revenue for domestic supply is less dual fuel discounts where applicable; with the discount allocated according to billed value. Electricity and gas social tariff costs are deducted directly from the respective electricity or gas domestic supply revenue.
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 includes any ancillary services, ash sales and Renewables Obligation Certificates (ROCs). For Citigen (London) Limited this includes heat and cooling. For the Supply segment, the Consolidated Segmental Statement only includes licensed supply activity, as all other activities have been adjusted on the reconciliation in Table 2.
3. **Direct fuel costs** - for the Generation segment, this is just the cost of fuel (e.g. gas, coal, etc.) consumed by the Relevant Licensees during the financial year and EU-ETS allowances. The volume of granted free carbon allowances for the Relevant Licensees under the National Allocation Plan, as reported in this Consolidated Segmental Statement, was 16,928 kTe. For the Supply segment, this is just the cost of electricity and gas used by the Relevant Licensees. This covers the wholesale energy cost, losses, the energy element of Reconciliation-by-Difference (RBD), and balancing and shaping costs incurred by the Relevant Licensees.
4. **Other direct costs** - for the Generation segment, this includes use of system charges, cost of electricity imported to the sites and ash disposal costs. For the Supply segment, this includes use of system charges, transportation costs, Balancing Services Use of System (BSUoS) and other costs (including ROCs, Community Energy Saving Programme (CESP) and Carbon Emission Reduction Target (CERT) and the transport element of RBD costs) directly attributable to the supply of electricity and gas. **Feed In Tariffs (FIT) costs are allocated between electricity's domestic and non-domestic customers on the basis of electricity volume.**
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.
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. In accordance with the Guidelines to License Conditions, the Consolidated Segmental Statement does not include the mark to market adjustment of derivatives. This is the notional profit/loss incurred 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 have therefore been excluded.
9. **WACO F/E/G** –
- For the Generation segment, **this is solely the "Direct fuel costs"**, as described in Note 3 above, and means the weighted average input cost of all fuel (e.g. gas and coal) used by the Relevant Licensees, shown as £/MWh, for the volume described in Note 10 below.
 - For the Supply segment, **this is solely the "Direct fuel costs"**, as described in Note 3 above, and means the weighted average cost of electricity (shown as £/MWh), or gas (shown as p/therm) used by the business. It 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 solely 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 generation by the Relevant Licensees that **do not have "Direct fuel costs", e.g. wind generation**. 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. Both the Electricity Supply and Gas Supply columns are each further divided into two columns to provide a domestic and non domestic supply market breakdown. Where possible a direct allocation has been made to a particular customer group, i.e. there is an allocation between electricity and gas, and then, within each of those two groups, between domestic and non-domestic sales. Unless stated otherwise, where a direct allocation cannot be made to a particular customer group, the allocation between electricity and gas and then between domestic and non-domestic sales has been made on a reasonable endeavours basis using the number of customer accounts in each category. Using an allocation based on the number of customer accounts provides a consistent approach for allocating such costs across all customer accounts.

E.ON's UK Consolidated Segmental Report for the year ended 31 December 2012

Table 2 Reconciliation

	External	Inter-segment	Revenue		Note	EBITDA	
	Sales in €m	Sales in €m	€m	€m		€m	€m
E.ON SE Group	132,093	0	132,093		1		10,786
less: Optimization & Trading	63,252	36,849	100,101				1,421
Region Germany	38,777	1,521	40,298				2,819
Region Russia	1,879	0	1,879				729
Generation	3,135	10,107	13,242		2		2,403
Exploration & Production	1,213	173	1,386				523
Renewables	804	1,674	2,478		3		1,271
Group Management	108	-51,495	-51,387				-412
Other EU Regions	13,318	1,077	14,395				1,743
	122,486	-94	122,392				10,497
Region UK	9,607	94	9,701 = 7,866		4	234	= 289
Other Region UK activities					5	8	
Reallocation of other Retail business					6	-1	
Restructuring costs					7	-6	
Adjusted EBITDA per Table 1						235	
Depreciation & Amortisation					8	-41	
Consolidated Segmental Statement (Aggregate supply business)			7,608		9	194	
Total Generation above			13,242		2		2,403
Less Non UK components			-11,157		10		-1,913
UK Generation			2,085 = 1,691		11	398	= 490
Reallocation of generation activities					12	30	
Restructuring costs					7	-18	
Generation impairments					13	-26	
JV interest in Horizon Nuclear Power					14	8	
Adjusted EBITDA per Table 1						392	
Depreciation & Amortisation					8	-219	
Consolidated Segmental Statement (Generation)			1,750		15	173	

Notes to Table 2

- 1 *E.ON SE Group* figures are taken from pages 188 and 189 of the [2012 E.ON SE Group Annual Report](#), which shows the Financial Information by Business Segment disclosed in €m.
- 2 *Generation* segment is also taken from pages 188 and 189 of the [2012 E.ON SE Group Annual Report](#), and covers the E.ON SE Group's worldwide generation activities, including the **Relevant Licensees'** component in €m. This segment result has been further adjusted lower down the reconciliation for **the Relevant Licensees' generation component** of these figures.
- 3 *Renewables* segment is also taken from pages 188 and 189 of the [2012 E.ON SE Group Annual Report](#), and covers the E.ON SE Group's worldwide renewables activities, including the **Relevant Licensees'** component in €m. The **Relevant Licensees' component** is then included lower down the reconciliation as part of Note 12.
- 4 *Region UK* figures have been extracted from the Financial Information by Business Segment – Presentation of Other EU Countries, disclosed in €m, on pages 188 and 189 of the [2012 E.ON SE Group Annual Report](#). This has been translated into £m using an average exchange rate of £1 = €1.233.
- 5 *Other Region UK activities* are the other activities carried out by the UK Region, including the Corporate Centre functions, that do not form part of the Retail business.
- 6 *Reallocation of other Retail business* activities that do not form part of Supply.
- 7 *Restructuring costs* are the exceptional costs of restructuring the Retail business (£6m) and the Generation business (£18m).
- 8 *Depreciation & Amortisation* is the required adjustment from the EBITDA measure, used in the Financial Information by Business Segment on pages 188 and 189 of the [2012 E.ON SE Group Annual Report](#), to the EBIT presentation in **E.ON's UK Consolidated Segmental Statement** for the year ended 31 December 2012 (Table 1) of this report.
- 9 *Consolidated Segmental Statement (Aggregate supply business)* figures are the Aggregate supply business figures presented in **E.ON's UK Consolidated Segmental Statement** for the year ended 31 December 2012 (Table 1) of this report.
- 10 *Non UK components* are E.ON's other worldwide generation activities.
- 11 *UK Generation* represents the activities associated with generation plant accounted for within the E.ON UK Plc Group.



- 12 *Reallocation of generation activities* to include the generation activities of Citigen (London) Limited and those accounted for within E.ON Climate and Renewables.
- 13 *Generation impairments* are the amounts written off Tangible Fixed Assets in respect of the closure of the Grain Oil and Kingsnorth power stations during the year.
- 14 *JV interest in Horizon Nuclear Power* removes E.ON UK plc Group's share of loss from its 50% joint venture interest. The JV company did not hold a generation licence and had no trading activities.
- 15 *Consolidated Segmental Statement (Generation)* figures are the Generation business figures presented in E.ON's UK Consolidated Segmental Statement for the year ended 31 December 2012 (Table 1) of this report.

The transfer pricing methodology used by the Relevant Licensees

All of the Relevant Licensees operate within E.ON's transfer pricing methodology as described below.

E.ON's transfer pricing methodology associated with Generation

Following the disposal by E.ON UK plc of the Energy Trading business to EET (now EGC) on 1 January 2009, the Relevant Licensees are no longer exposed to short term commodity price risks on fuel (other than for any fuel held in stock), EU-ETS allowances purchased and electricity sold. For Generation, this explanation of the transfer pricing methodology reflects how the Relevant Licensees actually acquire energy.

Arrangements for Generation's plant accounted for within the E.ON UK plc Company

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

Under these contracts, Generation sells its forecast economic electricity generation capability (capacity) to EGC 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 Generation receives from EGC. **These payments form part of the "Revenue from sales of electricity and gas" for Generation within the Consolidated Segmental Statement (Table 1).** Generation does not receive any revenue from external sales of electricity.

In addition to the availability performance related capacity payment, Generation also receives payment from EGC for the fuel and the value of emission allowances used in generating the volumes scheduled by EGC. The price paid by EGC for the fuel used by Generation is the corresponding market price for the fuel at the time the fuel is used. These payments also **form part of the "Revenue from sales of electricity and gas" for Generation within the Consolidated Segmental Statement (Table 1).** Ancillary services are also covered by the contracts and **form part of the "Other revenue" for Generation within the Consolidated Segmental Statement (Table 1).**

The price paid by Generation for the fuel it receives is the corresponding market price at the time the fuel is delivered to the power station. This payment forms part of the **"Direct fuel costs"** for Generation within the Consolidated Segmental Statement (Table 1). Together with the direct costs of the other Relevant Licensees this is the cost used for weighted average input cost of all fuel (e.g. gas and coal) used by the Relevant Licensees as shown within the Consolidated Segmental Statement (Table 1).

The treatment of services taken from other parts of E.ON is covered by service level agreements. **These costs are included in "Indirect costs" for Generation, as accounted for within the Consolidated Segmental Statement (Table 1).**

Arrangements for Generation's plant operated by Citigen (London) Limited

Citigen (London) Limited operates under arm's length contracts with EGC 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 EGC 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 EGC. Variations between contract commitments and outturn are settled using the price agreed for the contracted energy less an adjustment for imbalance. These payments form part of the "Revenue from sales of electricity and gas" for Generation within the Consolidated Segmental Statement (Table 1). Citigen (London) Limited's sales of heat and cooling are not covered by the contracts with EGC, but form part of the "Other revenue" for Generation within the Consolidated Segmental Statement (Table 1).

EGC provides all 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 EGC. This payment is the "Direct fuel costs" for Citigen (London) Limited within the Consolidated Segmental Statement (Table 1). Together with the direct costs of the other Relevant Licensees this is the cost used for weighted average input cost of all fuel (e.g. gas and coal) used by the Relevant Licensees as shown within the Consolidated Segmental Statement (Table 1).

The treatment of services taken from other parts of E.ON is covered by service level agreements. These costs are included in "Indirect costs" for Citigen (London) Limited within the Consolidated Segmental Statement (Table 1).

Arrangements for Generation's plant accounted for within E.ON Climate and Renewables (EC&R)

Some of E.ON UK plc's generation plant is managed within EC&R. This plant is subject to arrangements between EGC and EC&R. These arrangements are primarily for delivery of electricity, with EC&R scheduling the generation. The prices are market based with imbalances between contracted and outturn covered by a balancing fee. These payments form part of the "Revenue from sales of electricity and gas" for Generation within the Consolidated Segmental Statement (Table 1).

Payment for fuel is direct to the supplier and does not form part of the transfer pricing methodology. These payments are the "Direct fuel costs" within the Consolidated Segmental Statement (Table 1). Together with the direct costs of the other Relevant Licensees this is the cost used for weighted average input cost of all fuel (e.g. gas and coal) used by the Relevant Licensees as shown within the Consolidated Segmental Statement (Table 1).

The treatment of services taken from other parts of E.ON is covered by service level agreements. These costs are included in "Indirect costs" within the Consolidated Segmental Statement (Table 1).

E.ON's transfer pricing methodology associated with Supply

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

Supply buys nearly all of its required supply of electricity and gas from EGC **on an arm's length contract** using traded market instruments, including derivative financial instruments. **The arm's length arrangement is secured through** the instruments using a price that is directly derived from visible wholesale market prices at the time when the transaction takes place. This means that prices paid for the electricity and gas corresponds to the current open market price for the particular product. A small volume is also purchased from embedded generation and industry mechanisms. Thus, to the extent that a Relevant Licensee procures energy from other E.ON companies, the transfer pricing methodology reflects how it actually acquires energy. The total price paid by the Relevant Licensees for electricity or gas is the **"Direct fuel costs"** for Supply in the Consolidated Segmental Statement (Table 1). This is the cost used for the weighted average cost of electricity or gas used by the business as shown within the Consolidated Segmental Statement (Table 1).

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 Supply 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 due to changes in market price, of contracts with future delivery dates, is excluded. The exclusion of this notional profit or loss reflects the fact that these contracts have not been realised in cash terms and do not form part of the performance measures used by management to make strategic decisions. **Excluding such notional profit or loss in the Consolidated Segmental Statement supports Ofgem's requirements for consistency in reporting and so support** meaningful comparison of statements. The price contracted by Supply for purchases from EGC 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 EGC.

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).

The treatment of services taken from other parts of E.ON is covered by service level agreements. **These costs are included in "Indirect costs" for** Supply within the Consolidated Segmental Statement (Table 1). The allocation between categories of supply is as per Note 11 to the Consolidated Segmental Statement (Table 1).

Table 3 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 ³	√ ⁴	F ⁵
Responsible for implementing hedging policy / makes decisions to buy/sell energy		√	√
Interacts with wider market participants to buy/sell energy ⁶			√
Holds unhedged positions (either short or long) ⁷	√	√	√
Procures fuel for generation ⁸			√
Procures allowances for generation			√
Holds volume risk on positions sold (either internal or external)	√	√	
Matches own generation with own supply ⁹			
Forecasts total system demand ¹⁰			
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 3

1. Excluding generation and supply by E.ON companies that are not Relevant Licensees.
2. Electricity generation plant that is reported within the E.ON UK plc Company is scheduled by EGC. Electricity generation by plant operated by Citigen (London) Limited, together with plant accounted for in EC&R is scheduled by Generation. Electricity generation scheduled by 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 was included there would be a tick in the Generation column for this business function.
3. Generation is not responsible for determining hedging policy. **However, the impact of the E.ON Group's overall hedging policy on Generation is reflected in any profit or loss recorded by Generation.**
4. **The impact of the E.ON Group's overall hedging policy is also reflected in any profit or loss recorded by Supply.** In addition, Supply is responsible for determining its hedging policy within E.ON Group's overall hedging policy.
5. **While E.ON Group's overall hedging policy is determined by another part of the business to Generation and Supply, the impact of the strategy on Generation and Supply is reflected in any profit or loss recorded by them.** This excludes the small volume purchased from embedded generation and industry mechanisms by Supply.
6. Supply purchases volume from embedded generation and industry mechanisms. As it accounts for less than 5% of the total electricity supply volume reported in Table 1, to avoid overcomplicating this table, it is not shown. If it was included there would be a tick in the Supply column for this business function.
7. Generation's capacity that is not, or has not yet been, contracted with EGC. **Supply's forecast sales, the energy for which has not yet been contracted and its residual exposure to volume changes.**
8. Generation is responsible for procuring fuel for its plant accounted for within EC&R. As this plant accounts for less than 5% of the total generation volume reported in Table 1, to avoid overcomplicating this table, it is not shown. If it was included there would be a tick in the Generation column for this business function.
9. **E.ON's transfer pricing arrangements mean that there is no matching of the Group's, or Relevant Licensees', own generation with own supply.**
10. The Transmission System Operator forecasts the total system demand.