

POWERGEN (EAST MIDLANDS) INVESTMENTS
REPORT AND FINANCIAL STATEMENTS
for the year ended 31 December 2010

Registered No: 3277352

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POWERGEN (EAST MIDLANDS) INVESTMENTS

Report of the directors for the year ended 31 December 2010

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2010.

Principal activities

The Company's principal activity during the year and at the year end was that of an intermediate holding company within the E.ON UK group.

Business review

Fair review of the Company's business

Both the level of business during the year and the financial position of the Company at the year end were as expected. The directors believe that the present level of activity will be sustained in the current year.

Principal risks and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks.

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the E.ON UK plc consolidated group ('group') and are not managed separately. Accordingly, the principal risks and uncertainties of E.ON UK plc, which include those of the Company, are discussed within the financial review section of the group's annual report which does not form part of this report.

Key performance indicators ('KPIs')

The directors of E.ON UK plc manage the group's operations on a divisional basis. For this reason, the Company's directors believe that analysis using KPIs for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of the Company. The development, performance and position of the Central division of E.ON UK plc, which includes the Company, is discussed within the financial review section of the group's annual report which does not form part of this report.

Results and dividends

The Company's loss for the financial year is £1,000,000 (2009: loss of £3,000,000). The directors do not recommend the payment of a dividend (2009: £nil).

Directors

The directors who held office during the year and subsequent to the year end are given below.

Mr B J Tear
E.ON UK Directors Limited

Contributions to political and charitable purposes

Donations to charitable organisations during the financial year by the Company amounted to £nil (2009: £nil). No political donations were made (2009: £nil).

POWERGEN (EAST MIDLANDS) INVESTMENTS

Report of the directors for the year ended 31 December 2010 (continued)

Statement of directors' responsibilities

The directors are responsible for preparing the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial period. Under that law the directors have elected to prepare the 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 the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements the directors are required to

- a) select suitable accounting policies and then apply them consistently,
- b) make judgements and accounting estimates that are reasonable and prudent;
- c) state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- d) prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the 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 Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' indemnities

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

Going concern

Notwithstanding the fact that the Company has been loss making and has net current liabilities, the directors have prepared the financial statements on the going concern basis. The directors have received confirmation from E.ON UK plc, the Company's immediate parent undertaking, of its intention to financially support the Company 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.

Disclosure of information to auditors

So far as each of the directors is aware, there is no relevant audit information of which the Company's auditors are unaware and they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

POWERGEN (EAST MIDLANDS) INVESTMENTS

Report of the directors for the year ended 31 December 2010 (continued)

ON BEHALF OF THE BOARD



Brian Tear

Director
Powergen (East Midlands) Investments
Registered No. 3277352
Westwood Way
Westwood Business Park
Coventry
CV4 8LG

7 July 2011

**Independent auditor's report to the members of
Powergen (East Midlands) Investments**

We have audited the financial statements of Powergen (East Midlands) Investments for the year ended 31 December 2010 which comprise the Profit and Loss Account, the 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 Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2010 and of its loss for the year then ended,
- 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.

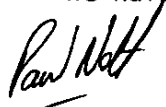
Opinion on other matter prescribed by the Companies Act 2006

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the 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.



Paul Nott (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
East Midlands

13 July 2011

POWERGEN (EAST MIDLANDS) INVESTMENTS

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2010

		Year ended 31 December 2010	Year ended 31 December 2009
	Note	£m	£m
Interest payable and similar charges	3	(2)	(4)
Loss on ordinary activities before taxation		(2)	(4)
Tax on loss on ordinary activities	4	1	1
Loss for the financial year		(1)	(3)

There are no material differences between the loss on ordinary activities before taxation and the loss for either of the years stated above and their historical cost equivalents.

The Company has no recognised gains and losses other than the loss above and therefore no separate statement of total recognised gains and losses has been presented

All of the above amounts relate to continuing operations.

The accounting policies and the notes on pages 7 to 13 form part of these financial statements

POWERGEN (EAST MIDLANDS) INVESTMENTS

BALANCE SHEET
AS AT 31 DECEMBER 2010

	Note	At 31 December 2010 £m	At 31 December 2009 £m
Fixed assets			
Investments	5	<u>1,570</u>	<u>1,570</u>
Creditors: amounts falling due within one year	6	<u>(1,195)</u>	<u>(1,139)</u>
Net current liabilities		<u>(1,195)</u>	<u>(1,139)</u>
Total assets less current liabilities		375	431
Creditors: amounts falling due after more than one year	7	<u>(157)</u>	<u>(212)</u>
Net assets		<u>218</u>	<u>219</u>
Capital and reserves			
Called-up share capital	9	29	291
Profit and loss reserve	10	189	(72)
Total shareholders' funds	11	<u>218</u>	<u>219</u>

The financial statements on pages 5 to 13 were approved by the Board of Directors on 7 July 2011 and were signed on its behalf by



Brian Tear
Director
Powergen (East Midlands) Investments
Registered No. 3277352

7 July 2011

The accounting policies and the notes on pages 7 to 13 form part of these financial statements.

POWERGEN (EAST MIDLANDS) INVESTMENTS

Notes to the financial statements **for the year ended 31 December 2010**

1 Accounting policies

These financial statements are prepared on the going concern basis, under the historical cost convention in accordance with the Companies Act 2006 and applicable United Kingdom accounting standards, all of which have been consistently applied. The Company is a wholly-owned subsidiary undertaking of E.ON AG, the ultimate parent undertaking, and is included in the publicly available consolidated financial statements of E.ON AG. Consequently, the Company has taken advantage of the exemption from preparing consolidated financial statements under the terms of Section 400 of the Companies Act 2006. The principal accounting policies are set out below.

(a) Fixed asset investments

Fixed asset investments are stated at original cost plus subsequent loans advanced or amounts invested. Provision is made for any impairment in the value of investments.

(b) Taxation

The tax credit for the year is based on the losses on ordinary activities for the year and takes into account full provision for deferred tax in respect of timing differences on a discounted basis, using the approach set out in Financial Reporting Standard 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 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.

(c) Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at exchange rates ruling at the end of the financial year. Transactions denominated in foreign currencies are translated into sterling at the exchange rate ruling on the date of the transaction. Any resultant foreign exchange differences are taken to the profit and loss account in the period in which they arise.

(d) Cash flow statement

The Company is a wholly-owned subsidiary undertaking of E.ON AG, the ultimate parent undertaking, and is included in the publicly available consolidated financial statements of E.ON AG and its subsidiaries and associates (together, "the E.ON Group"). Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 (revised 1996).

POWERGEN (EAST MIDLANDS) INVESTMENTS

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

1 Accounting policies (continued)

(e) Related party transactions

The Company is exempt under the terms of Financial Reporting Standard 8 from disclosing related party transactions with the E.ON Group or investees of the E.ON Group.

(f) Inter-company balances

Inter-company payable and receivable positions within the group are consolidated at each month end into a single loan balance with the Company. All transactions with E.ON UK plc are net settled through this arrangement with the Company. As a result the directors consider it appropriate to present inter-company balances within these financial statements on a net basis.

(g) Going concern

Notwithstanding the fact that the Company has been loss making and has net current liabilities, the directors have prepared the financial statements on the going concern basis. The directors have received confirmation from E.ON UK plc, the Company's immediate parent undertaking, of its intention to financially support the Company 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.

2 Operating expenses

Auditors' remuneration of £3,000 (2009: £3,000) was borne by the immediate parent undertaking E.ON UK plc and not recharged.

The directors received no emoluments from the Company during the year (2009: £nil).

There were no employees during the year (2009: none).

3 Interest payable and similar charges

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Interest payable to group undertakings	2	4

POWERGEN (EAST MIDLANDS) INVESTMENTS

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

4 Tax on loss on ordinary activities

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Current tax:		
UK corporation tax on losses for the year	(1)	(1)
Total current tax credit	(1)	(1)

There is no difference between the tax on loss on ordinary activities for the year and the tax assessed on the loss on ordinary activities for the year assessed at the standard rate of corporation tax in the UK at 28%

The Finance (No. 2) Act 2010 was substantively enacted on 20 July 2010 and included legislation to reduce the main rate of corporation tax from 28% to 27% from 1 April 2011.

Further reductions to the UK corporation tax rate were announced in the June 2010 Budget. These changes, which are expected to be enacted separately each year, propose to reduce the rate by 1% per annum to 24% by 1 April 2014.

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

The corporation tax receivable for the year has been reduced by £1,000,000 because of group relief surrendered to a fellow group undertaking for which a payment will be received (2009: £1,000,000). Accordingly no tax losses are available for carry forward.

POWERGEN (EAST MIDLANDS) INVESTMENTS

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

5 Fixed asset investments

	Investment in subsidiaries £m	Investment in associates £m	Total £m
Cost:			
At 31 December 2010 and 31 December 2009	1,063	803	1,866
Provision for impairment:			
At 31 December 2010 and 31 December 2009	-	(296)	(296)
Net book value:			
At 31 December 2010 and 31 December 2009	1,063	507	1,570

Details of the Company's principal subsidiaries and associated undertakings are given below

Name	Country of incorporation	Shares held	Voting rights held	Nature of business
East Midlands Electricity Distribution Holdings ⁺	England and Wales	Ordinary shares	100%	Holding company
Central Networks East plc (renamed Western Power Distribution (East Midlands) plc)*	England and Wales	Ordinary shares	100%	Distribution of electricity
Powergen (East Midlands) Loan Notes ⁺	England and Wales	Ordinary shares	48%	Dormant

⁺ Direct interest

* Indirect interest

POWERGEN (EAST MIDLANDS) INVESTMENTS

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

5 Fixed asset investments (continued)

On 1 April 2011, the E.ON UK plc group disposed of its Central Networks distribution business, including the investment in Central Networks East plc (renamed Western Power Distribution (East Midlands) plc).

Details of the investment in associated undertakings are as follows:

	At 31 December 2010 £m	At 31 December 2009 £m
<i>Share of assets:</i>		
Share of current assets	510	510
<i>Share of liabilities:</i>		
Amounts falling due within one year	(3)	(3)
Share of net assets	507	507

6 Creditors: amounts falling due within one year

	At 31 December 2010 £m	At 31 December 2009 £m
Loan from group undertakings (note 8)	1,121	1,063
Amounts owed to group undertakings	74	76
	1,195	1,139

On 17 December 1999, the Company issued two loan notes (for £513,000,000 and £550,000,000) to its then subsidiary, Powergen (East Midlands) Loan Notes (and which is still a subsidiary of the E.ON UK plc group) to settle an inter-company balance existing between the two companies. The loan notes are interest free, repayable on demand and are guaranteed by E.ON UK plc. Amounts owed to group undertakings also include a loan of £58,000,000 that is unsecured, bears interest at a rate of LIBOR plus 75 basis points and is repayable on 1 October 2011.

Other amounts owed to group undertakings are unsecured, interest free and repayable on demand.

POWERGEN (EAST MIDLANDS) INVESTMENTS

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

7 Creditors: amounts falling due after more than one year

	At 31 December 2010 £m	At 31 December 2009 £m
Amounts owed to group undertakings (note 8)	<u>157</u>	<u>212</u>

Amounts owed to group undertakings represent a loan of £157,000,000 that is unsecured, bears interest at a rate of LIBOR plus 22.5 basis points and is repayable on 30 June 2013. In 2009, amounts owed to group undertakings also included a loan of £58,000,000 that is unsecured, bears interest at a rate of LIBOR plus 75 basis points and is repayable on 1 October 2011.

8 Loans and other borrowings

	At 31 December 2010 £m	At 31 December 2009 £m
Maturity of debt		
In one year or less, or on demand	1,121	1,063
In more than two years, but not more than five years	157	212
	<u>1,278</u>	<u>1,275</u>

9 Called-up share capital

	At 31 December 2010 £m	At 31 December 2009 £m
Authorised		
9,300,000,000 ordinary shares of £1 each	<u>9,300</u>	<u>9,300</u>
Allotted, called-up and fully paid		
29,000,000 ordinary shares of £1 each (2009: 291,296,963 ordinary shares of £1 each)	<u>29</u>	<u>291</u>

On 13 December 2010, the issued share capital of the Company was reduced from 291,296,963 to 29,000,000 by cancelling 262,296,963 issued fully paid ordinary shares of £1 each registered in the name of E.ON UK plc.

POWERGEN (EAST MIDLANDS) INVESTMENTS

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

10 Reserves

	Profit and loss reserve £m
At 1 January 2010	(72)
Capital reduction	262
Loss for the financial year	(1)
At 31 December 2010	189

11 Reconciliation of movements in shareholders' funds

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Loss for the financial year	(1)	(3)
Net reduction in shareholders' funds	(1)	(3)
Opening shareholders' funds	219	222
Closing shareholders' funds	218	219

12 Ultimate parent undertaking and controlling party

The immediate parent undertaking is E ON UK plc. The ultimate parent undertaking and controlling party is E.ON AG, a company incorporated in Germany, which is the parent company of the largest group to consolidate these financial statements. The smallest group to consolidate these financial statements is that of which E.ON UK plc, the principal UK trading subsidiary of E.ON AG, is the parent undertaking. Copies of E.ON AG's accounts are available from the offices of E.ON AG at the following address:

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