

CENTRAL NETWORKS SERVICES LIMITED
REPORT AND FINANCIAL STATEMENTS
for the year ended 31 December 2009



Registered No: 3600545

CENTRAL NETWORKS SERVICES LIMITED

Report of the directors for the year ended 31 December 2009

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2009.

Principal activities

The principal activity of the Company was historically that of an electrical contractor to Central Networks West plc. Under legacy employment arrangements, the Company holds the employment contracts for all employees undertaking asset management and engineering services for Central Networks West plc, a fellow subsidiary undertaking. The costs relating to these employees are initially borne by the Company and are then fully recharged to Central Networks West plc.

On 1 January 2009, the Company acquired the trade and assets of the new connections business from E.ON UK Energy Services Limited. The employees involved in the new connections business were also transferred to the Company. The business transfer was settled for consideration equal to book value, and comprised assets and liabilities with a net liability value of £100.7m. The principal activity of the acquired business is the connection of external customers to the electricity distribution network.

Business review

Fair review of the Company's business

During 2009 the downturn in the economy hit the business particularly hard, resulting in a significant reduction, around 40%, of new business volumes across all of its connection activities compared to the previous year. This resulted in a much lower gross margin than in previous years and in turn a lower operating profit. To offset this, the Company's management implemented a number of cost saving and operational efficiency initiatives and these initiatives went some way in mitigating the negative financial impact the lower volumes had on the business. These initiatives included the restructuring of high level management, a reduction in administrative staff, a reduction in the number of commercial vehicles and a review of end to end administrative and operational processes. The result is that the business now operates more efficiently and more cost effectively, with the right management structure in place to take the business forward successfully.

An activity based costing exercise was conducted during the year to ensure that costs and prices were aligned. This resulted in a number of price increases, the impact of which will start to flow through in 2010.

The business also went through a thorough procurement process to assign a new external contractor to complete all connection work within the East region. The four prior external service provider contracts ended on 31 March 2010. The business and the new partner will work together under an agreed 'Alliance' contract which commenced on 1 April 2010. The Alliance agreement is structured in such a way as to bring mutual benefits and align strategic goals of both partners, in particular, safety, customer service and commercial benefits. Significant cost reductions of £3m per annum are expected as a result of moving from four contractors to one.

The directors expect 2010 to be another challenging year, with the volume of work suppressed further due to the economy. However, with the number of acceptances for new business now starting to increase, the full impact of price increases and the expected savings from the Alliance, the directors are confident of breaking even in 2011 and achieving profitability, within regulatory constraints, in 2012.

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Report of the directors for the year ended 31 December 2009 (continued)

Business Review (continued)

2010 will bring additional challenges and opportunities to the business as it enters a new regulatory 5 year period, not least the impact of additional customer standards of service that the regulator has imposed. The business, however, embraces these new standards as they are aligned with the vision 'to become the best connections provider of the distribution network operators in the UK'.

Principal risks and uncertainties

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

The key business risks and uncertainties affecting the Company are considered to relate to safety and the status of the UK economy. The management of risks is undertaken at E.ON UK plc consolidated ('group') level. Further discussion of these risks and uncertainties, in the context of the group as a whole, is provided 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. An analysis using KPIs of the development, performance and position of the Company is discussed below. Prior year information is the equivalent KPI from when the activity was part of E.ON UK Energy Services Limited.

Safety

The Lost Time Injury Frequency is a key safety measure and is defined as the number of lost time injuries per 1,000,000 hours worked. The safety of people is of vital importance to the Company and it has worked hard to reduce the number of accidents. The rate at 31 December 2009 was 2.60 compared to 2.86 at 31 December 2008

Customer Service

The business is committed to improving the service it provides to customers. On a monthly basis the business uses the Net Promoter Advocacy Score ('NPS') to measure the level of service it currently provides. This measure is taken directly from current customer feedback. At the end of 2009 the 12 month rolling average NPS was -19 compared to December 2008 of -23. The business is targeting a positive 12 month rolling average NPS result by 2011.

New contract acceptance revenue

As the gestation period for each connection activity is different and can be typically from 6 months to 3 years, analysis of new acceptances in the year is the key indicator of future years volume and profitability. Due to the market slow down the amount of future revenue secured in 2009 from newly accepted contracts from Mass Market, Domestic and Business customers was £65m compared to £91m in 2008. During the first quarter of 2010 the rate of acceptances has increased securing revenues of £19m.

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Report of the directors for the year ended 31 December 2009 (continued)

Business Review (continued)

Key performance indicators ('KPIs') (continued)

Turnover

For the 2009 year, total turnover was £154.2m, some £15.4m below target. This level reflects the lower than expected volumes of new connections

Profit before interest and tax

As at the year end the profit before interest and tax was £1.6m This was in line with target.

Financial risk management

The Company is a member of the E.ON UK Group. Treasury management for all companies within the E.ON UK Group, including the Company, is conducted by E.ON UK plc, the intermediate parent company. E.ON UK plc, in common with other major E.ON AG subsidiaries, must comply with E.ON AG 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. The teams liaise closely with the local business to ensure that liquidity and risk management needs are met within the requirements of the E.ON AG policies and procedures. The treasury team works closely with the treasury and corporate finance teams at E.ON AG.

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 financings 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 plc also operates its own specific treasury procedures within the overall E.ON AG treasury framework

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 the finest 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 plc treasury team employs a continuous forecasting and monitoring process to ensure that the E.ON UK Group complies with all its banking and other non-financial covenants, and also the regulatory constraints that apply to the financing of the UK business. E.ON UK treasury works in close liaison with the various operating businesses within the E.ON UK Group, when considering hedging requirements on behalf of their activities. A group-wide cash forecasting and currency exposure reporting process exists which ensures regular reporting into 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 monthly and quarterly basis.

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Report of the directors for the year ended 31 December 2009 (continued)

Business Review (continued)

Financial risk management (continued)

E.ON UK plc 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.

Results and dividends

The Company's profit for the financial year is £0.5m (2008: £nil). The directors do not recommend the payment of a dividend (2008: £nil).

Directors

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

Mr G M Thompson	
Mr J Crackett	(appointed 30 March 2010)
Mr J C Glasgow	(appointed 30 March 2010)
Mr C D Kingston	(appointed 30 March 2010)
Mr J C O'Sullivan	(appointed 30 March 2010)
E.ON UK Directors Limited	(resigned 30 March 2010)

Policy and practice on payment of creditors

Where appropriate in relation to specific contracts, the Company's practice is to:

- a) settle the terms of payment with the supplier when agreeing the terms of each transaction;
- b) ensure that those suppliers are made aware of the terms of payment by inclusion of other relevant terms in the contracts, and
- c) pay in accordance with its contractual and other legal obligations

For all other cases the Company supports the Better Payments Practice Code and has in place well developed arrangements with a view to ensuring that this is observed.

Equal opportunities

The Company's employment policies are designed to attract, retain and motivate the very best people recognising that this can only be achieved through offering equal opportunities for all, irrespective of sex, race, marital status, age or disability.

Employment practices and procedures are regularly reviewed to ensure that they provide equality of opportunity to all employees within the current legislative framework. The Company encourages the use of flexible working arrangements where practicable.

CENTRAL NETWORKS SERVICES LIMITED

Report of the directors for the year ended 31 December 2009 (continued)

Employee involvement

Recognising that the success of the Company depends on the quality of performance of its employees, increased emphasis is being put on communication programmes to ensure that employees understand the business strategy and can contribute towards its achievements. Throughout the year, principally through regular team briefings and meetings with employees and their representatives, individual businesses have continued to improve their arrangements for employee consultation and communication on matters relating to business performance and objectives. There are also well established consultative and negotiating arrangements involving employees, employee representatives and trade union officials to ensure that employees' views are considered in relation to employment conditions, safety and health, welfare and training issues.

The E.ON Group provides appropriate training in order to satisfy business needs and to develop the talents and skills of employees, benefiting the individual, the Company and its customers.

Safety and health

The Company considers that good safety and health performance is an essential part of business activities and the Company aims to achieve the highest standards. All aspects of safe and healthy working practices are promoted throughout the E.ON Group in the interests of employees, customers, suppliers and the wider community.

People with disabilities

The Company fully recognises its responsibility to encourage and assist the recruitment, employment, training and career development of people with disabilities. If employees become disabled during their service with the E.ON Group arrangements are discussed to enable continuity of employment and development as appropriate.

Contributions to political and charitable purposes

Donations to charitable organisations during the financial year by the Company amounted to £nil (2008: £nil). No political donations were made (2008: £nil).

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report and 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;

CENTRAL NETWORKS SERVICES LIMITED

Report of the directors for the year ended 31 December 2009 (continued)

Statement of directors' responsibilities (continued)

- 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.

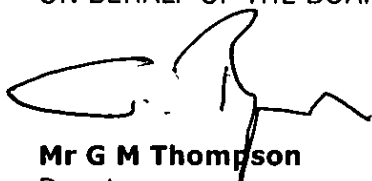
Going concern

Notwithstanding the fact that the Company has 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 principal UK trading subsidiary of the E.ON Group, 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 are 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.

ON BEHALF OF THE BOARD



Mr G M Thompson

Director
Central Networks Services Limited
Registered No: 3600545
Westwood Way
Westwood Business Park
Coventry
CV4 8LG

23 June 2010

**Independent auditor's report to the member of
Central Networks Services Limited**

We have audited the financial statements of Central Networks Services Limited for the year ended 31 December 2009 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 Directors' Responsibilities Statement, 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 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 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 2009 and of its profit 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.



Simon Evans – Senior Statutory Accountant
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham

24 June 2010

CENTRAL NETWORKS SERVICES LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2009

		Year ended 31 December 2009	Year ended 31 December 2008
	Note	£m	£m
Turnover	2	154.2	-
Cost of sales		(98.1)	-
Gross profit		56.1	-
Net operating expenses	3	(54.5)	-
Operating profit	4	1.6	-
Interest payable and similar charges	7	(0.8)	-
Profit on ordinary activities before taxation		0.8	-
Tax on profit on ordinary activities	8	(0.3)	-
Profit for the financial year		0.5	-

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

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

All the above amounts for 2009 relate to acquired operations (note 20).

The accounting policies and the notes on pages 10 to 21 form part of these financial statements.

CENTRAL NETWORKS SERVICES LIMITED

BALANCE SHEET
AS AT 31 DECEMBER 2009

	Note	At 31 December 2009 £m	At 31 December 2008 £m
Fixed assets			
Tangible assets	9	4.3	-
		<u>4.3</u>	<u>-</u>
Current assets			
Stock	10	72.4	-
Debtors: amounts falling due within one year	11	126.1	3.4
		<u>198.5</u>	<u>3.4</u>
Creditors: amounts falling due within one year	12	<u>(241.9)</u>	<u>(47.6)</u>
Net current liabilities		<u>(43.4)</u>	<u>(44.2)</u>
Total assets less current liabilities		<u>(39.1)</u>	<u>(44.2)</u>
Provisions for liabilities and charges	13	<u>(4.6)</u>	<u>-</u>
Net liabilities		<u>(43.7)</u>	<u>(44.2)</u>
Capital and reserves			
Called-up share capital	15	-	-
Profit and loss reserve	16	(43.7)	(44.2)
Total shareholder's deficit	17	<u>(43.7)</u>	<u>(44.2)</u>

The financial statements on pages 8 to 21 were approved by the Board of Directors on 23 June 2010 and were signed on its behalf by:


Mr G M Thompson
Director

23 June 2010

The accounting policies and the notes on pages 10 to 21 form part of these financial statements.

CENTRAL NETWORKS SERVICES LIMITED

Notes to the financial statements **for the year ended 31 December 2009**

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) Tangible fixed assets

Tangible fixed assets are stated at their purchase or production cost less accumulated depreciation. 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. Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight-line basis over their useful economic lives. The estimated useful economic lives used for the principal categories of fixed assets are as follows:

Categories of tangible fixed assets	Life in years
Commercial vehicles	3-5
Plant	4
Information system equipment	3-5

(b) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

(c) Pension costs

The Company contributes to a defined contribution pension scheme, and also a defined benefit group pension scheme operated by E.ON UK plc, the assets of which are invested in separate trustee-administered funds. Further details of these schemes are available in the consolidated financial statements of E.ON UK plc.

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.

CENTRAL NETWORKS SERVICES LIMITED

Notes to the financial statements **for the year ended 31 December 2009 (continued)**

1 Accounting policies (continued)

(d) Long term contracts

Long term contracts are measured at cost net of amounts transferred to cost of sales after deducting foreseeable losses. These contracts are included in stock as work in progress. Where it is probable that total contract costs will exceed the total contract revenue, the expected loss is recognised as an expense immediately. Initially, the foreseeable loss is deducted from the work in progress figure of the particular contract, thus reducing it to net realisable value. Any loss in excess of the work in progress figure is classified under 'Provisions for liabilities and charges'.

(e) Stock

Stock and stores are stated at the lower of cost and net realisable value. Where necessary, provision is made for obsolete, slow moving or defective stocks. 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.

(f) Taxation

The tax charge for the year is based on the profits or 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 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 average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax laws that have been enacted or substantially enacted by the balance sheet date.

(g) Turnover

Turnover represents the value of the sales, excluding value added tax, from the connection of external customers to the electricity distribution system (s 16 as defined within the Electricity Act 1989); attending fault incidents relating to street lighting; and performing Non Trading Rechargeable activity ('NTR') (as defined within the electricity distribution licence).

Turnover on major contracts of the new connections business is recognised according to the stage reached in the contract by reference to the value of work done. An estimate of the profit attributable to work completed is recognised once the outcome of the contract can be assessed with reasonable certainty.

CENTRAL NETWORKS SERVICES LIMITED

Notes to the financial statements **for the year ended 31 December 2009 (continued)**

1 Accounting policies (continued)

(g) Turnover (continued)

Turnover on non-major contracts incorporates schemes (s 16 and NTR) and service orders. Turnover and profit on schemes is recognised on physical completion of the project. Larger schemes are divided into sections of work with turnover and profit being recognised when work is physically complete for each section. Turnover and profit on service orders is recognised as work is done and services are provided to the customer.

Where payments are received from customers in advance of services provided, the amounts are recorded as Deferred Income and included as part of Creditors due within one year.

(h) 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).

(i) 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.

(j) 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 received confirmation from E.ON UK plc, the principal UK trading subsidiary of the E.ON Group, 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 Turnover

Turnover represents the value of the sales from the connection of external customers to the electricity distribution system. The Company's turnover, all of which arises in the course of the Company's principal activity, arises in the UK.

CENTRAL NETWORKS SERVICES LIMITED

Notes to the financial statements for the year ended 31 December 2009 (continued)

3 Net operating expenses

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Staff costs (note 6)	14.9	-
Depreciation (note 9)	1.0	-
Other operating charges	38.6	-
	54.5	-

The directors believe that the nature of the Company's business is such that the analysis of operation costs required by the Companies Act 2006 is not deemed appropriate. As required by the Act, the directors have therefore adopted the presented format so that the operating costs are disclosed in a manner they believe is more appropriate to the Company's principal activity.

4 Operating profit

Operating profit is stated after charging

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Depreciation of tangible fixed assets	1.0	-
Operating lease charges:		
Vehicle	1.1	-
Auditors' remuneration.		
Audit services	0.1	-

Auditors' remuneration for audit services for the year ended 31 December 2008 was £3,000, borne equally by Central Networks East plc and Central Networks West plc and not recharged. No costs were incurred in 2009 in respect of non audit services (2008: £nil)

5 Directors' emoluments

The directors received no emoluments from the Company during the year (2008: £nil). Their remuneration is borne by other companies within the E.ON UK Group and not recharged. Retirement benefits are accruing to one (2008: one) director under a defined benefit scheme. During the year no directors (2008: none) exercised options over shares they were rewarded for services to the E.ON Group.

CENTRAL NETWORKS SERVICES LIMITED

Notes to the financial statements for the year ended 31 December 2009 (continued)

6 Employee information

The disclosures surrounding the average number of employees during the year and the employee costs include other E.ON UK Group employees who work for the Company. Not all of these employees have service contracts with the Company and in some cases their contracts of service are with other E.ON UK Group companies. The directors believe that the disclosures are a fair representation of the costs to the business.

The average monthly number of persons (including executive directors) employed by the Company during the year was:

By activity	Year ended 31 December 2009	Year ended 31 December 2008
Industrial	1,320	542
Non-industrial	872	820
	2,192	1,362

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

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Wages and salaries	81.9	52.2
Social security costs	6.9	4.9
Other pension costs (note 18)	11.2	7.1
	100.0	64.2
Less: recharge to Central Networks West plc	(69.4)	(64.2)
	30.6	-

Of the salaries and related costs of employees £14.9m is included in net operating expenses and £15.7m is included in cost of sales.

In 2009, costs remaining after the recharge (£30.6m) were 'Wages and salaries' £25.3m, 'Social security costs' £2.3m and 'Other pension' costs £3.0m. In 2008 all costs were recharged.

Certain employees of the Company undertake asset management and engineering services for Central Networks West plc, a fellow subsidiary undertaking. The costs relating to these employees are initially borne by the Company and are then fully recharged to Central Networks West plc.

CENTRAL NETWORKS SERVICES LIMITED

Notes to the financial statements for the year ended 31 December 2009 (continued)

7 Interest payable and similar charges

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Interest payable to group undertakings	0.8	-
Total interest payable and similar charges	0.8	-

8 Tax on profit on ordinary activities

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Current tax:		
UK corporation tax on profits for the year	0.2	-
Total current tax	0.2	-
Deferred tax:		
Origination and reversal of timing differences	0.1	-
Total deferred tax	0.1	-
Tax on profit on ordinary activities	0.3	-

There is no difference between the tax on 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 (28%)

The standard rate of corporation tax in the UK changed from 30% to 28% with effect from 1 April 2008. Accordingly, the Company's profits were taxed at an effective rate of 28.5% in 2008 and 28% in 2009, and will be taxed at 28% in the future

The corporation tax payable for the year has been reduced by £0.2m because of group relief received from a fellow group undertaking for which a payment will be made (2008 £nil).

CENTRAL NETWORKS SERVICES LIMITED

Notes to the financial statements for the year ended 31 December 2009 (continued)

9 Tangible fixed assets

	Commercial vehicles	Plant	Information system equipment	Total
	£m	£m	£m	£m
Cost:				
At 1 January 2009	-	-	-	-
Acquisitions (note 20)	0.1	1.6	2.7	4.4
Additions	-	0.1	0.8	0.9
At 31 December 2009	0.1	1.7	3.5	5.3
Accumulated depreciation:				
At 1 January 2009	-	-	-	-
Charge for the year	0.1	0.4	0.5	1.0
At 31 December 2009	0.1	0.4	0.5	1.0
Net book value:				
At 31 December 2009	-	1.3	3.0	4.3
At 31 December 2008	-	-	-	-

10 Stock

	At 31 December 2009 £m	At 31 December 2008 £m
Work in progress	82.7	-
Foreseeable losses on work in progress	(10.3)	-
	72.4	-

11 Debtors: amounts falling due within one year

	At 31 December 2009 £m	At 31 December 2008 £m
Trade debtors	8.3	-
Amounts owed by group undertakings	117.0	3.4
Other debtors	0.8	-
	126.1	3.4

Amounts owed by group undertakings are unsecured, interest free and repayable on demand.

CENTRAL NETWORKS SERVICES LIMITED

Notes to the financial statements for the year ended 31 December 2009 (continued)

12 Creditors: amounts falling due within one year

	At 31 December 2009 £m	At 31 December 2008 £m
Amounts owed to group undertakings	100.6	47.6
Other creditors	20.2	-
Accruals and deferred income	121.1	-
	<u>241.9</u>	<u>47.6</u>

During the year the Company agreed a £90 0m rolling loan facility with E.ON UK plc, expiring on 24 March 2014. The drawn down amount under this facility, included within amounts owed to group undertakings, is £52 3m at 31 December 2009. This loan is unsecured, incurs interest at 0.75% above LIBOR and is reviewed on a daily basis.

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

13 Provisions for liabilities and charges

	Contract losses £m	Deferred tax £m	Total £m
At 1 January 2009	-	-	-
Charged to the profit and loss account	4.5	0.1	4.6
At 31 December 2009	<u>4.5</u>	<u>0.1</u>	<u>4.6</u>

14 Deferred tax

The deferred tax provision comprises.

	At 31 December 2009 £m	At 31 December 2008 £m
Accelerated capital allowances	0.1	-
Undiscounted provision for deferred tax	0.1	-
Discount	-	-
Discounted provision for deferred tax	<u>0.1</u>	<u>-</u>

CENTRAL NETWORKS SERVICES LIMITED

Notes to the financial statements
for the year ended 31 December 2009 (continued)

14 Deferred tax (continued)

The opening and closing deferred tax positions can be reconciled as follows:

	£m
Deferred tax provision at 1 January 2009	-
Deferred tax charge to profit and loss account (note 8)	0.1
Deferred tax provision at 31 December 2009	0.1

Deferred tax balances are measured at the standard rate of corporation tax in the UK of 28%, as this is the rate that will apply when these timing differences reverse.

15 Called-up share capital

	At 31 December 2009 £	At 31 December 2008 £
Authorised		
1,000 ordinary shares of £1 each	1,000	1,000
Allotted, called-up and fully paid		
2 ordinary shares of £1 each	2	2

16 Reserves

	Profit and loss reserve £m
At 1 January 2009	(44.2)
Profit for the financial year	0.5
At 31 December 2009	(43.7)

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Notes to the financial statements for the year ended 31 December 2009 (continued)

17 Reconciliation of movements in shareholder's deficit

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Profit for the financial year	0.5	-
Opening shareholder's deficit	(44.2)	(44.2)
Closing shareholder's deficit	(43.7)	(44.2)

18 Pension commitments

The Company participates in a funded group pension scheme operated by E.ON UK plc, which is part of an industry wide scheme, the Electricity Supply Pension Scheme. The pension scheme is of the defined benefit type and its assets are held in a separate trustee-administered fund.

The fund is valued every three years by a professionally qualified, independent actuary, the rates of contribution payable being determined by the actuary. In the intervening years the actuary reviews the appropriateness of the rates. The latest published actuarial assessment of the scheme was at 31 March 2007.

Due to the complexity of actuarial calculations and the number of different companies contributing to the scheme, the Company is unable to identify its share of the underlying assets and liabilities in the scheme. Consequently, the Company accounts for the scheme as a defined contribution scheme. The cost of contributions to the defined benefit and defined contribution schemes during the year amounts to £9.9m (2008 £7.1m)

Further details of the scheme are available in the consolidated financial statements of E.ON UK plc. Due to a deficit in the scheme, E.ON UK plc expects to make special contributions of £61.0m per annum until 2013. None of this cost is expected to be recharged to the Company.

19 Financial commitments

The Company had annual commitments under non-cancellable operating leases in respect of commercial vehicles expiring as follows:

	At 31 December 2009 £m	At 31 December 2008 £m
Within two to five years	1.0	-
	1.0	-

CENTRAL NETWORKS SERVICES LIMITED

Notes to the financial statements for the year ended 31 December 2009 (continued)

20 Acquisitions

On 1 January 2009, the Company purchased the trade and assets of the new connections business from E.ON UK Energy Services Limited. The business transfer was settled for consideration equal to book value, and comprised assets and liabilities with a net liability value of £100.7m. The principal activity of the acquired business is the connection of external customers to the electricity distribution network.

	Book value	Fair value
	£m	£m
Tangible fixed assets	4.4	4.4
Current assets	90.3	90.3
Current liabilities	(195.4)	(195.4)
	<u>(100.7)</u>	<u>(100.7)</u>
Goodwill arising on acquisition		-
Total consideration		<u>(100.7)</u>
Satisfied by:		
Inter-company loan		(100.7)
Directly attributable costs		-
		<u>(100.7)</u>

The inter-company loan is unsecured, interest free and repayable on demand.

The results of the acquired business were as follows

	12 months ended 31 December 2009 £m	12 months ended 31 December 2008 £m
Turnover	154.2	212.3
Cost of sales	<u>(98.1)</u>	<u>(170.1)</u>
Gross profit	56.1	42.2
Net operating expenses	<u>(54.5)</u>	<u>(87.0)</u>
Operating profit/(loss)	<u>1.6</u>	<u>(44.8)</u>

All the above amounts relate to continuing, acquired operations

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Notes to the financial statements **for the year ended 31 December 2009 (continued)**

21 Ultimate parent undertaking and controlling party

The immediate parent undertaking is Central Networks 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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