CENTRAL NETWORKS WEST PLC

REPORT AND FINANCIAL STATEMENTS

for the year ended 31 December 2010

Registered No: 3600574

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 the distribution of electricity to industrial, commercial and domestic customers

Business review

Fair review of the Company's business

The Company is regulated by Ofgem and the current five year price control period ('DPCR5') commenced on 1 April 2010.

By allowing the Company an increased level of capital investment, 24% higher than in the last regulatory period, Ofgem has recognised the need to continue to maintain and improve the network. To deliver this, the Company has fundamentally changed the way it works with its contractors by introducing a new Alliancing model from April 2010

Despite this change, the underlying requirement to keep lights on by providing electricity to homes and businesses remains unchanged and the Company's strategic priorities remain clear:

- Safety
- Network Performance
- Customer
- Cost
- Sustainability

This consistency and clarity has enabled the Company to focus on what is important and it has continued to deliver a strong performance in 2010

- Safety performance remained strong with the number of lost time and major injuries across the Central Networks division, which also includes Central Networks East plc and Central Networks Services Limited, at similarly low levels to those achieved in 2009.

- Network performance was impaired slightly compared to 2009 with the number of Customer Minutes Lost increasing by 12% and Customer Interruptions decreasing by 2%. This was mainly due to several periods of severe weather

- Customer Service remains a priority for the Company and during 2010 it continued to embed a customer-focused culture During 2010 the number of written customer complaints across the Central Networks division fell by 17%. The Central Networks division was awarded a National Customer Service award in 2010.

- Efficient delivery of the DPCR5 work programme is key to the Company's cost strategy. The introduction of the new Alliancing model will help the Company deliver this strategy. During the year the Central Networks division has reviewed its major projects work programme for DPCR5 to ensure optimal value is delivered from this work and it consolidated its control systems onto a standard platform

Business review (continued)

Fair review of the Company's business (continued)

- On sustainability, the Company has continued its work on future networks, smart grids and a 2030 carbon strategy. The Company continues to focus on recruiting new apprentices (54 across the Central Networks division in 2010) to ensure it has the resources to deliver the investment in its network.

Electrical power distributed during the year increased compared to the prior year by 746 GWh (3%) and was also higher than expected volumes. The principal reason for the increased level of demand was the partial recovery from the economic downturn, which adversely affected the amount of electricity distributed in 2009. Compared to 2008 levels the volumes distributed in 2010 were 3% lower. A tariff increase was implemented from 1 April 2010 to bring income in line with DPCR5 allowed revenues

On 10 December 2010, the Company issued £250,000,000 5 50 per cent notes due 2025 under its £3,000,000,000 Euro Medium Term Note Programme

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 weather and asset performance. 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 Company is part of the Central Networks division of the E.ON UK Group. This division also includes Central Networks East plc and Central Networks Services Limited. The Central Networks division considers its main indicators of performance to be safety, network performance and power distributed.

Safety

The Lost Time Injury Frequency ('LTIF') is a key safety measure monitored at a divisional level. LTIF 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 2010 was 2.48 (2009: 2.48).

Network performance

Customer Minutes Lost worsened slightly with 87 7 in 2010 (2009. 78 3) Customer Interruptions improved with 101 6 in 2010 (2009: 103 7)

Audited information on network performance of the Company covering the regulatory year to 31 March is published annually by Ofgem on their website www.ofgem.gov.uk

Business review (continued)

Key performance indicators ('KPIs') (continued)

Power distributed

Electrical power distributed in 2010 was 26,609 GWh (2009· 25,863 GWh).

Financial key performance indicators ('FKPI's)

FKPIs in relation to financial performance are also monitored on a divisional basis. The main indicators are detailed below and are per the management reporting of the Central Networks division.

	Year ended 31 December 2010* £m	Year ended 31 December 2009* £m
Earnings before interest and taxation	**391.0**	362.4
Gross margin	**659.0**	623.0
Operating expenses	**268.0**	260.5
Capital expenditure	**345.4**	316.4

* Divisional numbers which include the Company.

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.

Financial risk management (continued)

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.

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 £139 9m (2009: £143.2m) No interim dividends were paid during the year (2009: £nil). The directors do not recommend the payment of a final dividend (2009 £nil)

Directors

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

Dr P Golby
Mr G M Thompson
Mr J Crackett

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. Trade creditors at year end represented 35 days (2009. 29 days) of purchases

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.

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 Company 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 by the Company 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 Company 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 (2009: £677) No political donations were made (2009: £nil).

Statement of directors' responsibilities

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

Statement of directors' responsibilities (continued)

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

The directors have prepared the financial statements on the going concern basis. The directors have given due consideration to this matter and consider that the Company is in a position to continue to trade and meet all of its liabilities for 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 West plc
Registered No 3600574
Westwood Way
Westwood Business Park
Coventry
CV4 8LG

9 February 2011

Independent auditor's report to the member of Central Networks West plc

We have audited the financial statements of Central Networks West plc 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 member 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 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

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

9 February 2011

CENTRAL NETWORKS WEST PLC

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	**Year ended 31 December 2010**	Year ended 31 December 2009
		£m	£m
Turnover	2	**346.0**	306.9
Cost of sales		**(21.2)**	(21.2)
Gross profit		**324.8**	285 7
Net operating expenses	3	**(120.4)**	(121 8)
Operating profit	4	**204.4**	163.9
Interest payable and similar charges	7	**(18.1)**	(15.0)
Profit on ordinary activities before taxation		**186.3**	148 9
Tax on profit on ordinary activities	8	**(46.4)**	(5.7)
Profit for the financial year	17	**139.9**	143 2

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 of the above amounts relate to continuing operations.

The accounting policies and the notes on pages 11 to 23 form part of these financial statements.

CENTRAL NETWORKS WEST PLC

BALANCE SHEET
AS AT 31 DECEMBER 2010

	Note	At 31 December 2010 £m	At 31 December 2009 £m
Fixed assets			
Tangible assets	9	**1,747.8**	1,627.3
Current assets			
Stock	10	**4.9**	4.9
Debtors: amounts falling due within one year	11	**320.1**	73.4
		325.0	78 3
Creditors: amounts falling due within one year	12	**(304.6)**	(754 3)
Net current assets/(liabilities)		**20.4**	(676.0)
Total assets less current liabilities		**1,768.2**	951.3
Creditors: amounts falling due after more than one year	13	**(678.4)**	-
Provisions for liabilities	14	**(79.7)**	(81 1)
Net assets		**1,010.1**	870.2
Capital and reserves			
Called-up share capital	16	**0.1**	0.1
Profit and loss reserve	17	**1,010.0**	870 1
Total shareholder's funds	18	**1,010.1**	870.2

The financial statements on pages 9 to 23 were approved by the Board of Directors on 7 February 2011 and were signed on its behalf by.

Mr G M Thompson
Director
Central Networks West plc
Registered No: 3600574

9 February 2011

The accounting policies and the notes on pages 11 to 23 form part of these financial statements

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, except for the accounting policy for customer contributions (see tangible fixed assets below) where an alternative treatment has been adopted in order to present, in the opinion of the directors, a true and fair view. All accounting policies have been consistently applied 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. Tangible fixed assets are not revalued. The estimated useful economic lives used for the principal categories of fixed assets are as follows·

Distribution network	40 - 70 years
Customer contributions	40 - 70 years
Other assets	Up to 10 years
Plant and machinery	Up to 10 years
Commercial vehicles	Up to 10 years
Meter equipment	15 - 20 years

Customer contributions are deducted from the cost of the related fixed assets This accounting treatment represents a departure from the Companies Act 2006 which requires fixed assets to be included at their purchase price or production cost and therefore any contribution would be presented as deferred income. However, it is the opinion of the directors that the treatment adopted is necessary to give a true and fair view, as the contributions relate directly to the cost of fixed assets used in the distribution network. Customers' contributions towards distribution network assets are credited to the profit and loss account over the life of the distribution network assets to which they relate by virtue of a reduction in the depreciation charge.

Charges for impairments of assets are recognised when indicators suggest that an asset may be impaired and an impairment charge is calculated as the difference between the carrying value of the asset and its recoverable amount, if lower. Where such an asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the income generating unit to which the asset belongs

1 Accounting policies (continued)

(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) Stocks and stores

Stocks 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. 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. Stocks and stores are raw materials under this definition

(d) 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 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

(e) Turnover

Turnover comprises revenue from the distribution of electricity to industrial and commercial and domestic customers and is recognised when supplied Turnover excludes value added tax.

Turnover relating to the distribution of electricity represents the value of charges for electricity distributed during the year including estimates of the sales value of units distributed to customers between the date of the last meter reading and the year end

(f) 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).

1 Accounting policies (continued)

(g) 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

(h) Provisions

Provisions are recognised in the balance sheet when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. A provision for restructuring is recognised when the Company has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced to those affected by it.

(i) Borrowings

A financial liability is initially recognised net of issue costs incurred. Costs that are incurred directly in connection with the issue of a capital instrument are netted against the liability and amortised at a constant rate over the life of the underlying instrument.

(j) Financial instruments

The Company has not adopted Financial Reporting Standard 26 'Financial instruments: recognition and measurement' as the current financial instruments are not listed on a regulated market for the purposes of Directive 2004/39/EC Therefore the disclosure requirements of Financial Reporting Standard 29 'Financial instruments disclosures' are not applicable.

(k) Going concern

The directors have prepared the financial statements on the going concern basis. The directors have given due consideration to this matter and consider that the Company is in a position to continue to trade and meet all of its liabilities for at least twelve months from the date of the directors' approval of these financial statements.

2 Turnover

Turnover, which excludes value added tax, represents the value of charges for electricity distributed during the year. The Company's turnover, all of which arises in the course of the Company's principal activity, arises in the UK

3 Net operating expenses

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Employee costs (note 6)	**41.2**	39 1
Depreciation (note 9)	**43.4**	42.3
Other operating charges	**35.8**	40.4
	120.4	121.8

The directors believe that the nature of the Company's business is such that the analysis of operating costs required by the Companies Act 2006 is not deemed appropriate As required by that Act, the directors have 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 2010 £m	Year ended 31 December 2009 £m
Depreciation of tangible fixed assets:		
Owned assets	**43.4**	42 3
Loss on disposal of tangible fixed assets	**0.7**	0.2
Operating lease charges:		
Vehicles	**3.7**	3.2
Auditors' remuneration:		
Audit services	**0.1**	0 1

Non-audit fees of £48,000 were incurred during the year (2009 £42,000).

Auditors' remuneration includes half the audit fee of Central Networks Limited, formerly Central Networks plc, of £3,000 (2009: £3,000), a fellow group undertaking, which has not been recharged.

5 Directors' emoluments

	Year ended 31 December 2010 £	Year ended 31 December 2009 Restated £
Aggregate emoluments	**370,962**	408,304

Mr G M Thompson and Mr J Crackett are directors of both the Company and Central Networks East plc, a fellow group undertaking. They shared their management time equally between these two companies. As a result, their emoluments for the years ended 31 December 2010 and 2009 have been split equally between the Company and Central Networks East plc.

Dr P Golby received no emoluments from the Company during the year (2009: £nil) His remuneration is borne by E.ON UK plc and not recharged

Retirement benefits are accruing to two (2009· two) directors under a defined benefit scheme. The number of directors entitled to shares under a long-term incentive scheme during the year was two (2009: two). During the year no (2009: none) directors exercised options over shares they were rewarded for services to the E.ON Group. During the year two (2009: two) directors exercised Performance Rights over shares in the ultimate parent company, E ON AG, that they were awarded for services to the E.ON UK Group.

Comparative figures have been restated to exclude accrued pensions.

Highest paid director

	Year ended 31 December 2010 £	Year ended 31 December 2009 £
Total amount of emoluments and amounts (excluding shares) receivable under long-term incentive schemes	**256,084**	293,155
Defined benefit pension scheme:		
Accrued pension at end of year	**68,270**	64,570

During the year the highest paid director exercised Performance Rights over shares in the ultimate parent company, E.ON AG, that he was awarded for services to the E.ON UK Group

6 Employee information

The employees undertaking asset management and engineering services within the Company are legally employed by Central Networks Services Limited, a fellow subsidiary undertaking. The costs relating to these employees are initially borne by Central Networks Services Limited and are then fully recharged to the Company

The average monthly number of persons employed by associated companies in respect of the Company during the year was:

	Year ended 31 December 2010	Year ended 31 December 2009 Restated
	1,541	1,507

Employee numbers for the year ended 31 December 2009 have been restated, to be on a more representative basis compared to those stated in the 2009 accounts

The salaries and related costs of employees, including directors, recharged to the Company by Central Networks Services Limited were·

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Wages and salaries	**57.0**	55.9
Social security costs	**5.0**	4.6
Other pension costs	**10.9**	8.9
	72.9	69.4
Less· capitalised in tangible fixed assets	**(31.7)**	(30.3)
	41.2	39.1

7 Interest payable and similar charges

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Interest payable on other loans	**0.8**	-
Interest payable to group undertakings	**17.3**	15 0
Total interest payable and similar charges	**18.1**	15 0

8 Tax on profit on ordinary activities

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Current tax:		
UK corporation tax on profits for the year	**47.3**	37 7
Adjustment in respect of previous periods	**(0.1)**	(4 0)
Total current tax charge	**47.2**	33.7
Deferred tax:		
Origination and reversal of timing differences	**4.6**	4.1
Movement in deferred tax discount	**2.6**	(32.2)
Changes in tax law and rates	**(8.0)**	-
Adjustment in respect of previous periods	-	0 1
Total deferred tax credit (note 15)	**(0.8)**	(28.0)
Tax on profit on ordinary activities	**46.4**	5.7

The difference between the tax on the profit on ordinary activities for the year and the tax assessed on the profit on ordinary activities for the year assessed at the standard rate of corporation tax in the UK at 28% can be explained as follows.

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Profit on ordinary activities before tax	**186.3**	148.9
Tax on profit on ordinary activities before tax at 28% (2009: 28%)	**52.2**	41.7
Effects of:		
Capital allowances in excess of depreciation	**(4.9)**	(4 1)
Permanent differences	-	0.1
Adjustment in respect of previous periods	**(0.1)**	(4.0)
Current tax charge for the year	**47.2**	33 7

During the year, as a result of the change in the UK main corporation tax rate from 28% to 27% that was substantively enacted on 20 July 2010 and that will be effective from 1 April 2011, the relevant deferred tax balances have been re-measured.

8 Tax on profit on ordinary activities (continued)

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. The Budget also included measures to reduce the rate of writing-down allowances on the main pool of plant and machinery to 18% and on the special rate pool to 8%, both with effect from 1 April 2012.

As at the balance sheet date the further potential changes had not been substantively enacted and, therefore, are not recognised in these financial statements. If all of these potential changes had been enacted the overall effect in the deferred tax balances would be to reduce the deferred tax liability by £7 5m (accelerated capital allowances £24.3m, discounting (£16.8m)).

The corporation tax payable for the year has been reduced by £47.2m because of group relief received from a fellow group undertaking for which a payment will be made (2009: £33.7m).

9 Tangible fixed assets

	Distribution networks £m	Customer contributions £m	Other assets £m	Total £m
Cost:				
At 1 January 2010	2,962.3	(602.0)	12 3	2,372.6
Additions	193.8	(30 5)	1.5	164.8
Disposals	(1.3)	-	-	(1.3)
At 31 December 2010	**3,154.8**	**(632.5)**	**13.8**	**2,536.1**
Accumulated depreciation:				
At 1 January 2010	913.9	(173.5)	4.9	745.3
Charge for the year	53 5	(12.1)	2 0	43 4
Disposals	(0 4)	-	-	(0.4)
At 31 December 2010	**967.0**	**(185.6)**	**6.9**	**788.3**
Net book value:				
At 31 December 2010	**2,187.8**	**(446.9)**	**6.9**	**1,747.8**
At 31 December 2009	2,048.4	(428.5)	7 4	1,627.3

10 Stocks

	At 31 December 2010 £m	At 31 December 2009 £m
Stocks and stores	**4.9**	4 9

11 Debtors: amounts falling due within one year

	At 31 December 2010 £m	At 31 December 2009 £m
Trade debtors	**47.3**	41.0
Amounts owed by group undertakings	**267.2**	25 8
Other debtors	**1.0**	3 1
Prepayments and accrued income	**4.6**	3 5
	320.1	73.4

During the year the Company made a loan to E ON UK plc of £246.8m, included within amounts owed by group undertakings. This loan is unsecured and bears interest at 0.03% below LIBOR per annum.

Other amounts owed by group undertakings are unsecured, interest free and ar e repayable on demand.

12 Creditors: amounts falling due within one year

	At 31 December 2010 £m	At 31 December 2009 £m
Trade creditors	**9.4**	10.2
Amounts owed to group undertakings	**258.4**	711 8
Other creditors	**8.9**	5 4
Accruals	**24.9**	22.6
Deferred income	**3.0**	4.3
	304.6	754 3

The Company has a £500.0m rolling loan facility with E.ON UK plc, expiring on 8 July 2013 The drawn down amount under this facility, included within amounts owed to group undertakings above, is £7.7m at 31 December 2010 (2009: £508 6m) This loan is unsecured, incurs interest at 0 7% (2009: 0.7%) above LIBOR and is reviewed on a daily basis

12 Creditors: amounts falling due within one year (continued)

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

13 Creditors: amounts falling due after more than one year

	At 31 December 2010 £m	At 31 December 2009 £m
Amounts owed to group undertakings	**431.8**	-
Amounts owed to external debt holders		
5 5% Sterling bond 2025	**246.6**	-
	678.4	-

The Company entered into three new fixed term agreements with E ON UK plc during the year as follows:

- a £64 8m facility incurring interest at 2.75% which expires on 29 March 2013
- a £107.9m facility incurring interest at 3.78% which expires on 31 March 2015
- a £259.1m facility incurring interest at 5.23% which expires on 31 March 2020

All of the above loans are unsecured and were fully drawn down as at 31 December 2010.

The £250m 5.5% fixed rate sterling bond is shown net of issue costs The issue costs are amortised at a constant rate based on the carrying amount of debt over the life of the underlying instruments. Notwithstanding the investor put and issuer call options, the bond is otherwise due for repayment on 9 May 2025 There is no material difference between the book value and the fair value.

14 Provisions for liabilities

	Restructuring	Deferred tax (note 15)	Total
	£m	£m	£m
At 1 January 2010	1.0	80.1	81 1
Charged to the profit and loss account	(0.4)	(3.4)	(3.8)
Utilised during the year	(0 2)	-	(0.2)
Unwinding of discount	-	2.6	2.6
At 31 December 2010	**0.4**	**79.3**	**79.7**

The restructuring provision relates to the provision for demobilisation costs associated with the introduction of the new Alliancing model to fundamentally change the way the Company works with its contractors.

15 Deferred tax

The deferred tax provision comprises:

	At 31 December 2010 £m	At 31 December 2009 £m
Accelerated capital allowances	**220.8**	224.2
Supply gain held over	**22.7**	41.0
Offset by:		
Available capital losses	**(22.7)**	(41 0)
Undiscounted provision for deferred tax	**220.8**	224.2
Discount	**(141.5)**	(144.1)
Discounted provision for deferred tax	**79.3**	80.1

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

	£m
Deferred tax provision at 1 January 2010	80 1
Deferred tax credit to profit and loss account	(0 8)
Adjustment in respect of prior years	-
Deferred tax provision at 31 December 2010	**79.3**

Deferred tax balances are measured at the standard rate of corporation tax in the UK of 27% as this is the rate that will apply when these timing differences reverse

16 Called-up share capital

	At 31 December 2010 £m	At 31 December 2009 £m
Authorised		
50,000 ordinary shares of £1 each	**0.1**	0 1
Allotted, called-up and fully paid		
50,000 ordinary shares of £1 each	**0.1**	0.1

17 Reserves

	Profit and loss reserve £m
At 1 January 2010	870 1
Profit for the financial year	139 9
At 31 December 2010	1,010.0

18 Reconciliation of movements in shareholder's funds

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Profit for the financial year	**139.9**	143.2
Net addition to shareholder's funds	**139.9**	143.2
Opening shareholder's funds	**870.2**	727.0
Closing shareholder's funds	**1,010.1**	870 2

19 Capital and other commitments

At 31 December 2010, the Company had commitments of £11.6m (2009: £10.4m) for capital expenditure not provided for in these financial statements

20 Financial commitments

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

	At 31 December 2010 £m	At 31 December 2009 £m
within one year	**1.3**	0.2
within two to five years	**2.5**	3.6
	3.8	3.8

21 Ultimate parent undertaking and controlling party

The immediate parent undertaking is Central Networks Limited. 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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