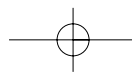
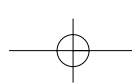


E.ON UK Group of the Electricity Supply Pension Scheme (ESPS)

Annual report to members 2006

e-on | UK

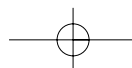




E.ON UK Group of the ESPS

Highlights

- Payment of £420 million into the scheme by E.ON UK plc
- Review of investment strategy completed
- New investment strategy implemented
- Funding level of the Group estimated to be almost 100% on an ongoing basis
- East Midlands Electricity Pension Plan transferred into the E.ON UK Group
- Retirement Balance Plan introduced as company pension scheme for new employees
- Finance Act 2004 came into force 6 April 2006
- First statutory funding statement included with this report



Chairman's Introduction

Welcome to the 2006 edition of the Group Trustees' annual report to members. The report covers the Scheme year 1 April 2005 to 31 March 2006 and has information about the Scheme's finances and investments, and covers all six benefit categories; Eastern, EME, Midlands, Powergen, EME PP and Retirement Balance Plan. This is the first year that EME PP and Retirement Balance Plan members will have received this report and I would like to extend them a particular welcome.

The financial information has been taken from the formal report and accounts and if you would like a copy of this or of the report and accounts for the ESPS as a whole please contact Natalie Coggan (contact details are on page 7).

This has been another busy and challenging year for the Group Trustees with our main focus being on investments. Our recently implemented investment strategy has resulted in a significant reallocation of funds from equities to bonds. This makes the Group's funding position more predictable and increases the security of members' benefits. You can find out more about the Group's investments on page 3.

I am very pleased to be able to tell you that the funding level of the Group has greatly improved, mainly due to the payment by E.ON of £420 million on 1 April 2005 and partly due to good investment returns. The next formal actuarial valuation of the Scheme is due to take place next year and we expect the results to be available in early 2008.

During the year the assets and benefits of the East Midlands Electricity Pension Plan were transferred to the E.ON Group and became the EMEPP Category.

The Retirement Balance Plan was introduced by the Company from 1 April 2005 as the pension scheme offered to new employees.

We held elections at the end of 2005 and as a result we welcomed three new Trustees; Chris Brown, Paul Dodd and Derek Evans and we said goodbye to three Trustees; Clive Broutta, Peter Oxley and Paul Saba. Jim Fletcher and Bryan Kendall were re-elected in their categories. In addition Sean Gauton joined us from the East Midlands Electricity Pension Plan on 1 July 2005. I would like to thank Clive, Peter and Paul for their hard work as Group Trustees.

The Finance Act 2004 came into effect from 6 April 2006 and the Rules of the Group were amended in some areas to allow the flexibility introduced by the Finance Act. Information about the changes is on page 6.

Once again I have been impressed by the way that the Group Trustees have worked together to ensure that the Group is well managed with everyone being prepared to take part in discussions, question advisers and reach agreement. I would like to thank my fellow Group Trustees for all their hard work and commitment.

Graham Bartlett
Chairman



Meet the Trustees

All Trustees whether elected by the membership or appointed by the Company have the same requirement to act in the best interests of all beneficiaries.

Company Appointed Trustees

Graham Bartlett - chairman	Chief Financial Officer
Fiona Stark - deputy chairman	General Counsel
Peter Bridgewater	Finance Director - Energy Wholesale
Neal Carr	Finance Director - Energy Services
John Crackett	Managing Director - Energy Services
Henry Loweth	Legal Counsel - Energy Trading
Neil Smith	Head of Treasury and Pensions
Jennifer Whitehill	AMP Manager UK HR

Elected

Mike Andrews

Pensioner

White Thorn House, Wood Lane, Fordham Heath, Cochester C03 9TR

Alan Boulter

Pensioner

155 St Bernards's Road, Olton, Solihull B92 7DH. 0121 706 7597
alanl.boulter@aol.com

Chris Brown

Accounting Services Manager - Sherwood Park

Valley House, 53 Main Street, Bagworth, Leics LE97 1DV. 01623 788550
chris.brown@eon-uk.com

Keith Cockroft

Safety adviser - Power Engineering Services - Hams Hall

0121 607 2267. keith.cockroft@eon-uk.com

Paul Dodd

Boiler engineer - Ironbridge power station

Derek Evans

Fitter - Power Engineering Services - Hams Hall

0121 607 2200
derek.evans@eon-uk.com

Jim Farley

Pensioner

07768 360592
jimandroma@highfield40.fsnet.co.uk

Trevor Fellows

Pensioner

Jim Fletcher

Pensioner

1 Maple Close, Norton, Stourbridge, West Midlands DY8 3AE. 01384 444226

Sean Gauton

Regulatory strategy executive Central Networks - Pegasus

Pegasus Business Park, Castle Donnington, DE74 2TU. 01332 392248
sean.gauton@central-networks.co.uk -

Bryan Kendall

Pensioner

14 Highfield Road, Mansfield, Nottingham NG18 4PT

David Parsons

Pensioner

Alan Taylor

Work programme manager - Central Networks - Stoke delivery centre.

11 Newbury Close, Wildwood, Stafford ST17 4TO
07989 700463

Any of the Trustees can also be contacted via the Pensions Policy Team at E.ON UK plc

Scheme Trustee - Electricity Pensions Trustees Limited (EPTL)

The Electricity Supply Pension Scheme (ESPS) is made up of 21 separate actuarially independent Groups of which the E.ON UK Group is only one. Each Group sends one appointed

and one elected Group Trustee to be a Trustee Director of EPTL. Graham Bartlett and Alan Boulter are the representatives for the E.ON UK Group.

Investments

One of our most important duties is to ensure that there is enough money in the scheme to pay all the benefits as they become due which might be many years in the future.

We are responsible for the fund's investments and we have appointed professional advisers, Hewitt Bacon & Woodrow, to help us make our decisions. We listen to their advice and question their recommendations before we make any decisions. We determine the overall investment strategy of the fund which is the proportions that should be invested in the different assets such as equities (shares in companies), bonds and property. We appoint investment managers to deal with the day to day investment decisions.

We mentioned in last year's report that our new investment strategy was designed to more closely match the assets of the pension scheme with its liabilities. The assets of the scheme are its investments and bank accounts and its liabilities are mainly the pensions in payment and the pensions that the fund will have to pay in the future. Our main aim is to protect the fund from having a deficit in the future and also to have more stable investment performance. E.ON UK plc accepted that one of the consequences of our investment policy might be a higher contribution rate in the future. This type of investment strategy is known as liability driven investment. Insight has been appointed as the core bond manager to deliver this strategy which is why they have such a large proportion of the fund. Insight invests in bonds and also uses specialist financial instruments such as derivatives to meet the Group's anticipated cash flows.

The current split of the assets is:

	% Actual	% Target
Bonds	66.7	70
Equities	25.4	20
Property	5.7	10
Other	2.2	0
Total	100	100

We reduced the proportion of the fund invested in equities but gave the equity managers different guidelines and higher performance targets. The current investment managers are:-

Spread of investments

Fund Manager	Portfolio	£m
Aberdeen	Bonds	310.8
Alliance Bernstein	Global equities	124.5
Baillie Gifford	UK equities	279.5
Capital International	Global equities	165.9
F&C	Property	206.0
Insight	Bonds	2,809.6
Jupiter	UK equities	229.3
Lansdowne	Hedge fund	42.2
Merrill Lynch	UK equities	109.5
Merrill Lynch	Property	37.0
Schroders	Property	21.5
Standard Life	Property	14.8
SSgA	Currency	61.3
UBS	Overseas equities	251.7
Wellington	Global equities	82.4
Western	Bonds	155.5

Pension funds invest for the long term but we also regularly monitor the performance of the investment managers to ensure that they are managing their portfolio efficiently.

This had been a good year for pension fund investments generally as most stock markets had strong performance. The fund had a return for the year of 17.5%.

Financial Information – How much money is in the fund?

The following information has been taken from the formal report and accounts for the year ended 31 March 2006.

the Scheme accounts and the auditors' report shows that the accounts for the year to 31 March 2006 gave a true and fair view of the Scheme's financial transactions.

The Trustee has appointed PricewaterhouseCoopers to audit

What came in	
	£ million
Contributions from members and company	61.2
Additional contributions from company towards the deficit	432.5
Transfer values from other pension arrangements	71.3
Other income	0.7
Returns on investment	723.9
Total received	1,289.6

What went out	
	£ million
Pensions	237.3
Lump sums on retirement	13.5
Lump sums on death	1.0
Purchase of pensions with AVC funds	0.6
Refunds and transfer values paid for leavers	5.0
Pension Protection Fund levy	0.7
Administration expenses	2.4
Investment management fees	8.3
Total paid	268.8

Fund value	
	£ million
Fund value at 31.March 2005	3,897.0
Increase in fund over the year	1,020.8
Fund value at 31 March 2006	4,917.8

Financial health of the Scheme

The accounts state how much money is in the fund but they don't show if that money is enough to pay all the benefits due to members now and in the future. A financial health check, known as an actuarial valuation is carried out every three years. The actuary has to make some assumptions when working on the valuation such as inflation, interest rates, investment performance, mortality etc. The means that the results of an actuarial valuation are never exact but a best estimate of whether the scheme is in balance, has a surplus or has a deficit. The last actuarial valuation at March

2004 showed that the scheme had a deficit of £729 million. As mentioned in the Chairman's introduction, E.ON made a cash payment of £420 million. Although the formal actuarial valuation is every three years, we do monitor the funding level of the Group quarterly. As a result of the payment by E.ON and good investment returns the fund is estimated to be almost 100% funded on an ongoing basis. The next formal actuarial valuation of the scheme is at 31 March 2007 and we expect to have the results towards the beginning of 2008. More information on the Group's funding can be found in your first annual funding statement on pages 8 and 9.

How many members are there in the scheme?

The number of members in the Scheme is constantly changing as employees join and leave the Company, retire or die. The table below gives a snapshot of the position at 31 March 2006 for the various categories of members

Membership statistics at 31 March 2006	
Contributing members	7,784
Pensioners (including dependants)	30,526
Deferred pensioners	10,864
Total	49,174

Pension increase

The pension increase at 1 April 2006 was 2.7%. Members who had been retired for less than a year received a proportion of the increase. The amount of the increase was based on the change in the Retail Price Index (RPI) for the twelve months up to 30 September 2005.

EPAL, the administrators, now send letters each year to all pensioners advising them of the revised amount of pension they will receive.

If you have any questions about your pension you should contact EPAL. Their address and telephone number are shown on page 7.

Annual meetings

Four regional annual meetings were held in Ipswich, Derby, Worcester and Coventry during March 2006 and over a 1,000 members attended, our best total ever. If you would like a copy of the notes of the meetings please contact Natalie Coggan. Details about the next year's meetings will be sent to members in due course.

The ESPS also has an annual meeting and the next one is on 11 October 2006 at the British Library, in London. If you are interested in attending the meeting and would like an

agenda and map to the venue please contact Natalie Coggan.

Who advises the Trustees?

The Trustees have appointed a number of professional advisers to assist them in the running of the pension scheme. The Trustees have formal agreements with all their advisers and also have a rolling programme to review their advisers. The Scheme actuary, auditors and custodian are appointed centrally by the Scheme Trustee.

The current advisers to the Trustees are:-

Scheme Actuary	Keith Lelliott of Hewitt Bacon & Woodrow
Group Actuary	Sarah Kenyon of Hewitt Bacon & Woodrow
Investment Adviser	Hewitt Bacon & Woodrow
Legal Adviser	DLA Piper LLP
Auditors	PricewaterhouseCoopers LLP
Custodian	Bank of New York.

Pensions News

Here's some general information about what's been happening in the pensions arena

Finance Act 2004

The Finance Act 2004 came into effect from 6 April 2006 and introduced a new tax basis for occupational and personal pension schemes replacing the previous eight tax regimes. The existing limits on benefits and contributions have been replaced by a life time allowance and an annual allowance. The life time allowance is £1.5 million for 2006/7 and the annual allowance is £215,000. For members of final salary pension schemes there is a standard factor to calculate the value of their pension which is set by HM Revenue & Customs and is £20 for every £1 of pension.

Employees can pay into a company pension scheme and a personal pension at the same time subject to the new annual and lifetime allowance limits.

If you would like to know more about the changes you can go to the HM Revenue and Customs website: www.hmrc.gov.uk.

The Company amended the pension scheme rules to allow some of the flexibility introduced by the Finance Act. The two main changes were:-

- Remove the 15% limit on pension contributions. Members can contribute up to a 100% of their salary in additional pension contributions subject to a minimum amount of cover.
- Tax free cash - after 6 April 2006 members at retirement can take up to 25% of the value of their total fund as a tax free cash sum. This includes the value of any additional voluntary contributions and any other benefits as well as the standard scheme benefits. Members reaching retirement will be given a quote on the standard scheme basis and also given the option to take the maximum amount as tax free cash.

The Company sent all current members a letter explaining the changes. Pensioners are not affected by the changes unless they are also working and paying into another pension scheme.

One of the changes included in the letter was that if a member died in service, their dependant would be able to commute their pension for a lump sum, This option has now been withdrawn.

Government's white paper on pension reform.

On 25 May 2006 the Government published its White Paper on Pensions Reform entitled; 'Security in retirement: towards a new pensions system.' The Government aims to encourage more people to plan and save for their retirement. The main proposals are:-

- Introduce low cost personal accounts to give people without access to occupational pension schemes the opportunity to save. Staff will be automatically enrolled into either their employer's pension scheme or a new personal account, with the freedom to opt out. Employers will have to make minimum matching contributions.
- The basic state pension will be increased in line with earnings growth rather than prices.
- The state pension age will be increased in line with increasing longevity.

The consultation period on the White Paper proposals ends on 11 September 2006 and the Government intends to respond to the comments within 3 months from the close of the consultation.

If you would like to know about the Governments proposals go to the Department for Work and Pensions website at www.dwp.gov.uk

Want to know more?

If you would like a copy of the full report and accounts for the E.ON UK Group or for the ESPS please contact:-

Natalie Coggan
Pensions Policy
E.ON UK plc
Westwood Way
Westwood Business Park
Coventry
CV4 8LG

Telephone: 024 7642 5636
0870 744 3732
0870 744 0373
0870 991 1896

Email: pensions.feedback@eon-uk.com

If you have a query about the payment of your pension benefits you should contact the administrators:-

Electricity Pensions Administration Ltd (EPAL)
West Oak House
Westwood Business Park
Coventry
CV4 8HS

Telephone : 0870 744 3257
Fax : 0870 743 6990

Email : teresa.robbs@epal.uk.com

If you have any general pension questions then you should contact one of the pensions policy team at E.ON UK's offices at Westwood Business Park :-

Adrian Harris Pensions Manager 024 7642 4365
Natalie Coggan 024 7642 8636
Amanda Crocker 024 7642 5251
Chris Osborne 024 7642 4239
Faith Walsh 024 7642 4520
Fax: 024 7642 5365

Email: pensions.feedback@eon-uk.com

Moving House ?

Don't forget to let EPAL know. Changes of address and/or bank account are only accepted in writing and not over the phone.

SUMMARY FUNDING STATEMENT

E.ON UK Group of the Electricity Supply Pension Scheme:

This is first annual funding statement, which is a new requirement to let you know the Group's financial position. We will be sending you one of these funding statements each year.

As Trustees, we are responsible for monitoring the Group's financial health and reporting its financial position to members. The Pensions Act 2004 introduced some new requirements for trustees and employers, working together to maintain the financial health of their scheme. We will

publish the first full statement under the new requirements after the 31 March 2007 actuarial valuation. In the meantime, this statement is based on the information from the actuarial valuation at 31 March 2004. It shows the combined results for the Eastern, EME, Midlands and Powergen Sections of the E.ON UK Holding Group of the Electricity Supply Pension Scheme which were merged at 31 March 2005 to form the E.ON UK Group of the Electricity Supply Pension Scheme.

The last ongoing funding valuation

The most recent funding valuation of the pension scheme showed that on 31 March 2004 the funding position was as follows:

	£M
Assets	3,702.8
Amount needed to provide benefit	4,431.9
Shortfall	729.1
Funding level	83.5%

As a result, E.ON UK plc made cash injection of £420m on 1 April 2005 to help eliminate the shortfall.

If the Group had been discontinued at the 31 March 2004, the deficit would have been £1,692.2m, equal to a funding level of 68%. The actuary looks at this situation to understand the Group's financial health and the extent to which this relies on the continuing prosperity of the Company. It does not mean the Company is thinking of winding up the Group.

There is no change in the rate of active members' contributions.

Change in funding position

The position has improved since the previous valuation. This is mainly due to the cash injection of £420m and improved equity performance. The funding position of the Group is now estimated to be nearly 100%.

Payment to E-ON UK

There has not been any payment to E-ON UK plc out of the Group's funds in the previous twelve months.

How the Group works

E.ON UK plc pays contributions to the pension scheme so that the Group can build up a fund to pay pensions and other benefits to scheme members when they retire. Current members also pay contributions to the scheme, which are deducted from gross salary.

How is the amount the Group needs worked out?

The money that the Group has to support the benefits is called the funding for the Group. The actuary works with the Trustees and the Company to understand the funding of the Group. The Trustees obtain a formal actuarial valuation of the benefits earned by members and assets of the scheme every three years. The liabilities of a pension scheme are not a fixed value but are an estimate based on assumptions about the members and the economy. The assets of a pension scheme are all its investments and bank balances.

Regular valuations are needed to check if the assumptions the actuary has made have been matched by the experience of the Group. The valuation results show the amount of assets that the Group needs to cover the benefits and also

the contributions that the Group needs to pay for benefits building up in the future.

The importance of E.ON UK's support

The Trustees' objective is to have enough money in the scheme to pay pensions now and in the future. However, success of the Group relies on E.ON UK plc continuing to support the Group because:

- E.ON UK plc pay a substantial contribution each month towards the future cost of the scheme;
- the funding level can fluctuate, and when there is a funding shortfall, E.ON UK plc will usually need to put in more money; and
- the target funding level may turn out not to be enough so that E.ON UK plc will need to put in more money.

What would happen if the Group started to wind up?

If the Group winds up, you might not get the full amount of pension you have built up even if the scheme is fully funded under our plan. However, whilst the Group remains ongoing, even though funding may temporarily be below target, benefits will continue to be paid in full.

Under the provisions of the ESPS, the Group could only be wound up in limited circumstances such as the insolvency of the Company. If the Group starts to wind up, then even if it is fully funded under our funding plan, you might not get the full amount of pension you had built up. In this situation, E.ON UK plc has to pay enough for the Group to secure members' benefits with an insurance company, if it can. The Pension Protection Fund, may provide some support for pension schemes that wind up with a shortfall.

Further information and guidance is available on the Pension Protection Fund's website at www.pensionprotectionfund.org.uk. Or you can write to the Pension Protection Fund at Knollys House, 17 Addiscombe Road, Croydon, Surrey, CR0 6SR.

Why does the funding plan not call for full solvency at all times?

The full solvency position assumes that benefits will be secured by buying insurance policies. Insurers are obliged to take a very cautious view of the future and need to make a profit. The cost of securing pensions in this way also incorporates the future expenses involved in administration. By contrast, our funding plan assumes that E.ON UK plc will continue in business and support the Group.

What is the Group invested in?

The Trustees have recently completed a review of how the assets of the scheme are invested. As a result the Trustees

have moved a significant amount of assets away from shares and into bonds. The Trustees' aim is to more closely match the Group's liabilities with the assets. The current asset allocation is :-

Bonds (Fixed Income Securities)	70%
Equities (Company shares)	20%
Commercial property	10%

The Trustees are continually monitoring the investment managers and review the investment strategy and the funding level on a regular basis.

Where can I get more information?

If you have any other questions, or would like any more information, please contact Adrian Harris, E.ON UK's Pensions Manager. His contact details are on page 7 of the report.

If you are thinking of making any changes to your pension arrangements such as opting out of the Group, you should obtain as much information as you can and think about obtaining independent financial advice. The Financial Services Authority website - www.fsa.org.uk has more information about finding a qualified financial adviser or information about independent financial advisers in your area can be found at www.unbiased.co.uk

