RWE NPOWER TAX REPORT 2013

Registered Office:

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Registered in England & Wales: No. 3892782

COMMENTARY

In 2013, RWE invested more than £790m into energy infrastructure in the UK, mostly in new renewable energy technologies. Over the past six years, RWE has invested more than £6bn into the UK, roughly half of which was into new renewable energy, half into new highly efficient gas power stations and over £200 million on retail systems to improve customer service and experience on a sustainable basis.

In June 2013 we published our first tax commentary on the taxes we paid, relating to our 2012 results. This first tax report contained a comprehensive explanation of how the relevant parts of the UK tax system apply to our business. These are substantially unchanged, so this 2013 update consists of updated numbers and a brief commentary.

Like last year, this update relates to RWE's retail and generation businesses in the UK, which although operated independently, are commonly owned by RWE Npower Holdings plc (the "top" UK company).

Our operating profits fell from £390m in 2012 to £181m in 2013.

Our UK statutory accounts profits, which are the starting point for calculating our UK tax bill, also fell by about the same amount from £277m to £71m.

In line with last year's report, we have prepared a two-part reconciliation which shows:

- the relationship between our reported operating profit and the sum of our legal entity statutory accounts profits before tax; and
- the relationship between the expected corporation tax charge on that statutory accounts profit (assuming the standard UK tax rate for the year) and the actual corporation tax charge.

In 2012, our taxable profits were significantly lower than expected primarily because our capital investments were such that tax relief via the capital allowances system was bigger than the equivalent accounting depreciation, so we experienced a temporary advantage, effectively delaying payment of corporation tax.

In 2013, this temporary advantage relating to capital investment was partly reversed, thereby increasing our taxable profits. But overall our taxable profits were the same as expected, mostly because of a statutory exemption from tax which automatically applies to the profit on sale of trading subsidiaries (the substantial shareholding exemption, which was introduced in 2002).

Overall, RWE Npower made a similar level of taxable profits in 2013 as 2012, but they were fully offset by tax losses arising from continuing large investment into UK renewable energy projects by RWE Innogy. As a result of this application of group relief for losses across RWE's UK businesses, we did not owe any corporation tax to HMRC in 2013.

Our UK business paid zero dividends to our German parent in 2013. The interest we were charged on loans from RWE group companies in Germany and Netherlands (as described in the 2012 report) was at an average rate of c. 4% - this was cheaper than the average cost of debt reported by one of our British owned competitors.

GROUP PROFIT & TAX RECONCILIATION

		2013 (£m)	2012 (£m)
Operating profit under IAS (EBITA) reported in RWE AG Accounts		181	390
Less UK amortisation		(71)	(71)
Less UK interest expense		(88)	(114)
Adjust for non-operating profit (loss) not included above:			
Profit on sale of shares in subsidiaries to Telecom Plus (2012: sale of HNP)		221	76
Restructuring and reorganisation costs		(80)	(28)
Power station impairment		(35)	-
Differences between IAS and UK accounting treatments:			
Pensions		(48)	10
Other		(9)	6
Exclude 50% share of HNP (loss) in 2012		-	8
RWE npower group UK statutory profit before tax		**71**	**277**
Excludes income from shares in npower subsidiaries			
Split as	Retail:	256	138
	Generation:	(185)	139
Expected current tax on UK statutory profit at 23.25% (2012: at 24.5%)		16	68
Adjustments			
Capital allowances less than / (more than) accounts depreciation		15	(51)
Expenses not deductible for tax purposes (mostly goodwill amortisation)		20	24
Profit on sale of shares not taxable (substantial shareholding exemption)		(51)	(19)
Adjustment to tax computed for prior periods		3	3
Utilisation of brought forward tax losses (domestic gas business)		-	(7)
Other timing differences (mainly pensions)		13	-
Actual current tax charge		**16**	**18**
Payable to other RWE UK Companies for their tax losses		(16)	(18)
Tax payable to HMRC		0	0

RWE NPOWER STATEMENT OF TAX POLICY

Our tax policy was set by the RWE npower board. The responsibility for implementing it rests with our Director of Tax, who reports to the Board on a regular basis and ad hoc if the need arises .

- We manage our tax affairs responsibly and transparently
- We don't bend or exploit the rules, and we don't use contrived or artificial structures to reduce our tax liabilities.
- We take advantage of the reliefs and incentives that exist but show respect for the intention, as well as the letter, of the law at all times.
- We actively seek open dialogue with Her Majesty's Revenue and Customs (HMRC) in pursuit of a professional and constructive working relationship.
- We are committed to conducting our affairs in a way that maintains our Low Risk tax classification, first awarded to us by HMRC in 2008.
- Our tax team is involved in all significant business developments so that we can fully assess any potential tax consequences of our actions in advance.
- If we find a material tax uncertainty, we seek proportionate external advice from reputable professional firms.
- We never deliberately conceal or knowingly misrepresent issues to HMRC. If we discover errors, then we disclose them.
- We take an active role in contributing to the UK tax policy-making process, where relevant, including by taking part in formal and informal consultations.
- We expect our UK Tax Team to maintain enough skilled resources so that we can adhere to the principles stated above – without exception.

By responsibly managing our tax affairs in line with all 10 elements of our tax policy, we are also fully adhering to the Confederation of British Industry's seven tax principles.

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