RWE - UK Generation & Supply Consolidated Segmental Statement

for the year ended 31 December 2013

Executive Summary

Energy Supply

- The Supply segment supplied over 3 million households with 14.6 terawatt hours (TWh) of electricity and 1,408 million therms of gas in our domestic segment in 2013. In our non domestic segment we supplied approximately 350,000 businesses across Britain with 33.4 TWh of electricity and 163.4 million therms of gas in 2013.
- From total Supply revenue of £7.2bn we made a profit (earnings before interest and tax) of £217m, which represents an overall return of 3.0%. Excluding the impact of restructuring costs, this return represents a slight year-on-year increase which was predominantly driven by an improved performance in our non domestic segment, largely attributable to a one time catch up on the recovery of obligation (feed-in-tariff) costs. When we take into account the one-time restructuring (severance) costs we have incurred in 2013 to further improve the future efficiency of the business, our reported EBIT margin is slightly lower than 2012.
- In the domestic segment we have seen the total costs from network charges and fulfilling Government social and environmental obligations (other direct costs) increase by 34%, whilst fuel costs rose by 23% in the period 2011-13. Consequently, total Supply revenue rose by 18%, over the same period, due mostly to retail price rises announced to cover these increasing costs to supply our customers coupled with a much colder start to the year than we would usually expect in 2013. Over this period the profit margin has risen from 1.2% in 2011 to 3% in 2013.
- At the same time, the cost to run the total Supply business (indirect costs) has been reduced by more than 10% since 2011 and we remain in the middle of an end-to-end business transformation programme that is designed to make us more efficient and put the customer at the heart of everything that we do.

Energy Generation

- RWE's UK power station fleet produced 36.3 TWh of electricity in 2013, compared to 42.4 TWh in 2012, a decline of 14% in electricity generation. Total profit (EBIT) in 2013 was £21m, a reduction of 83.3% from 2012 reflecting both the very challenging market conditions impacting on UK Generation (particularly for gas-fired power plant) and the closure of certain power plants required under governmental environmental regulations (such as the Large Combustion Plant Directive (LCPD)).
- The Generation segment also incurred a £(35)m impairment charge against the carrying value of its power plant and £(44)m of severance costs arising from the efficiency programmes and plant closures. These costs are excluded from the Consolidated Segmental Statement in accordance with Ofgem guidelines. Including these costs, the Generation segment incurred a loss of £(58)m in 2013.
- In our opinion, an in year profit margin based on sales revenue is not an appropriate financial measure for a business based on long-term infrastructure investment. RWE invested more than £2.5bn into UK energy infrastructure between 2011-2013, split approximately 50:50 in gas-fired power plant and new renewable technologies.

Earnings & Investment

- The combined EBIT for RWE-UK Generation and Supply Segmental Statement in 2013 was £238m.
- Capital expenditure for the RWE-UK Generation and Supply segments and Renewables businesses in 2013 totalled £791m, more than £2m invested in Britain every day of 2013.

1. Background to the Consolidated Segmental Statement ("CSS")

- On 21 October 2009 the Office of Gas and Electricity Markets ("Ofgem") introduced two licence conditions (Electricity Supply and Gas Supply Licence Condition 19A and Electricity Generation Licence Condition 16B) requiring large, vertically integrated energy companies to publicly report separate financial results for their generation and supply businesses.
- The requirement arose from Ofgem's "Energy Supply Probe" with the objectives of:
  - Providing better transparency on how revenues, costs and profits are earned across the segments;
  - Improving comparability across the industry;
  - Assisting users to interpret the individual company results more clearly.
- The Licence Conditions (LC's) were effective from year ended 31 December 2009. In accordance with the LC's, RWE-UK Generation & Supply (RWE-UK G&S) has prepared and published its CSS for the years ended 31 December 2009 to 2012 and now 2013. These are available to view on the website, www.npower.com.

2. Basis of preparation of the Consolidated Segmental Statement for the year ended 31 December 2013

- Consistent with the year end 2011 and 2012 CSS, the year end 2013 CSS has been prepared in accordance with the modified Licence Conditions 16B & 19A that became effective from 24 October 2012. These require the CSS to be prepared from and "reconciled with audited figures (prepared under International Financial Reporting Standards) published in group accounts".
- The financial results of RWE-UK G&S are fully reflected in the consolidated financial statements of its ultimate parent company, RWE AG, which are prepared under International Financial Reporting Standards (IFRS) and subject to independent external audit.
- In section 13 we have presented a complete reconciliation between the Generation and Supply segment revenues and earnings before interest and tax, as reported in the CSS, to the UK Generation and Supply revenues and operating result disclosed in the 2013 RWE AG Annual Report which can be found by following the link below:

  http://www.rwe.com/web/cms/mediablob/en/2320248/data/105818/5/rwe/investor-relations/RWE-Annual-Report-2013.pdf
- The year end 2009 and 2010 CSS's were prepared in accordance with the original LC's that were in force until 23 October 2012. These required that the CSS be prepared from and reconciled to the "licensee's audited UK statutory or consolidated group accounts". RWE-UK G&S is exempt under section 400 of the Companies Act 2006 from preparing and filing consolidated group accounts. Therefore the 2009 and 2010 CSS's were prepared by aggregating the individual statutory accounts of the legal entities of the RWE Npower group that held a generation or supply licence during these years. These individual statutory accounts were prepared under United Kingdom Generally Accepted Accounting Principles (UK GAAP) and were subject to audit by independent, external auditors.
- To assist in year on year comparisons, Appendix 1 to the year end 2011 CSS included a reconciliation of the 2010 CSS EBIT, as published in accordance with the original LC's, to the 2010 EBIT that would have been published had the modified LC's been in effect at that time.

3. New RWE AG group reporting structure effective from 1 January 2013

- Up to and including year end 2012, RWE AG managed and reported the UK Generation and Supply businesses as a single "United Kingdom segment" in the RWE AG Annual report.
- On 1 January 2013 responsibility for steering nearly all RWE AG's conventional power stations across Europe was transferred to RWE Generation SE, a wholly owned subsidiary of RWE AG. All the power stations operated by the Generation segment in the UK (and owned by the RWE Npower plc legal entity) became subject to this steering model. The new reporting structure of RWE AG is set out on page 55 of the RWE AG Annual Report 2013 (see link in section 2 above).
- Following the changes in group reporting structure, the revenues and profits of the UK Generation and Supply businesses are disclosed in the RWE AG Annual Report 2013 as follows:
  - The revenues and operating results of the UK Supply business are disclosed within the segment "Supply United Kingdom" contained on page 193 of the RWE AG Annual Report 2013.
  - The revenue from conventional power generation in the UK is disclosed in note 2 to the "Segment reporting Divisions 2013" table on page 193 of the RWE AG Annual Report 2013.
  - The operating result from conventional power generation in the UK is disclosed in the "Operating Result" table on page 64 of the RWE AG Annual Report 2013.
- In section 5 below we have summarised the reporting structure of RWE-UK G&S's operations to assist users in understanding how the CSS has been prepared and how it links into the segment disclosures in the RWE AG Annual Report 2013.

4. How we are working to improve external confidence and trust in the CSS

4.1 The CSS is prepared from segmental data in the RWE AG Group audited Annual Report

- The RWE Npower CSS is prepared from the underlying UK Generation and Supply revenue and operating profits that are disclosed in the RWE AG Annual Report 2013. The Consolidated Financial Statements of RWE AG are audited by PricewaterhouseCoopers (PwC) Germany under International Standards on Auditing.
- Users of the CSS can take comfort from the fact that the segmentation of revenue and profit between the UK Generation and Supply segments is based on the disclosed revenue and operating result of the respective segments that has been extracted from the audited RWE AG Annual Report.

4.2 The 2013 CSS has been subject to independent testing by PwC, the independent external auditors of the RWE Group

- RWE-UK G&S has been actively working with Ofgem and other industry participants to improve the trust and confidence that users have in the CSS. To further this we have commissioned PwC UK to perform certain checks and procedures on the preparation and content of the year end 2013 CSS.

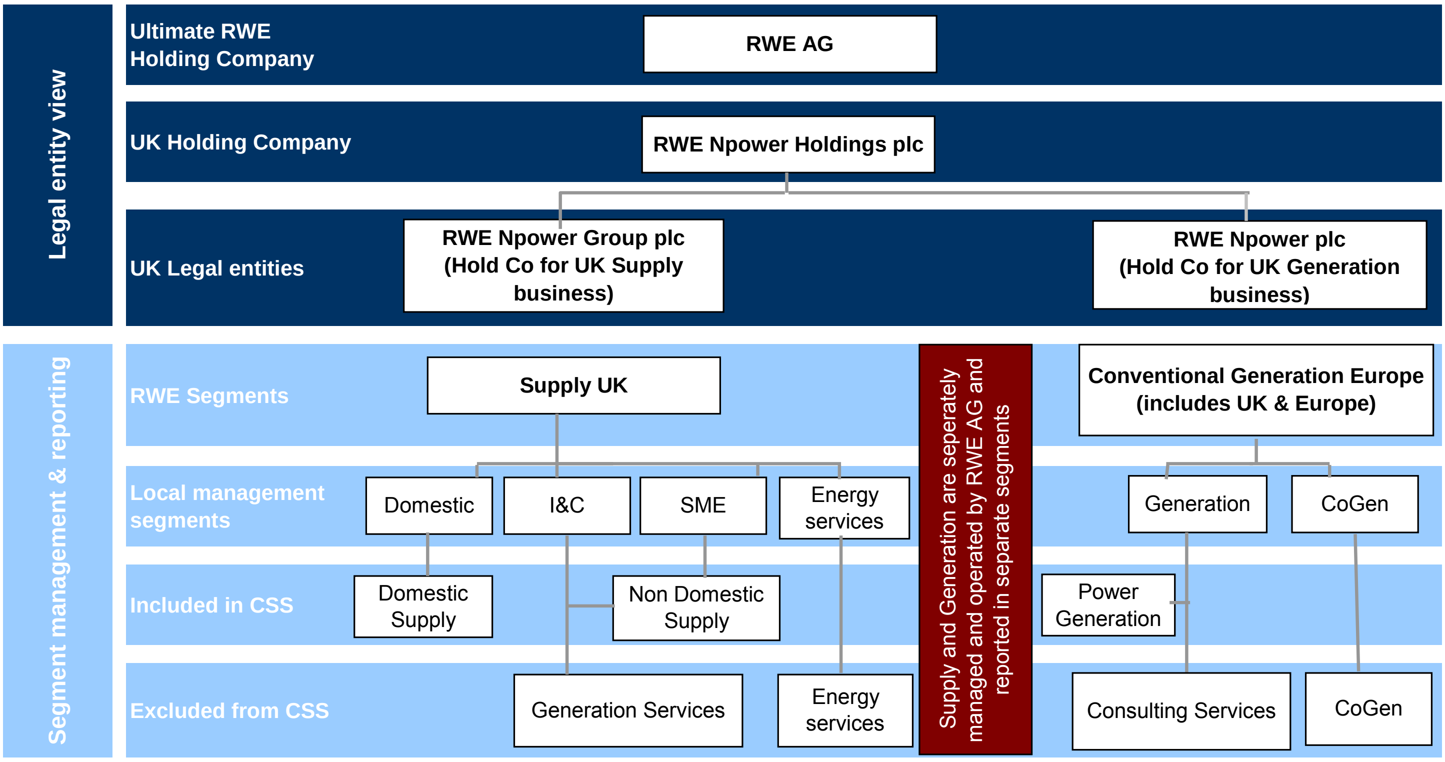
- PwC UK completed their tests and submitted their findings to both Ofgem and the Directors of RWE Npower on publication of the CSS. There are no material matters within the year end 2013 CSS as published, as tested by PwC, that require adjustment or additional disclosure.

4.3 We have committed to commissioning a full scope audit on the year end 2014 CSS

- As a further step we will commission an external audit of the 2014 CSS by PwC UK. The independent audit report of PwC UK will be published alongside the year end 2014 CSS.

5. RWE Npower UK legal and management structure

- Detailed below is a summarised, high level view of the legal entity and management and reporting structure of the RWE-UK G&S operations in the UK. From a legal entity perspective the UK conventional generation and supply business are owned by RWE Npower Holdings plc.
- Following the change in the RWE Group steering and reporting structure from 1 January 2013 the UK Supply and Conventional generation businesses are separately managed and steered by RWE AG group (see section 3 above).
- At the UK level the Supply business is organised into four sub-segments being: Domestic; Industrial & Commercial (I&C), Small & Medium Enterprises (SME) and Energy Services.
- In sections 6 & 7 below we explain further the activities that are excluded from the CSS.



6. Legal entities included in the year end 2013 CSS

- The CSS includes the revenues and costs attributable to the generation and electricity and gas supply activities of all subsidiaries of RWE Npower Holdings plc (the Company) that held an electricity generation or an electricity/gas supply licence AND engaged in generation or gas/electricity supply activities during the year ended 31 December 2013.
- A list of the legal entities (all of which are ultimately owned 100% by the Company) which held a generation or supply licence and traded during 2013 are detailed below:

Company registration No.	Legal Entity	Licences		Business Activities	
		Generation	Supply	Generation	Supply
3892782	RWE Npower Plc	X	X	Yes	No
3653277	Npower Ltd		X	No	Yes
3768856	Npower Commercial Gas Ltd		X	No	Yes
2999919	Npower Gas Ltd		X	No	Yes
3432100	Npower Northern Ltd		X	No	Yes
3782443	Npower Direct Ltd	X	X	No	Yes
3937808	Npower Yorkshire Ltd		X	No	Yes
5199936	Electricity Plus Supply Ltd [1]		X	No	Yes
5199935	Gas Plus Supply Ltd [1]		X	No	Yes

Note 1. Electricity Plus Supply Ltd and Gas Plus Supply Ltd were sold in December 2013. The CSS supply segment includes the operating result of these entities to the date of disposal.

- Some of the entities above have trading activities that are excluded from the scope of Ofgem's requirements. We refer to these activities as "out of scope" and the revenues and costs attributable to these activities are excluded from the CSS. Examples of such "out of scope" activities include:
  - Generation Services relating to the provision of consultancy and advice to business customers in the supply segment;
  - Engineering, maintenance and technical consultancy services provided to external business customers of the generation segment.
- The CSS does not include the revenues and costs of subsidiaries or entities that do not hold a generation or gas/electricity supply licence such as:
  - the legal entities that operate Combined Heat and Power Plants (the CoGen segment in the diagram in section 5 above);
  - the legal entities that provide energy services such as boiler installation and maintenance to domestic customers, metering services to third parties or electrical/mechanical installation services to the private and public sector (the Energy Services segment in the diagram in section 5 above).
- The CSS does not include subsidiaries of the Company that held either electricity generation or gas/electricity supply licences but which were dormant and had no trading activities during the year ended 31 December 2013.
- Any profit created through RWE Supply & Trading acting on behalf of RWE's supply or generation businesses in the wholesale markets is attributed to the supply or generation business as appropriate.

7. Financial items excluded from the CSS

- Ofgem has published Guidelines on preparing the CSS to ensure consistency and comparability across the respective CSS's of the Companies.
- Paragraph 1.6 of the Guidelines sets out examples of financial items that Ofgem would expect to be excluded from the CSS. These include:
  - Mark to market adjustments;
  - Profits or losses on disposals;
  - Restructuring costs that have been decided as such in the Groups annual report (see below)
  - Impairment charges.
- Non-operating costs excluded from the 2013 CSS in accordance with the Ofgem guidelines were:
  - Employee severance costs of £(44)m and £(35)m in the Generation and Supply segments respectively;
  - Plant impairment costs of £(35)m in the Generation segment.
- Although these non-operating items are excluded from the CSS in accordance with Ofgem guidelines they represent real costs incurred by the segments in managing their operations. To aid transparency and understanding we have added a supplementary table on page 9 that shows the impact on the reported CSS EBIT of including these non-operational costs. This provides users with a complete picture of the EBIT of the Generation and Supply segments.
- We have set out in section 13, a complete reconciliation between the Generation and Supply segment revenues and earnings before interest and tax, as reported in the CSS, to the UK Generation and Supply revenues and operating result disclosed in the 2013 RWE AG Annual Report. A full description is provided of the financial items that were included in the operating result but excluded from the CSS to ensure compliance with the Ofgem guidelines above.
- Restructuring costs. The classification of costs as non-operating is governed by a RWE AG Corporate Business Rule (CBR). To the extent that costs meet the definition of non-operating as set out in the CBR they are excluded from arriving at the operating result of the UK Generation and Supply segments in the RWE AG Annual Report. Likewise these non-operating costs are excluded from the CSS in accordance with the Ofgem guidelines.
- In 2013 RWE AG changed the CBR in relation to the classification of certain costs associated with restructuring and transformational programmes. Up to and including year end 2012 such costs were classified as non-operating and were excluded from both the RWE operating result and the CSS. From 2013 these costs do not meet the definition of non-operating costs under the CBR and therefore are included in the RWE operating result and the CSS. The effect of this is that the domestic supply segment for year end 2013 includes £18m of costs that in prior years would have been excluded from the CSS as a non-operating cost in accordance with the RWE AG CBR's in place at that time.

8. Affiliates Joint Ventures (JV's) included in the CSS

- The Company has no joint venture arrangements, therefore there are no joint ventures that should be included in the CSS.
- An affiliate company, RWE Innogy (UK) Ltd, has two joint venture interests in offshore wind farms which hold a generation licence and are engaged in generation activities.
- Although RWE Innogy (UK) Ltd does not form part of RWE UK G&S it is treated as an "Affiliate" for the purposes of the CSS.
- Accordingly, RWE Innogy (UK) Ltd's share of the revenues, costs and operating result in the two JV wind farms is included in the Generation segment of the CSS in accordance with paragraph 5 of the modified LC's. The details of the two JV's and the proportionate share of the results reflected in the CSS are as follows:
  - 50% of the operating result of Greater Gabbard Offshore Winds Ltd (company registered number: 04985731).
  - 60% of the operating result of Gwynt Y Mor Offshore Wind Farm Ltd (company registered number: 03697015).
- The proportionate share of the RWE Innogy (UK) Ltd interest in the JV's are reflected in each line of the CSS. Operating result is defined as the earnings before interest and tax.
- RWE Innogy (UK) Ltd owns or has interests in other wind farms that do not hold a generation licence. In accordance with the Ofgem guidelines for preparing the CSS the revenues and costs of the entities that own these wind farms are not included in the CSS.

9. Transfer pricing principles across the segments and with other divisions of the RWE Group

- The Generation segment sells capability to the UK branch of RWE Supply and Trading (RWEST) via an asset tolling agreement. This arrangement is explained in detail in section 10.1.1. The Supply segment sources its wholesale commodity requirements for power and gas from RWEST in the UK. This arrangement is explained in detail in section 11.2.
- There are no wholesale energy supply agreements between the Generation and Supply segment.
- Both the Generation and Supply segments receive and provide central support services to each other and also to and from other divisions of the RWE AG Group. These are mainly support services and functions such as IT, HR, Transactional Accounting, Tax and Internal Audit.
- The arrangements specified above have to be conducted at "arms length" as defined by the Organisation for Economic Co-operation and Development (OECD). This means that:
  - the contractual arrangements are equivalent to those that would have existed had the services been sourced from or provided to an independent third party.
  - the pricing and general terms and conditions are those that would have been agreed between independent third parties under comparable business conditions.
- The arrangements are compliant with relevant legal, statutory and tax legislation.

RWE-UK Generation & Supply Consolidated Segmental Statement for the year ended 31 December 2013

RWE The energy to lead

- The notes in sections 1-9 above and 10-14 below are integral to gaining a full and proper understanding of the CSS and should be read in conjunction with the statement.
- As stated in section 2 above, a full reconciliation between the RWE-UK G&S segment revenue and operating result for year end 2013 (as reported in the RWE AG Annual Report 2013) to the 2013 CSS is presented in section 13 below.

		GENERATION	SUPPLY				
			Electricity		Gas		
YE 2013 Consolidated Segmental Statement		Total Generation	Domestic	Non-domestic	Domestic	Non-domestic	Aggregate Supply
Total revenue	**£m**	**2,327**	**2,091**	**3,180**	**1,781**	**177**	**7,229**
Revenue from sales of electricity and gas	£m	*2,303*	*2,091*	*3,180*	*1,781*	*177*	*7,229*
Other revenue	£m	*24*	-	-	-	-	-
Total operating costs	**£m**	**2,065**	**1,951**	**3,083**	**1,736**	**180**	**6,950**
Direct fuel costs	£m	1,677	892	1,864	1,032	118	3,906
Direct costs	£m	64	761	1,106	449	23	2,339
Network Costs	£m	*64*	*483*	*687*	*365*	*23*	*1,558*
Environmental & social obligation costs	£m	-	*278*	*419*	*84*	-	*781*
Indirect costs	£m	324	298	113	255	39	705
WACO F/E/G	£/MWh, p/th	46.20	61.10	55.81	73.3	72.2	N/A
EBITDA	**£m**	**262**	**140**	**97**	**45**	**(3)**	**279**
Depreciation and amortisation	£m	(241)	(30)	(7)	(23)	(2)	(62)
EBIT	**£m**	**21**	**110**	**90**	**22**	**(5)**	**217**
Volume	TWh, Mtherm	36.3	14.6	33.4	1,407.5	163.4	N/A
EBIT Margin		**0.9%**	**5.3%**	**2.8%**	**1.2%**	**(2.8%)**	**3.0%**
Supply Total Domestic EBIT Margin							**3.4%**
Supply Total Non-domestic EBIT Margin							**2.5%**

		GENERATION	SUPPLY				
			Electricity		Gas		
2013 EBIT including severance and impairment costs		Total Generation	Domestic	Non-domestic	Domestic	Non-domestic	Aggregate Supply
2013 EBIT per CSS	**£m**	**21**	**110**	**90**	**22**	**(5)**	**217**
Severance Costs[1]	£m	(44)	(16)	(4)	(14)	(1)	(35)
Impairment	£m	(35)	-	-	-	-	-
2013 EBIT incl severance & impairment costs	**£m**	**(58)**	**94**	**86**	**8**	**(6)**	**182**
EBIT Margin		**(2.5%)**	**4.5%**	**2.7%**	**0.4%**	**(3.4%)**	**2.5%**
Supply Total Domestic EBIT Margin							**2.6%**
Supply Total Non-domestic EBIT Margin							**2.4%**

Note 1: Severance costs have been allocated across the various supply segments on the same basis as indirect overheads and costs as described in section 11.4.

Note 2: See Appendix on page 18 for Glossary of terms and summarised 2012 CSS.

10. Generation segment

10.1.1 Overview of asset tolling arrangement

- Our gas, coal and biomass power stations sell capability to the UK branch of RWEST via an arm's length asset tolling agreement. By arm's length, we mean the price which independent third parties would have agreed with each other under comparable business conditions. In exchange for a capability fee, the asset tolling agreement provides RWEST in general with the option to deliver gas, coal and biomass to our power stations and have this converted into electricity. The initial fee is based on the option value derived from a combination of the forward markets at the time of the capability transfer together with back-tested and benchmarked option models. Transfer typically takes place 3 years ahead of generation.
- RWEST maintains a series of ring-fenced commercial asset optimisation trading books associated with the commercial management of these power station options and has an obligation to maximise and optimise the realised value of these books for the benefit of the Generation segment. All trading within these books on behalf of the Generation segment is backed by the assets and as such there is no speculative trading activity that takes place. The difference between the forward option value for the power station options and the value achieved by RWEST in these ring-fenced books is returned to the Generation segment as an adjustment to the initial capability fee.
- Our oil power stations (whilst making up a far smaller proportion of our fleet) are run on a different basis to the gas, coal and biomass power stations. The revenue represents the sale of electricity rather than a transfer of capability, however, the cost of oil procured and consumed for generation is netted off against revenue. RWEST still manage the positions in respect of the oil power stations and will seek to optimise them in respect of market conditions and plant availability, again passing any gains or losses in respect of this back to the Generation segment. RWEST received a management fee of circa £6m in 2013 for managing this optimisation activity for the main Generation fleet. This fee is shown as part of our operating costs.

10.1.2. Change in basis of disclosing Generation revenue and fuel costs in the CSS

- The impact of the arrangements described in 10.1.1 above is that the revenue reported for the Generation segment in the 2013 RWE AG Annual Report is as follows:
  - Gas, coal and biomass stations. The reported revenue in the RWE AG Annual Report is the value of the initial capability payment plus any subsequent adjustment arising from optimisation. This is the gross margin of the capability transferred (net of fuel and carbon costs).
  - Oil. The reported revenue in the RWE AG Annual Report is the gross margin after netting off the cost of fuel purchased and consumed for the volume generated.
- The revenue reported in the RWE AG Annual Report is therefore the gross margin and reflects the underlying contractual arrangements in place. However, this makes comparisons of the revenue and gross margin with other companies (who operate alternative trading models) difficult.
- Therefore to assist comparability with other companies we have made an adjustment to increase the revenue line by £1,520m. At the same time we have increased direct fuel costs in the CSS by the exact same amount (see section 13).
- The effect of these two management adjustments is to state revenue on a gross basis and therefore assist users in making comparisons with industry peers. Likewise in comparing direct fuel costs. The two adjustments net off to zero and have no impact on the reported EBIT in the CSS.

10.1.3 Renewable stations

- Also included within revenue from sale of electricity and gas is RWE Innogy (UK) Ltd’s share of revenues from Greater Gabbard Offshore Winds Ltd and Gwynt Y Mor Offshore Wind Farm Ltd.
- Other elements included are post option income, ancillary services and balancing mechanism income.

10.1.4 Other revenue

- Included within the Generation segment are earnings of £24m arising from the sale of power to RWEST. This power has been procured by the group under long term Power Purchase Agreements (PPA’s) with affiliated Wind farm operators which is then sold to RWEST at market prices under an arm’s length arrangement. The earnings arise from the difference between the long term fixed price of the power under the PPA’s to the prevailing market price at the time of sale to RWEST. These transactions are technically out-of scope of the CSS as they do not form part of the licensed activities of the generation business. However, these earnings have been included in the CSS so as to provide users of the CSS with a complete picture of the Generation segments trading arrangements with RWEST. The inclusion of these earnings in the CSS is consistent with the treatment applied in prior years.

10.2 Direct fuel costs

- Overview of arrangements with RWEST:
  - Gas, coal and biomass. As described in section 10.1.1 above, under the asset tolling agreement operated in the UK, the Generation business does not procure gas, coal or biomass. However, the profits and losses of the UK gas, coal and biomass procurement activities managed by RWEST are accounted for in the Generation business.
  - Oil. The fuel is charged to the Generation P&L account as and when the fuel is burned at the power plants, and recognised within revenue in the CSS as a component of the overall spread earned from the power generated.
- In accordance with these commercial arrangements the company does not recognise any fuel costs as these are correctly netted off the revenue line which is effectively the gross margin (spread) achieved. We recognise that this is unhelpful for users of the CSS who are trying to draw comparisons with other industry peers who operate a different trading model. Therefore, as described in 10.1.2 above, we have applied an adjustment of £1,520m to the direct fuel costs (and a corresponding increase in the revenue line) so as to aid users of the CSS in making meaningful comparisons across the industry. The basis of determining this adjustment is set out in section 10.5 below.
- In summary the direct fuel costs comprise of:
  - £157m of purchased carbon allowances as required under the EU Emission Trading Scheme (EU ETS) for carbon dioxide (CO_2). These were classified as a direct cost in the RWE AG Annual report.
  - £1,520m being the adjustment to gross up revenue and direct fuel costs as described in section 10.1.2 above (see section 13).

10.3 Other direct costs

- Other direct costs for Generation are made up of network costs.
- In accordance with guidance issued by Ofgem in relation to the 2010 CSS template, network costs comprise of Balancing Services Use of System Charges (BSUoS).

10.4 Indirect costs

- These comprise of directly attributable station operating and maintenance costs and the Generation segment's share of common costs. The basis of allocation of these common costs across the segments is described in section 12 below.
- Profits or losses on the sale of assets used or deployed in the Company's operational activities are included in the CSS as these are considered to be part of the normal trading activity of the business.

10.5 Weighted average cost of fuel (WACOF)

- As described in section 10.1.1 above our Generation business operates a tolling arrangement and as a result does not directly procure gas, coal or biomass. Therefore, in order to comply with the LC's we have derived a notional WACOF as described below.
- Fuel volumes consumed to generate power have been determined at the "point of burn".
- Costs of fuel have been derived as follows:
  - Coal, biomass and oil costs are based on the average weighted cost of the fuel procured by RWEST and transferred to the Generation segment as and when consumed at the power plant.
  - Gas cost is based on the market prices at the time of exercise of the option by RWEST.
  - Carbon cost is based on the total cost of all certificates procured to surrender against emissions generated.
  - Carbon Price Support tax cost is based on the UK Governmental published rates.
- On the basis of the methodology set out above the total notional derived fuel cost is £1,677m and the notional WACOF is £46.2 per MWh based on total generation volumes of 36.3 TWh. This is calculated by dividing the total derived cost of fuel by the total generation volumes.
- The Company was granted no free carbon allowances in 2013.

11. Supply segment

11.1 Revenue from sale of electricity and gas

- Revenue comprises of the sale of electricity and gas to our domestic and non-domestic energy customers. Revenue is stated net of Value Added Tax (VAT) and discounts offered to our customers. Social costs, such as Warm Home Discount, are included in Environmental & social obligation costs which is a component of other direct costs, and therefore are not deducted from revenue (see section 11.3).

11.1.2 Other revenue

- The Supply segment has no “other revenues” arising from licensed activities. Other revenues comprise of non-licensed activities and are therefore treated as out of scope for the purposes of the CSS.

11.2 Direct fuel (electricity and gas) costs

- Direct fuel costs reflects the costs of procuring electricity and gas to meet customer requirements, as well as losses, the energy element of reconciliation by difference costs, balancing and shaping costs. All of the direct fuel costs are included in the calculation of weighted average cost of electricity/gas (WACO E/G).
- These costs are captured at source between gas and electricity and then analysed between domestic and non-domestic based on the specific demand characteristics of the customer base. The weighted average cost differs between domestic and non-domestic because of different hedging approaches, in particular for flexible risk management products.
- Our supply business fulfils its wholesale commodity requirements via RWEST on an arm’s length basis. By arm’s length we mean the price which independent third parties would have agreed with another under comparable business conditions. We paid a management fee to RWEST of £2.7m in 2013 for this service. All of our licensees procure their electricity or gas in this fashion.

11.3 Other direct costs

- Other direct costs for Supply are broken down into network costs, and environmental & social and obligation costs.
- Network costs include electricity distribution/transmission costs, gas transportation costs (including the transport element of reconciliation by difference which is included in the segment to which the supply relates) and BSUoS charges. Network costs are primarily allocated directly to the customer segment and fuel type to which they relate. The information flows received from the industry processes specifically identify the customer segment and fuel type via the identifier, in the case of electricity costs, or the shipper, in the case of gas costs.
- Environmental & social obligation costs for domestic supply include Renewable Obligations Certificates (ROCs), Energy Company Obligation (ECO), Feed in Tariff (FIT) costs, and Warm Home Discount. Non-domestic supply includes the costs of Levy Exemption Certificates (LECs), ROCs and FIT.
- FIT costs are allocated based on the segment in which the feed in tariff customers reside. ROCs are allocated to segments in proportion to respective customer meter volumes.
- ECO & Warm Home Discount are specific to the domestic segment. ECO is allocated between domestic gas and electricity customers based on customer numbers, and Warm Home Discounts are charged specifically to each fuel.

11.4 Indirect costs comprise:

- Indirect costs for Supply include operating costs such as sales and marketing, bad debt, cost to serve, billing and metering costs and IT & staff costs.
- Costs that are directly attributable to a segment are charged to that segment in the CSS.
- Customer service costs (such as billing, customer service and metering) are allocated across the segments based on relevant drivers depending on their nature. These drivers include customer numbers, meter points, and number of customer gains and losses.
- Overheads and costs which are not directly attributable to supply segments are allocated between the domestic, non-domestic, gas and electricity segments in proportion to the indirect costs that are directly attributable from an activity based costing (ABC) methodology.

11.5 Supply volumes

- These are at the customer meter point (i.e. net of losses) and include estimates for supply between the last meter read and 31 December 2013.

12. Common costs between Generation and Supply

- Up to and including year end 2012 RWE AG managed and reported its UK Generation and Supply businesses as a single consolidated segment. With effect from 1 January 2013 (see section 3 above) the UK Generation business is overseen by and reported as part of RWE Generation SE along with the majority of RWE AG's conventional power stations across Europe. As a consequence of this the UK businesses were reported as follows in the 2013 RWE AG Annual Report:
  - A specific segment capturing the supply activities of the UK business;
  - A segment relating to the pan European Generation business (with separate disclosure of the UK Generation revenue operating result).
- As part of the programme to prepare for the new segmental structure, a detailed analysis was performed of the activities and services provided by the UK shared corporate functions in 2012 (such as Finance, Legal, HR, Procurement, Risk Management, Internal Audit and Tax) to support the respective Supply and Generation businesses. This involved a bottom up analysis of the time spent by each function supporting each business which in turn provided a detailed and accurate assessment of how the shared corporate costs for 2012 should be allocated between the UK Supply and Generation segments. It is this detailed assessment that determined the allocation of the shared costs in both the 2013 CSS and the 2013 operating result (as disclosed in the RWE AG Annual Report 2013) between the respective segments.

RWE-UK Generation & Supply Consolidated Segmental Statement for the year ended 31 December 2013

RWE The energy to lead

13. Reconciliation of Generation and Supply revenue and operating result for year end 2013 as reported in the RWE AG Annual Report 2013 to revenue and EBIT per the 2013 CSS

Reconciliation of Revenue and Operating Result ('OR') in RWE Annual Report to Revenue and EBIT in Ofgem CSS	Currency	Operating Result (OR)[i] Generation segment OR[iv]	Supply segment OR[iii]	Total OR[ii]		Segmental Revenue Generation segment[vi]	Supply segment[vii]	Total Revenue[v]
OR / Revenue (in Euros) as published in RWE Annual Report 2013	**€m**	(76)	290	**214**		903	9,259	**10,162**
Average exchange rate[viii]	£1 GBP =	€ 1.176	€ 1.176	€ 1.176		€ 1.176	€ 1.176	€ 1.176
OR / Revenue (translated to GBP) as per RWE Annual Report	**£m**	**(65)**	**246**	**181**	**a**	**768**	**7,873**	**8,641**
EBIT / Revenue per YE 2013 Ofgem Consolidated Segmental Statement[ix]	**£m**	21	217	**238**	**b**	**2,327**	**7,229**	**9,556**
Variance	**£m**	86	(29)	57	**= b-a**	1,559	(644)	915
Reconciled as follows:	**Notes**							
Remove "Out of Scope" activities/transactions	1	7	(24)	(17)		(115)	(645)	(760)
Include operating result from affiliate's JV interests	2	71	-	71		153	-	153
Items specifically excluded from the CSS as required by Ofgem guidelines	3	6	(5)	1		(1)	(5)	(6)
Reclassification between revenue and costs for the CSS	4	-	-	-		-	(22)	(22)
Remove one-off transactions	5	2	-	2		2	-	2
Transfer Warm Home Discount to Environmental and Social Obligation Costs	6	-	-	-		-	28	28
Gross up of Generation Revenue	7	-	-	-		1,520	-	1,520
Total Variance	**£m**	**86**	**(29)**	**57**	**= b-a**	**1,559**	**(644)**	**915**

Notes

i - Operating result (OR) = EBITA (earnings before interest, taxation and non-operating amortisation).

ii - 2013 Operating result of the total United Kingdom segments being the sum of the Supply and Generation segments in the United Kingdom.

iii - 2013 Operating result of the United Kingdom Supply segment as per Page 193 of RWE AG Annual Report 2013.

iv - 2013 Operating result of the United Kingdom Generation segment as per Page 64 of RWE AG Annual Report 2013.

v - 2013 Revenue of the total United Kingdom segments being the sum of the Supply and Generation segments in the United Kingdom.

vi - Generation revenue from power generation in the United Kingdom as per Page 193 of the RWE AG Annual Report 2013.

vii - 2013 Supply revenue of the United Kingdom as per Page 193 of the RWE AG Annual Report 2013.

viii - Please refer to foreign currency translation statement on Page 144 of RWE AG Annual Report 2013.

ix - Year end 2013 CSS per page 9 of this document.

13. Reconciliation of Generation and Supply revenue and operating result – explanatory notes

1. Removal of revenue and operating result of "out of scope" activities and entities that do not hold a generation or supply licence (see section 7). This includes:
   - Generation Services activities that relate to the provision of consultancy and advisory services to business customers in the supply segment;
   - Engineering, maintenance and technical consultancy services provided to external business customers of the generation segment;
   - The results of legal entities that operate Combined Heat and Power Plants and which do not hold generation licences;
   - The results of legal entities that provide energy services such as boiler installation and maintenance to domestic customers, metering services to third parties or electrical / mechanical installation services to the private and public sector.
2. Inclusion of the share of the revenue and operating profit of RWE Innogy (UK) Ltd's joint venture interest in (see section 8):
   - Greater Gabbard Offshore Winds Ltd.
   - Gwynt Y Mor Offshore Wind Farm Ltd.
3. Removal of unrealised mark to market adjustments that are specifically excluded from the CSS as required by the Ofgem guidelines.
4. Reclassification of revenue and costs in the CSS. This is purely a reclassification with no impact on EBIT.
5. Removal of transactions that do not arise from the ongoing activities of RWE-UK G&S operations or relate to periods prior to the publication of the 2009 CSS.
6. £28 million related to Warm Home Discounts in the domestic supply segment are reclassified in the CSS submission from revenues to direct costs (Environmental and social obligation costs).
7. £1,520 million in relation to grossing up of Generation revenue and direct fuel costs (see section 10).

14. Business function template

• Prepared in accordance with Annex 2 of the Ofgem Guidelines.

Business function	Generation	Supply	Another part of the business	Notes
Operates and maintains generation assets	√	-	-	
Responsible for scheduling decisions	P/L	-	F	i
Responsible for interactions with the Balancing Market	P/L	P/L	F	ii
Responsible for determining hedging policy	P/L	√	F	iii
Responsible for implementing hedging policy / makes decisions to buy/sell energy	P/L	√	F	iii
Interacts with wider market participants to buy/sell energy	P/L	P/L	F	iv
Holds unhedged positions (either short or long)	P/L	√	F	v
Procures fuel for generation	P/L	-	F	vi
Procures allowances for generation	P/L	-	F	i
Holds volume risk on positions sold (either internal or external)	P/L	√	F	vii
Matches own generation with own supply	P/L	P/L	F	viii
Forecasts total system demand	-	-	F	ix
Forecasts wholesale price	√	√	F	x
Forecasts customer demand	-	√	-	
Determines retail pricing and marketing strategies	-	√	-	
Bears shape risk after initial hedge until market allows full hedge	P/L	√	F	xi
Bears short term risk for variance between demand and forecast	-	√	F	xii

Key
√ : Function resides and profits/losses recorded in segment
P/L : Profit/losses of function recorded in segment
F : Function resides
- : Neither function nor profit/losses reside in segment

i - Carried out on behalf of RWE-UK Generation by RWEST.

ii - Carried out on behalf of RWE-UK G&S by RWEST.

iii - The overarching hedging and risk management principles are determined by RWE AG. The Supply segment determines its own specific hedging strategy and how this is implemented (taking into account the principles set by RWE AG) and uses RWEST as a route for the transactions. For the Generation segment the hedging policy is implemented and transacted on its behalf by RWEST (again reflecting the overarching principles established by RWE AG).

iv - External commodity transactions are carried out by RWEST on behalf of RWE-UK G&S.

v - Hedging of Generation positions is carried out by RWEST on behalf of RWE-UK Generation. The Supply business manages its own decisions in line with RWE AG policy using RWEST as a route for the transactions.

vi - Please refer to sections 10.1, 10.2 and 10.5 above.

vii - In the short term market this is carried out by RWEST on behalf of RWE-UK G&S. In other periods, RWE-UK Supply manage the risk themselves and RWEST manage the risk on behalf of Generation.

viii - Commercial management of Supply and Generation performed separately by Supply business and RWEST respectively. The vast majority of volumes are transacted externally.

ix - Total system demand at a UK level is observed but is not a direct input into the optimisation of the Supply or Generation segments.

x - Long term views of wholesale prices are produced by RWE AG, medium term by the Generation and Supply business (aligned with RWE AG forecast), and shorter term forecasts by RWEST.

xi - RWEST manages shape risk for Generation, and the Supply business manages this risk themselves.

xii - The Supply business manages this risk until within-day when it is managed by RWEST based on RWE-UK G&S forecasts. All profits/losses sit within Supply.

Appendix 1 – Glossary of terms

WACOF/E/G The weighted average cost of fuel, electricity and gas is calculated by dividing direct fuel costs by volumes.

EBITDA Earnings before interest, tax, depreciation and amortisation, calculated by subtracting total operating costs from total revenue.

EBIT Earnings before interest and tax calculated by subtracting depreciation and amortisation from EBITDA.

EBIT Margin EBIT profit margin expressed as a percentage, calculated by dividing EBIT by total revenue and multiplying by 100.

Volume Volumes for the Supply business segments are supplier volumes at the meter point i.e. net of losses. Generation volume is the final metered volume of power that can actually be sold in the wholesale market, i.e. after losses up to the point where electricity is received under the Balancing and Settlement Code.

Appendix 2 – 2012 summarised CSS

	GENERATION	SUPPLY				
2012 Summarised CSS (unaudited)		Electricity		Gas		
	Total Generation	Domestic	Non-domestic	Domestic	Non-domestic	Aggregate Supply
Total Revenue	819	1,993	3,040	1,633	144	6,810
EBIT	126	104	65	27	4	200
EBIT Margin	N/A	5.2%	2.1%	1.7%	2.8%	2.9%
Supply Total Domestic EBIT Margin						3.6%
Supply Total Non-domestic EBIT Margin						2.2%
YE 2012 CSS WACO F/G/E	N/A	58.39	54.22	64.67	66.00	N/A

- Generation EBIT % is not applicable for 2012 CSS as revenue represented gross margin and reflected the underlying contractual arrangement in place. (See section 10.1.2 for change in basis of disclosure for 2013).
- The 2012 CSS was not subject to any of the checks and procedures carried out by PwC in respect of the 2013 CSS as referenced in section 4.2 on page 4.