

RWE - UK Generation & Npower Supply
Consolidated Segmental Statement
for the year ended 31 December 2018

Independent auditor's report to the Directors of Npower Group Limited, Edgware Energy Limited, Innogy Renewables UK Holdings Limited and RWE Generation UK Holdings Limited and their Licensees

Opinion

We have audited the statement (the 'Consolidated Segmental Statement' or 'CSS') of Npower Group Limited, Edgware Energy Limited, Innogy Renewables UK Holdings Limited and RWE Generation UK Holdings Limited and their relevant Licensees (as listed in footnote ii) (together referred to as "the Businesses") for the year ended 31 December 2018 in accordance with the terms of our agreement dated 11 March 2019. The CSS has been prepared by the Directors of Npower Group Limited, Edgware Energy Limited, Innogy Renewables UK Holdings Limited and RWE Generation UK Holdings Limited and their relevant Licensees based on the requirements of Ofgem's Standard Condition 19A of the Gas and Electricity Supply Licences and Standard Condition 16B of the Electricity Generation Licences (together, the 'Licences') and the basis of preparation on pages 6-12.

In our opinion the accompanying CSS of Npower Group Limited, Edgware Energy Limited, Innogy Renewables UK Holdings Limited and RWE Generation UK Holdings Limited and their relevant Licensees for the year ended 31 December 2018 is prepared, in all material respects, in accordance with:

- (i) the requirements of Ofgem's Standard Condition 19A of the Gas and Electricity Supply Licences and Standard Condition 16B of the Electricity Generation Licences established by the regulator; and
- (ii) the basis of preparation on pages 6-12.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 805. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the CSS section of our report. We are independent of the Businesses in accordance with the ethical requirements that are relevant to our audit of the CSS in the United Kingdom, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter - Basis of Accounting

In forming our opinion on the CSS, which is not modified, we draw attention to pages 6-12 of the CSS, which describes the basis of preparation. The CSS is prepared in order for Npower Group Limited, Edgware Energy Limited, Innogy Renewables UK Holdings Limited and RWE Generation UK Holdings Limited and their relevant Licensees to meet the Licence requirement of Regulator Ofgem rather than in accordance with a generally accepted accounting framework. The CSS should therefore be read in conjunction with both the Licences and the basis of preparation on pages 6-12. This basis of preparation is not the same as segmental reporting under IFRS and /or statutory reporting. As a result, the schedule may not be suitable for another purpose.

Responsibilities of Management and those charged with governance for the CSS

Management of the Businesses (hereafter, collectively referred to as simply “Management”) are responsible for the preparation of the CSS in accordance with the Licences and the basis of preparation on pages 6-12 and for maintaining the underlying accounting records and such internal control as Management determine is necessary to enable the preparation of the CSS that is free from material misstatement, whether due to fraud or error.

In preparing the CSS, Management are responsible for assessing the Businesses ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Businesses or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Businesses financial reporting process.

Auditor's responsibilities for the audit of the CSS

Our objectives are to obtain reasonable assurance about whether the CSS as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this CSS. The materiality level that we used in planning and performing our audit is set at £18 million for each of the segments.

A further description of our responsibilities for the audit of the CSS is located on the FRC’s website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors’ report.

Use of this report

This report, including our opinion, has been prepared solely for the Board of Directors of Npower Group Limited, Edgware Energy Limited, Innogy Renewables UK Holdings Limited and RWE Generation UK Holdings Limited and their relevant Licensees to assist the Directors in reporting on the CSS to the Regulator Ofgem, in accordance with our engagement letter dated 11 March 2019 and for no other purpose.

Use of this report (continued)

We permit this report to be disclosed in the About Us (Reports) section of the websiteⁱ www.npower.com, to enable the Directors of Npower Group Limited's, Edgware Energy Limited's, Innogy Renewables UK Holdings Limited's and RWE Generation UK Holdings Limited's relevant Licensees to show how they have addressed their governance responsibilities by obtaining an independent assurance report in connection with the CSS. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Board of Directors of Npower Group Limited's, Edgware Energy Limited's, Innogy Renewables UK Holdings Limited's and RWE Generation UK Holdings Limited's relevant Licensees for our work or this report except where terms are expressly agreed between us in writing.

PricewaterhouseCoopers LLP

Cornwall Court
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Birmingham
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25 April 2019

- i) The maintenance and integrity of Npower's website is the responsibility of the Directors of Npower Group Limited; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the CSS since it was initially presented on the website.
- ii) Licence holders: Supply licence holders (Npower Ltd, Npower Commercial Gas Ltd, Npower Gas Ltd, Npower Northern Ltd, Npower Yorkshire Ltd, Edgware Energy Limited). Generation licence holders (Gwynt Y Mor Offshore Wind Farms Ltd, Greater Gabbard Offshore Winds Ltd, Carnedd Wen Wind Farm Ltd, Galloper Wind Farm Ltd, Triton Knoll Offshore Wind Farm Ltd, Sofia Offshore Wind Farm Limited). Supply and Generation licence holders (RWE Generation UK plc and Npower Direct Ltd).

RWE-UK Consolidated Segmental Statement

• The notes in sections 1-8 below are integral to gaining a full and proper understanding of the CSS and should be read in conjunction with the statement.

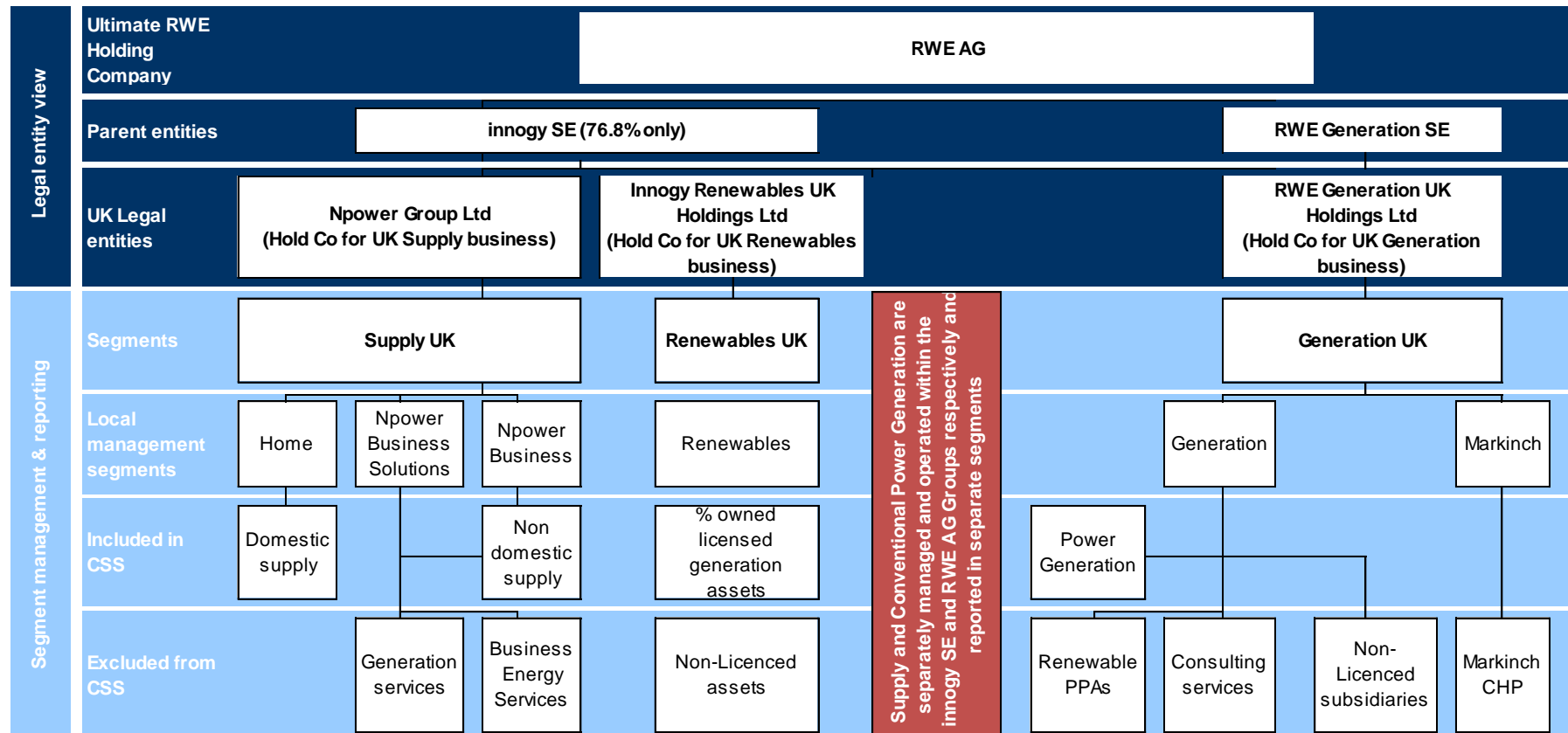
YE 2018 Consolidated Segmental Statement		GENERATION			NPOWER SUPPLY				
		Electricity Generation		Aggregate Generation	Electricity		Gas		Aggregate Supply
		Conventional	Renewable		Domestic	Non-domestic	Domestic	Non-domestic	
Total revenue	£m	1,812	300	2,112	1,442	3,447	990	384	6,263
Revenue from sales of electricity and gas (i)	£m	1,730	297	2,027	1,442	3,447	990	384	6,263
Other revenue	£m	82	3	85	-	-	-	-	-
Total operating costs	£m	(1,768)	(74)	(1,842)	(1,487)	(3,425)	(1,018)	(362)	(6,292)
Direct fuel costs	£m	(1,096)	-	(1,096)	(507)	(1,486)	(483)	(210)	(2,686)
Direct costs	£m	(423)	(33)	(456)	(700)	(1,737)	(299)	(103)	(2,839)
Transportation costs	£m	(88)	(33)	(121)	(357)	(829)	(260)	(93)	(1,539)
Environmental & social obligation costs	£m	(315)	-	(315)	(320)	(856)	(21)	-	(1,197)
Other direct costs	£m	(20)	-	(20)	(23)	(52)	(18)	(10)	(103)
Indirect costs	£m	(249)	(41)	(290)	(280)	(202)	(236)	(49)	(767)
WACO F/E/G	£/MWh, p/th	41.93	N/A	N/A	55.60	50.54	52.14	51.72	N/A
EBITDA	£m	44	226	270	(45)	22	(28)	22	(29)
Depreciation and amortisation	£m	(123)	(90)	(213)	(18)	(9)	(14)	(2)	(43)
Adjusted EBIT	£m	(79)	136	57	(63)	13	(42)	20	(72)
Volume	TWh, MThms	33.7	2.0	N/A	9.1	29.4	928.3	406.0	N/A
Customer numbers	000s	N/A	N/A	N/A	2,489	355	1,750	40	4,634
EBIT Margin		-4.4%	45.3%	2.7%	-4.4%	0.4%	-4.2%	5.2%	-1.1%
Supply Total Domestic EBIT Margin									-4.3%
Supply Total Non-domestic EBIT Margin									0.9%

i) Revenue from sales of electricity and gas includes the sale of ROCs in relation to Renewable Electricity Generation.

Basis of Preparation

1. RWE-UK Generation & Npower Supply legal and management structure as at 31 December 2018

- On 12 March 2018, RWE and E.ON concluded an agreement on the sale of RWE's 76.8 per cent stake in innogy SE via a wide-ranging exchange of business activities and participations, however the closing of the transaction is subject to further regulatory clearances.
- Set out below is a summarised, high level view of the legal entity and management and reporting structure of the RWE Group's UK Generation and Supply operations as at 31 December 2018. From a legal entity perspective the UK conventional generation is owned by RWE Generation UK plc and the supply business is owned by Npower Group Limited (together known as 'the Companies' for the purpose of this report).
- At the UK level the Npower Supply business is organised into three sub-segments being: Home, Npower Business Solutions and Npower Business.
- The activities that are excluded from the CSS are explained further in section 2.



Basis of Preparation

2. Legal entities included in the 2018 CSS

- The CSS includes the revenues and costs attributable to the generation and electricity and gas supply activities of all subsidiaries of the Companies 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 2018.
- A list of the legal entities (the majority of which are ultimately owned 100% by the Companies*) which held a generation or supply licence and traded during 2018 are detailed below:

Company registration No	Legal entity	Licences		Business Activities	
		Generation	Supply	Generation	Supply
3892782	RWE Generation UK 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
9256462	Edgware Energy Ltd		x	No	Yes

*Edgware Energy Ltd is not directly owned by one of the Companies but is ultimately 100% owned by RWE AG. The activities of the company are out of scope for inclusion in the CSS and therefore numbers are not included in the Supply segment.

- Some of the entities above have trading activities that are excluded from the scope of Ofgem's requirements. These activities are referred to 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 Npower supply segment;
 - Engineering, maintenance and technical consultancy services provided to external business customers of the generation segment; and
 - Power Purchase Agreements (PPAs) with affiliated Wind Farm operators.
- 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 small distributed and Combined Heat and Power plants, however the CoGen entities were hived up in to RWE Generation UK plc on 1 July 2018 therefore only the revenue and costs from 1 January 2018 to 30 June 2018 are excluded;
 - the legal entities that are not involved in generation activities (Electra Insurance Limited and RWE Ingen!us Limited);
 - the legal entities that provide business energy services (the Business Energy Services segment in the diagram in section 1 above) such as metering services to business customers or electrical/mechanical installation services to the private and public sector.
- The CSS does not include subsidiaries of the Companies 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 2018.

Basis of Preparation

2. Legal entities included in the 2018 CSS (continued)

- Any profit or loss created through RWE Supply & Trading (RWEST) acting on behalf of the Npower Supply or UK Generation businesses in the wholesale markets is attributed to the Npower Supply or UK Generation business as appropriate.
- In addition, the CSS includes the revenues and costs of four joint venture (JV) entities and two wholly owned subsidiary companies that are held within the Renewables segment of the innogy SE Group. Information on the four JV companies and two wholly owned subsidiary companies included within the CSS is set out in section 4.

3. Transfer pricing between the segments and with the rest of the RWE AG Group

- The Generation segment sells capability to the UK branch of RWEST via an asset tolling agreement. This arrangement is explained in detail in section 5.1.1. The Npower Supply segment sources its wholesale commodity requirements for power and gas from RWEST in the UK. This arrangement is explained in detail in section 6.2.
- There are no specific wholesale energy supply agreements between the Generation and Npower Supply segment.
- Both the Generation and Npower 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.
- In accordance with RWE AG and innogy SE Group policies, the arrangements specified above are “arm’s length”. This means the price which independent third parties would have agreed with each other under comparable business conditions.
- There have been no changes to transfer pricing policies and procedures in 2018.

4. Affiliates / Joint Ventures (JVs) included in the CSS

- RWE-UK Generation & Npower Supply have no JV arrangements; therefore there are no direct JVs that should be included in the CSS from these companies.
- Innogy Renewables UK Holdings Ltd does not form part of RWE-UK Generation & Npower Supply but it is treated as an “Affiliate” for the purposes of the CSS, and has four JV interests in wind farms and two wholly owned subsidiary companies which hold a generation licence.
- Accordingly, Innogy Renewables UK Holdings Ltd.’s share of the revenues, costs and adjusted EBIT in the four JV wind farms is included in the Generation segment of the CSS in accordance with paragraph 5 of the modified License Conditions. The details of the four JVs and the two wholly owned subsidiary’s proportionate share of the results are reflected in the CSS as follows:
 - 50% of the adjusted EBIT of Greater Gabbard Offshore Winds Ltd (company registered number: 04985731).
 - 59% of the adjusted EBIT Triton Knoll Offshore Wind Farm Limited (company registered number 03696654) from 13th September 2018. During the period to 13th September, the company was 100% owned.

Basis of Preparation

4. Affiliates Joint Ventures (JVs) included in the CSS (continued)

- 50% of the adjusted EBIT of Gwynt Y Mor Offshore Wind Farm Ltd (company registered number: 03697015). Due to the legal and commercial arrangements in place this is represented by the adjusted EBIT of Innogy GYM 2 Ltd, Innogy GYM 3 Ltd and Innogy GYM 4 Ltd, (company registered numbers: 07233494, 07233487 and 07233491).
- 25% adjusted EBIT for its non-controlling share of Galloper Wind Farm Limited (company registered number 07320597).
- 100% of Carnedd Wen Wind Farm Limited (company registered number 05712858).
- 100% of Sofia Offshore Wind Farm Limited (company registered number 07791964).
- The proportionate share of the Innogy Renewables UK Holdings Ltd interest in the JVs is reflected in the Renewables column in the CSS. Adjusted EBIT is defined as the earnings before interest and tax.
- Gwynt Y Mor Offshore Wind Farm Ltd, Greater Gabbard Offshore Winds Ltd and Galloper Wind Farm Ltd were engaged in generation activities throughout the year. Carnedd Wen Wind Farm Limited, Triton Knoll Offshore Windfarm Limited and Sofia Offshore Wind Farm Limited were not engaged in generation activities in 2018.

5. Generation segment

5.1.1 Overview of asset tolling arrangement

- RWE-UK Generation gas and coal power stations sell capability to the UK branch of RWEST via an arm's length asset tolling agreement. This means 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 and coal 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.
- Under the commercial agreement detailed above, RWE Generation UK plc does not procure any fuel (gas, coal, and oil) and instead this activity is carried out by RWEST as part of the asset optimisation on behalf of RWE Generation UK plc.
- Compared to 2017, the revenue from electricity sales has increased but this is offset by a similar increase in operating costs. The plant's operations have continued to focus on the UK capacity market, ancillary services, short-term and balancing markets.

Basis of Preparation

5.1.1 Overview of asset tolling arrangement (continued)

- RWEST received a management fee of circa £12m in 2018 (£12m in 2017) for managing this optimisation activity for the main Generation fleet. This fee is shown as part of operating costs.

5.1.2 Revenue from renewable stations

- Also included within revenue from sale of electricity and gas is Innogy Renewables UK Holdings Ltd.'s share of revenues from Greater Gabbard Offshore Winds Ltd, Gwynt Y Mor Offshore Wind Farm Ltd and Galloper Wind Farm Ltd.
- Other elements included are ancillary services and balancing mechanism income.

5.1.3 Other revenue

- The balance of £84m in other revenue in respect of conventional generation, relates to other income earned from power generation including ancillary services (£42m) as well as income from the capacity market (£40m).
- The capacity market mechanism commenced in Q4 2017 however, following the ruling of General Court of the Court of Justice of the European Union in November 2018, capacity market agreements relating to the 2018/19 delivery year and after are currently in a standstill position. No revenue in respect of these agreements has been recognised or received since October 2018. The £40m of earnings in 2018 relate to income from the agreements secured by Capacity Market Units up to the standstill period at an agreed price of £6.95/KW(real) for delivery year 2017/2018.

5.2 Direct costs

- Direct costs for Generation are made up of transportation costs, environmental and social obligation costs and other direct costs.
- Transportation costs include network costs and Balancing Services Use of System Charges (BSUoS).
- Environmental and social obligation costs relate to EU ETS carbon emission costs and carbon tax.
- Other direct costs include market participation costs.

5.3 Indirect costs

- These comprise of station operating and maintenance costs and the Generation segment's share of common costs.

Basis of Preparation

5.4 Adjusted EBIT

- EBIT excludes net profit of £14m arising from the sale of power to npower and ultimately sold onto RWEST. This power has been procured under long term Power Purchase Agreements (PPAs) with affiliated wind farm operators and 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 PPAs and the prevailing market price at the time of sale to RWEST.

6. Npower Supply Segment

6.1 Revenue from sale of electricity and gas

- Revenue comprises the sale of electricity and gas to our domestic and non-domestic energy customers and is stated net of VAT. Government mandated social tariffs and discounts, such as the Warm Home Discount, and other social discounts, have also been deducted from revenue.

6.1.2 Other revenue

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

6.2 Direct fuel (electricity and gas) costs

- Direct fuel costs reflect 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).
- The Npower Supply business' hedging strategy involves the purchase of volumes of electricity and gas in advance of delivery, to reduce the impact of market volatility on the prices offered to customers and the gross margin of the business. Expected volumes are assessed on a portfolio basis, which includes a domestic and non-domestic analysis and transactions are allocated to each segment at the applicable price. The weighted average cost differs between domestic and non-domestic because of different hedging approaches, in particular for flexible risk management products.
- The Npower Supply business fulfils its wholesale commodity requirements via RWEST on an arm's length basis. This means the price which independent third parties would have agreed with each other under comparable business conditions. RWEST received fees in relation to Commercial Asset Optimisation and Direct Market Access of £2.5m in 2018 (2017: £2.5m). All of our licenced activities procure their electricity or gas in this fashion.

6.3 Direct costs

- Direct costs for Npower Supply are broken down into transportation costs, environmental and social obligation costs and other direct costs.

Basis of Preparation

6.3 Direct costs (continued)

- Transportation costs include all network 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. Transportation 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 (RO), Energy Company Obligation (ECO), Feed in Tariff (FIT) costs, Contracts for Difference (CfD) and Capacity Mechanism (CM) costs. Non-domestic supply includes the costs of Levy Exemption Certificates (LECs), ROCs, FIT, CfD and CM.
- FIT costs are allocated based on the segment in which the feed in tariff customers reside. RO is allocated to segments in proportion to respective customer meter volumes. CfD is allocated to segments in proportion to respective customer meter volumes, inclusive of transmission and distribution losses. CM is allocated to segments based on industry settled volumes over the relevant winter peak period (November – February).
- ECO costs are specific to the domestic segment and allocated between domestic gas and electricity customers based on customer numbers.
- Other direct costs include brokers' costs, sales commissions and any wider Smart metering programme costs.

6.4 Indirect costs comprise:

- Indirect costs for Npower 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.

6.5 Npower 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 2018.

6.6 Npower Supply customer numbers

- For both domestic and business segments the customer numbers are based on the average number of distinct meter points (MPANs for electricity and MPRNs for gas). In 2018 customer numbers are calculated by taking the average monthly position and dividing by 12, in 2017 the calculation was based on the closing position.

7. Reconciliation of Generation and Npower Supply revenue and adjusted EBIT for year end 2018 as reported in the RWE AG & innogy Annual Reports 2018 to revenue and EBIT per the 2018 CSS

Reconciliation of Revenue and Adjusted EBIT ("EBIT") in RWE & innogy Annual Reports to Revenue and EBIT in Ofgem CSS	Currency	Adjusted EBIT (EBIT) ⁱ			Segmental Revenue		
		Generation segment EBIT ^{iv}	Npower Supply segment EBIT ⁱⁱⁱ	Total EBIT ⁱⁱ	Generation segment ^{vi}	Npower Supply segment ^{vii}	Total Revenue ^v
EBIT / Revenue (in Euros) as published in RWE & innogy Annual Reports 2018	€m	(48)	(72)	(120)	2,213	7,054	9,267
Average exchange rate ^{viii}	£1 GBP =	€ 1.129	€ 1.129	€ 1.129	€ 1.129	€ 1.129	€ 1.129
EBIT / Revenue (translated to GBP) as per RWE & innogy Annual Reports	£m	(43)	(64)	(107)	1,960	6,248	8,208
EBIT / Revenue per YE 2018 Ofgem Consolidated Segmental Statement ^{ix}	£m	57	(72)	(15)	2,112	6,263	8,375
Variance	£m	100	(8)	92	152	15	167
Reconciled as follows:	Notes						
Remove "Out of Scope" activities/transactions	1	(14)	(18)	(32)	(85)	(39)	(124)
Remove PPAs with affiliated windfarms	2	(15)	-	(15)	(63)	-	(63)
Include operating result from affiliate's JV interests	3	136	-	136	300	-	300
Items specifically excluded from the CSS as required by Ofgem guidelines	4	(5)	10	5	-	-	-
Reclassification between revenue and costs for the CSS	5	-	-	-	-	54	54
Remove one-off transactions	6	(2)	-	(2)	-	-	-
Total Variance	£m	100	(8)	92	152	15	167

- i - Adjusted EBIT (EBIT) = EBIT (earnings before interest and taxation).
- ii - 2018 Adjusted EBIT of the total United Kingdom segments being the sum of the Npower Supply and Generation segments in the United Kingdom.
- iii - 2018 Adjusted EBIT of the United Kingdom Retail segment as per page 56 of innogy Annual Report 2018.
- iv - 2018 Adjusted EBIT of the United Kingdom Generation segment as per page 47 of RWE AG Annual Report 2018 (excludes Renewables).
- v - 2018 Revenue of the total United Kingdom segments being the sum of the Npower Supply and Generation segments in the United Kingdom.
- vi - Generation revenue from power generation in the United Kingdom as per page 152 of the RWE AG Annual Report 2018.
- vii - 2018 Retail external revenue of the United Kingdom as per page 55 of the innogy Annual Report 2018.
- viii - Please refer to foreign currency translation statement on page 96 of RWE AG Annual Report 2018.
- ix - Year end 2018 CSS per page 5 of this document.

7.1 Reconciliation of Generation and Npower Supply revenue and adjusted EBIT – explanatory notes

The financial results of RWE-UK Generation & Npower Supply are fully reflected in the consolidated financial statements of its ultimate parent company, RWE AG, which are prepared under IFRS and subject to independent external audit. The financial results of Npower Supply are also reflected in the consolidated financial statements of its parent company, innogy SE, which are prepared under IFRS and subject to independent external audit.

1. Removal of revenue and adjusted EBIT of “out of scope” activities and entities that do not hold a generation or supply licence (see section 2). 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 metering services to third parties or electrical / mechanical installation services to the private and public sector.
2. Removal of Power Purchase Agreements (PPAs) with affiliated Wind Farm operators.
3. Inclusion of the share of the revenue and adjusted EBIT of Innogy Renewables UK Holdings Limited’s interests in (see section 4):
 - Greater Gabbard Offshore Winds Ltd.
 - Gwynt Y Mor Offshore Wind Farm Ltd.
 - Carnedd Wen Wind Farm Ltd
 - Galloper Wind Farm Ltd
 - Triton Knoll Offshore Windfarm Ltd
 - Sofia Offshore Wind Farm Limited
4. Removal of movements in restructuring costs and unrealised mark to market adjustments that are specifically excluded from the CSS as required by the Ofgem guidelines.
5. Reclassification of revenue and costs in the CSS. This is purely a reclassification with no impact on adjusted EBIT.
6. Removal of transactions that do not arise from the ongoing activities of RWE-UK Generation & Npower Supply operations.

8. 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	i
Procures allowances for generation	P/L	-	F	i
Holds volume risk on positions sold (either internal or external)	P/L	√	F	vi
Matches own generation with own supply	P/L	P/L	F	vii
Forecasts total system demand	-	-	F	viii
Forecasts wholesale price	-	√	F	ix
Forecasts customer demand	-	√	-	
Determines retail pricing and marketing strategies	-	√	-	
Bears shape risk after initial hedge until market allows full hedge	P/L	√	F	x
Bears short term risk for variance between demand and forecast	-	√	F	xi

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 Generation & Npower Supply by RWEST.

iii - The overarching hedging and risk management principles are determined by innogy SE for Supply & Renewables and RWE AG for Generation. The Npower Supply segment determines its own specific hedging strategy and how this is implemented (taking into account the principles set by innogy SE) 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 Generation & Npower Supply.

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

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

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

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

ix - Long term views of wholesale prices are produced by innogy SE, medium term by the Npower Supply business (aligned with the innogy SE forecast), and shorter term forecasts by RWEST.

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

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