

RWE - UK Generation & Npower Supply
Consolidated Segmental Statement
for the year ended 31 December 2017

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

Opinion

We have audited the statement (the 'Consolidated Segmental Statement' or 'CSS') of Npower Group Plc, Innogy Renewables UK Holdings Limited and RWE Generation UK Holdings Plc and their relevant Licensees (as listed in footnote i) (together referred to as "the Businesses") for the year ended 31 December 2017 in accordance with the terms of our agreement dated 7 February 2018. The CSS has been prepared by the Directors of Npower Group Plc, Innogy Renewables UK Holdings Limited and RWE Generation UK Holdings Plc 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 to 12.

In our opinion the accompanying CSS of Npower Group Plc, Innogy Renewables UK Holdings Limited and RWE Generation UK Holdings Plc and their relevant Licensees for the year ended 31 December 2017 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 to 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 to 12 of the CSS, which describes the basis of preparation. The CSS is prepared in order for Npower Group Plc, Innogy Renewables UK Holdings Limited and RWE Generation UK Holdings Plc and their relevant Licensees to meet the Licence requirement of the 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 to 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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the CSS is not appropriate; or
- the directors have not disclosed in the CSS any identified material uncertainties that may cast significant doubt about the Businesses ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Businesses ability to continue as a going concern.

Responsibilities of Management and those charged with governance for the CSS

Management of the businesses (hereafter, collectively referred to as simply "Management") is responsible for the preparation of the CSS in accordance with the Licences and the basis of preparation on pages 6 to 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 Plc, Innogy Renewables UK Holdings Limited and RWE Generation UK Holdings Plc and their relevant Licensees to assist the Directors in reporting on the CSS to the Regulator Ofgem, in accordance with our engagement letter dated 7 February 2018 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 website www.npower.com (ii), to enable the Directors of Npower Group Plc's, Innogy Renewables UK Holdings Limited's and RWE Generation UK Holdings Plc'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 Plc's, Innogy Renewables UK Holdings Limited's and RWE Generation UK Holdings Plc's relevant Licensees for our work or this report except where terms are expressly agreed between us in writing.

PricewaterhouseCoopers LLP

Birmingham

April 2018

i) Licence holders: Supply licence holders (Npower Ltd, Npower Commercial Gas Ltd, Npower Gas Ltd, Npower Northern Ltd and Npower Yorkshire Ltd). Generation licence holders (Gwynt Y Mor Offshore Wind Farm Ltd, Greater Gabbard Offshore Winds Ltd, Carnedd Wen Wind Farm Ltd, Galloper Wind Farm Ltd and Triton Knoll Offshore Wind Farm Ltd). Supply and Generation licence holders (RWE Generation UK plc and Npower Direct Ltd).

ii) The maintenance and integrity of Npower's website is the responsibility of the Directors of Npower Group Plc, Innogy Renewables UK Holdings Limited and RWE Generation UK Holdings Plc; 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.

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.

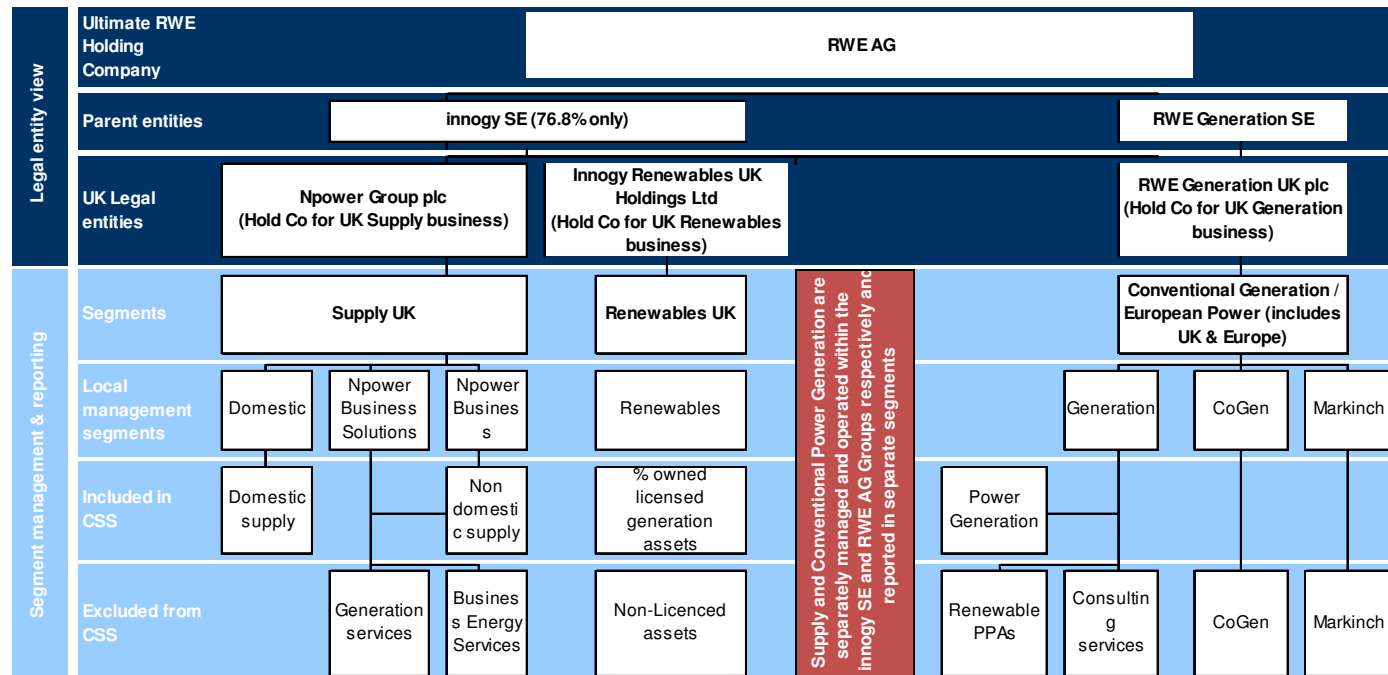
YE 2017 Consolidated Segmental Statement		GENERATION			NPOWER SUPPLY				
		Electricity Generation		Aggregate Generation	Electricity		Gas		Aggregate Supply
		Conventional	Renewable		Domestic	Non-domestic	Domestic	Non-domestic	
Total revenue	£m	1,713	248	1,961	1,431	3,297	944	357	6,029
Revenue from sales of electricity and gas (i)	£m	1,668	248	1,916	1,431	3,297	944	357	6,029
Other revenue	£m	45	-	45	-	-	-	-	-
Total operating costs	£m	(1,634)	(64)	(1,698)	(1,460)	(3,269)	(965)	(322)	(6,016)
Direct fuel costs	£m	(954)	-	(954)	(499)	(1,433)	(422)	(170)	(2,524)
Direct costs	£m	(471)	(26)	(497)	(672)	(1,629)	(306)	(102)	(2,709)
Transportation costs	£m	(111)	(26)	(137)	(385)	(820)	(275)	(92)	(1,572)
Environmental & social obligation costs	£m	(322)	-	(322)	(262)	(771)	(13)	-	(1,046)
Other direct costs	£m	(38)	-	(38)	(25)	(38)	(18)	(10)	(91)
Indirect costs	£m	(209)	(38)	(247)	(289)	(207)	(237)	(50)	(783)
WACO F/E/G	£/MWh, p/th	36.44	N/A	N/A	51.98	46.68	45.14	43.74	N/A
EBITDA	£m	79	184	263	(29)	28	(21)	35	13
Depreciation and amortisation	£m	(129)	(82)	(211)	(36)	(13)	(30)	(4)	(83)
Adjusted EBIT	£m	(50)	102	52	(65)	15	(51)	31	(70)
Volume	TWh, MThms	35.0	1.9	N/A	9.6	30.7	934.9	388.7	N/A
Customer numbers	000s	N/A	N/A	N/A	2,670	359	1,906	45	4,980
EBIT Margin		-2.9%	41.1%	2.7%	-4.5%	0.5%	-5.4%	8.7%	-1.2%
Supply Total Domestic EBIT Margin									-4.9%
Supply Total Non-domestic EBIT Margin									1.3%

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 2017

- On 8 November 2017, Npower Group PLC's parent company, innogy SE, announced plans to merge Npower Group PLC with SSE PLC's household energy and energy services business to create a major, new independent British energy company, better able to face the challenges and deliver on the future opportunities of the British energy industry. The planned merger is subject to review by the Competition and Markets Authority with whom we are fully co-operating, however the closing of the transaction is subject to further conditions.
- On 12 March 2018, RWE and E.ON have 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 conditions.
- 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. 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 plc (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 (previously Domestic), 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 2017 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 2017.
- A list of the legal entities (all of which are ultimately owned 100% by the Companies) which held a generation or supply licence and traded during 2017 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

- 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;
 - Power Purchase Agreements (PPA's) 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 (the CoGen and Markinch segment in the diagram in section 1 above);
 - 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 2017.
- 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 three 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 three JV companies and two wholly owned subsidiary companies included within the CSS is set out in section 4.

Basis of Preparation

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 2017.

4. Affiliates / Joint Ventures (JV’s) included in the CSS

- RWE-UK Generation & Npower Supply have no JV arrangements; therefore there are no direct JV’s 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 three 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 three 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 three JV’s 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).
 - 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 Triton Knoll Offshore Windfarm Limited (company registered number 03696654) from 1 October 2017. Prior to 1 October 2017, the company was equity accounted at 50%.

Basis of Preparation

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

- The proportionate share of the Innogy Renewables UK Holdings Ltd interest in the JV's 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 and Greater Gabbard Offshore Winds Ltd were engaged in generation activities throughout the year. Galloper Wind Farm Limited started to generate electricity in November 2017. Carnedd Wen Wind Farm Limited and Triton Knoll Offshore Windfarm Limited were not engaged in generation activities in 2017.

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 does not procure any fuel (Gas, Coal, Oil and Biomass) and instead this activity is carried out by RWEST as part of the asset optimisation.
- Compared to 2016, the revenue from electricity sales has declined significantly. The reason for this decline is mainly related to our Aberthaw hard coal plant. Since Q2 2017, earnings contribution from the energy market has been minimal due to the decline in dark spreads and the plant's operations have been refocused on the UK capacity market, ancillary services, short term and balancing markets.
- RWEST received a management fee of circa £12m in 2017 (£7m in 2016) for managing this optimisation activity for the main Generation fleet. This fee is shown as part of operating costs.

Basis of Preparation

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 £45m in other revenue relates to other income earned from power generation including ancillary services (£31m) as well as income from the capacity market (£14m).
- The capacity market mechanism commenced in Q4 2017 and earnings relate to the agreements secured by Capacity Market Units, at a contract price of £6.95/KW(real).

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 directly attributable station operating and maintenance costs and the Generation segment's share of common costs.

5.4 Adjusted EBIT

- EBIT excludes net profit of £12m arising from the sale of power to RWEST. This power has been procured under long term Power Purchase Agreements (PPA's) 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 PPA's and the prevailing market price at the time of sale to RWEST.

Basis of Preparation

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. The Government Electricity Rebate should be neutral on revenues.

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).
- 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.
- 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 2017. 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.
- 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.

Basis of Preparation

6.3 Direct costs (continued)

- Environmental & social obligation costs for domestic supply include Renewable Obligations Certificates (ROCs), Energy Company Obligation (ECO) and Feed in Tariff (FIT) costs. 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 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 2017.

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).

7. Reconciliation of Generation and Npower Supply revenue and adjusted EBIT for year end 2017 as reported in the RWE AG & innogy Annual Reports 2017 to revenue and EBIT per the 2017 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 2017	€m	40	(63)	(23)	2,166	7,098	9,264
Average exchange rate ^{viii}	£1 GBP =	€ 1.142	€ 1.142	€ 1.142	€ 1.142	€ 1.142	€ 1.142
EBIT / Revenue (translated to GBP) as per RWE & innogy Annual Reports	£m	35	(56)	(21)	1,897	6,216	8,113
EBIT / Revenue per YE 2017 Ofgem Consolidated Segmental Statement ^{ix}	£m	52	(70)	(18)	1,961	6,029	7,990
Variance	£m	17	(14)	3	64	(187)	(123)
Reconciled as follows:	Notes						
Remove "Out of Scope" activities/transactions	1	(23)	(19)	(42)	(120)	(47)	(167)
Remove PPAs with affiliated windfarms	2	(12)	-	(12)	(63)	-	(63)
Include operating result from affiliate's JV interests	3	101	-	101	247	-	247
Items specifically excluded from the CSS as required by Ofgem guidelines	4	26	5	31	-	(213)	(213)
Reclassification between revenue and costs for the CSS	5	-	-	-	-	73	73
Remove one-off transactions	6	(75)	-	(75)	-	-	-
Total Variance	£m	17	(14)	3	64	(187)	(123)

i - Adjusted EBIT (EBIT) = EBIT (earnings before interest and taxation).

ii - 2017 Adjusted EBIT of the total United Kingdom segments being the sum of the Npower Supply and Generation segments in the United Kingdom.

iii - 2017 Adjusted EBIT of the United Kingdom Retail segment as per page 57 of innogy Annual Report 2017.

iv - 2017 Adjusted EBIT of the United Kingdom Generation segment as per page 46 of RWE AG Annual Report 2017 (excludes Renewables).

v - 2017 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 146 of the RWE AG Annual Report 2017.

vii - 2017 Retail external revenue of the United Kingdom as per page 57 of the innogy Annual Report 2017.

viii - Please refer to foreign currency translation statement on page 97 of RWE AG Annual Report 2017.

ix - Year end 2017 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 (PPA’s) 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
4. Removal of impairments 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	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 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 - Please refer to section 5.1 above.

vii - 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.

viii - Commercial management of Npower Supply and Generation performed separately by Npower 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 Npower Supply or Generation segments.

x - 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.

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

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