

RWE npower Consolidated Segmental Statement for the year ended 31 December 2011

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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.
- In accordance with these Licence Conditions (LC’s) RWE npower prepared and published its CSS for the years ended 31 December 2009 and 2010 on 30 June 2010 and 2011 respectively. These are available to view on npower’s website, www.npower.com

2. Change in basis of preparation of the Consolidated Segmental Statement for the year ended 31 December 2011

- In August 2011 Ofgem appointed the accountancy firm BDO to review the way that companies had prepared the 2010 CSS. This review culminated in a number of recommendations to further improve the transparency and cross compatibility of the CSS. Following a consultation process the final recommendations were incorporated into the LC’s referred to in section 1 above on 24 October 2012.
- The modified paragraph 4b of the revised LC 16B & 19A requires the 2011 CSS to be prepared from and “reconciled with audited figures (prepared under International Financial Reporting Standards) published in Group accounts”. Under the previous LC it was required that the CSS was prepared from and reconciled to the “licensee’s audited UK statutory or consolidated group accounts”. RWE npower 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 are prepared under United Kingdom Generally Accepted Accounting Principles (UK GAAP) and were subject to audit by independent, external auditors.
- The financial results of RWE npower 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 external audit.
- In accordance with the modified LC’s, the 2011 CSS is prepared from and reconciled to the divisional segmental report included on page 184 of the 2011 RWE AG Annual Report. RWE npower is represented by the “United Kingdom” segment. The 2011 RWE AG Annual Report can be found via the link below:

<http://www.rwe.com/web/cms/en/110822/rwe/investor-relations/reports/>

RWE npower Consolidated Segmental Statement for the year ended 31 December 2011

3. Restatement of 2010 Consolidated Segmental Statement EBIT

- In order to assist in year on year comparison of the CSS we have published, as Appendix 1, a reconciliation of our 2010 CSS total EBIT (as published on 30 June 2011) to reflect the change in basis of preparation from UK GAAP to IFRS as required by the modified LC's.

4. Scope of entities included in the YE 2011 CSS

- The CSS includes the revenues and costs attributable to the generation, electricity and gas supply activities of all subsidiaries and affiliates of RWE Npower plc (the Company) that held; an electricity generation, an electricity supply, or a gas supply licence and engaged in electricity generation or gas/electricity supply activities during the year ended 31 December 2011.
- The Company directly owns and manages a fleet of ten fossil fuel fired power stations located across England and Wales. Through its subsidiary companies it also:
 - Operates a small fleet of Combined Heat and Power (CHP) plants;
 - Manages and operates the supply of gas, electricity and related home and energy services to domestic and non-domestic customers.
- The CSS does not contain the revenues, costs and profits of 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:
 - Energy services such as boiler installation, maintenance and consultancy;
 - Engineering and technical consultancy provided to third parties;
 - The financial results of legal entities that do not hold a generation or supply licence (such as the entities that operate the CHP assets).
- 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 2011.

5. Treatment of Joint Ventures (JV's)

- The Company has a 50% Joint Venture interest in Horizon Nuclear Power Ltd (the JV Company), a company engaged in the development of a new generation of nuclear power stations in the United Kingdom. The JV Company does not hold a generation or supply licence and has no trading activities relating to the generation or supply of electricity. Accordingly the Company's share of the profit/loss of the JV company is excluded from the CSS.
- An affiliated company (RWE Npower Renewables Ltd) has a 50% Joint Venture in Greater Gabbard Offshore Winds Ltd (GGOWL), a company that owns and operates a windfarm. This JV company holds a generation licence and is engaged in generation activities. Although RWE Npower Renewables Ltd does not form part of RWE npower in the UK it is treated as an "Affiliate" for the purposes of the CSS. Therefore RWE Npower Renewables Ltd's 50% share of the revenues, costs and profits of Greater Gabbard Offshore Winds Ltd is included in the Generation segment of the CSS in accordance with paragraph 5 of the modified LC's.

RWE npower Consolidated Segmental Statement for the year ended 31 December 2011

- The Consolidated Segmental Statement of RWE npower for the year ended 31 December 2011 has been prepared in accordance with the modified LC's 16B & 19A which took effect on 24 October 2012.
- The notes in sections 1-5 above and 6-10 below are integral to gaining a full and proper understanding of the CSS and should be read in conjunction with the statement.
- A full reconciliation of the revenue and operating result (EBITA) of RWE npower, as included in the segmental analysis of the 2011 RWE AG Annual Report, to the CSS for the year ended 31 December 2011 is set out in section 9 below.

| | Unit | Generation | Electricity supply | | Gas supply | | Aggregate supply business |
|---|--------------|--------------|--------------------|--------------|------------|--------------|---------------------------|
| | | | Domestic | Non-domestic | Domestic | Non-domestic | |
| | | 2011 | 2011 | 2011 | 2011 | 2011 | 2011 |
| Total revenue | £M | 658 | 1,751 | 2,888 | 1,344 | 130 | 6,113 |
| Revenue from sales of electricity and gas | £M | 658 | 1,751 | 2,888 | 1,344 | 130 | 6,113 |
| Other revenue | £M | - | - | - | - | - | - |
| Total operating costs | £M | 346 | 1,762 | 2,760 | 1,349 | 123 | 5,994 |
| Direct fuel costs | £M | See note 6.2 | 854 | 1,844 | 708 | 77 | 3,483 |
| Other direct costs | £M | 98 | 556 | 799 | 348 | 19 | 1,722 |
| Indirect costs | £M | 248 | 352 | 117 | 293 | 27 | 789 |
| WACO F/E/G | £/MWh, p/th | See note 6.5 | 57.32 | 52.54 | 57.1 | 57.9 | N/A |
| EBITDA | £M | 312 | (11) | 128 | (5) | 7 | 119 |
| Depreciation and amortisation | £M | (144) | (23) | (6) | (17) | (1) | (47) |
| EBIT | £M | 168 | (34) | 122 | (22) | 6 | 72 |
| Volume | TWh, MTherms | 28.4 | 14.9 | 35.1 | 1,239 | 133 | N/A |

RWE npower Consolidated Segmental Statement for the year ended 31 December 2011

6. Generation Segment

6.1 Revenue from sale of electricity and gas

- Our Generation business transfers capability to RWE Supply and Trading GmbH (RWEST) via an arms length asset tolling agreement. 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 fee is based on the option value derived from the forward markets at the time of the capability transfer. Transfer typically takes place 1 to 2 years ahead of time. Thus, the bulk of the revenue of the business represents the sale of asset capability rather than the sale of electricity.
- Other elements included within this category comprise post option income, ancillary services, balancing mechanism income and RWE Npower Renewable Ltd's share of the revenues of GGOWL.

6.2 Electricity/Gas Costs

- The position for each of the fuel types used at our power plants is described below:
 - Gas. As described in section 6.1 above, under the asset tolling agreement operated in the UK, the Generation business does not procure gas.
 - Coal. As with gas the Generation business does not directly procure coal. However, the profits and losses of the UK coal procurement activities managed by RWEST are for the account of the Generation business and are included within revenue in the CSS.
 - Oil and Biomass are procured and managed by RWEST. The costs are transferred to the Generation business as and when the fuel is burned at the power plants, and recognised in revenue in the CSS as a component of the overall spread earned from the power generated.

6.3 Other Direct Costs

- Primarily relates to the Community Energy Saving Programme (CESP) and power purchase agreement costs. In accordance with guidance issued by Ofgem in relation to the 2010 CSS template, Balancing Services Use of System Charges (BSUoS) have been identified and classified in other direct costs.

6.4 Indirect Costs

- 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 8 below.
- In accordance with the Ofgem guidelines profits or losses arising on the disposal of non-operating tangible assets are excluded from the CSS. Non-operating assets are those that are not used or deployed in the generation activities of the business.
- However, profits or losses on the sale of assets used or deployed in the Company's operational activities are included as these are considered to be part of the normal trading activity of the business.

6.5 Weighted Average Cost of Fuel (WACOF)

- As part of the revised LC's we are required to publish a Weighted Average Cost of Fuel for the Generation segment. As described in section 6.1 above our Generation business operates a tolling arrangement and as a result does not procure gas or directly procure coal. Therefore, in order to comply with the LC's we have derived a notional WACOF 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.
- On the basis of the methodology set out above the total notional, derived fuel cost is £1,033.7million and the notional WACOF is £36.40 per MWh based on total generation volumes of 28.4 TWh.
- The Company was granted free carbon allowances of 15.7 million tonnes.

RWE npower Consolidated Segmental Statement for the year ended 31 December 2011

7. Supply Segment

7.1 Revenue from sale of electricity and gas

- 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.

7.2 Electricity/Gas Costs

- Reflects the costs of procuring electricity and gas to meet customer requirements. This includes the cost of any transmission and distribution losses suffered as well as balancing and shaping costs incurred.
- 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 take up of these products varies between the domestic and non-domestic customers.
- Our Retail business fulfils its wholesale commodity requirements via RWEST on an arms length basis.

7.3 Other Direct Costs comprise:

- Network costs, including electricity distribution/transmission, gas transportation costs and BSUoS charges;
- Costs relating to the fulfilment of the supply business's Carbon Emission Reduction Target (CERT) and CESP obligations;
- Feed in tariff costs are allocated based on the segment in which the feed in tariff customers reside. Renewable obligation costs are allocated to segments on the basis of sales volume.

7.4 Indirect Costs comprise:

- 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 on the basis of an activity based costing (ABC) methodology;
- 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 the ABC methodology referred to above.

7.5 Supply volumes are at the customer meter point (i.e. net of losses) and include estimates for supply between the last meter read and 31 December 2011.

8 Common costs between Generation and Supply

- The costs relating to central corporate functions have been allocated across the Generation/Supply segments in proportion to the headcount directly attributable to each segment. The further allocation of the Supply segment's share of the central corporate costs is allocated across its sub-segments on the basis described in 7.4 above.

RWE npower Consolidated Segmental Statement for the year ended 31 December 2011

9. Reconciliation of 2011 RWE AG Annual Report to 2011 CSS

| | YE 31 December 2011 | | |
|---|---------------------|-------------------------------|-------------|
| | Revenue | Operating result ⁱ | |
| Reconciliation of turnover and operating result from RWE AG Annual Report to Ofgem CSS | | | |
| As published in RWE AG Annual Report 2011 ⁱⁱ | €m | 7,713 | 357 |
| Average exchange rate ⁱⁱⁱ | £1 GBP = | € 1.148 | € 1.148 |
| As per RWE AG Annual Report 2011 (translated) | £m | 6,719 | 311 |
| Ofgem Consolidated Segmental Statement | | | |
| Generation segment | Page 4 | 658 | 168 |
| Aggregate supply business | Page 4 | 6,113 | 72 |
| As per 2011 CSS | £m | 6,771 | 240 |
| Variance | £m | 52 | (71) |
| | | | = b-a |
| Reconciled as follows: | Notes: | | |
| Remove "out of scope" activities/transactions | 1 | (604) | (34) |
| Remove profit on disposal of non-operating fixed assets | 2 | - | (15) |
| Remove one-off transactions | 3 | (21) | (50) |
| Remove loss from JV interest in Horizon Nuclear Power | 4 | - | 16 |
| Include profit from affiliate's JV interest in Greater Gabbard Offshore Winds Ltd | 5 | 23 | 20 |
| Item included in 2010 CSS | 6 | - | (5) |
| Other adjustments | 7 | - | (3) |
| Inter-company revenue reclassified as turnover for CSS | 8 | 654 | - |
| | £m | 52 | (71) |
| | | | = b-a |

Key:

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

ii - Please refer to segment reporting analysis on Page 184 of RWE AG Annual Report 2011

iii - Please refer to foreign currency translation statement on Page 135 of RWE AG Annual Report 2011

Notes to the reconciliation

1. Removal of turnover and profits relating to "out of scope" activities and entities that do not hold generation or supply licences (see section 4).
2. Removal of profit arising on the disposal of fixed assets that were not used or deployed in the operating activities of RWE npower. Note that gains or losses arising on the disposal of assets used in RWE npower's operational activities are included as these are considered to be part of the normal trading activity of the business (see section 6.4).
3. Removal of transactions that do not arise from the ongoing activities of RWE npower's operations or relate to periods prior to the publication of the 2009 CSS. These are typically of a one-off, non-recurring nature.
4. Exclusion of the Company's share of the loss from its 50% joint venture interest in Horizon Nuclear Power Ltd (see section 5).
5. Inclusion of the share of the revenues and operating profits of RWE Npower Renewables Ltd's 50% Joint Venture interest in Greater Gabbard Offshore Winds Ltd (see section 5).
6. This item was reflected in the 2010 statutory accounts and was therefore included in the 2010 CSS which was prepared from these accounts. However, the post balance sheet event that gave rise to this transaction occurred after the 2010 group reporting to RWE AG was completed, and was therefore included in the 2011 RWE AG Annual Report. The item has been removed from the 2011 CSS (which is prepared from the 2011 RWE AG Annual Report) as it was reflected in the 2010 CSS.
7. Various other minor adjustments.
8. Inter-company revenue reclassified as turnover in CSS (this is purely a reclassification with no impact on EBIT).

RWE npower Consolidated Segmental Statement for the year ended 31 December 2011

10. 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 | i |
| Responsible for determining hedging policy | P/L | √ | F | ii |
| Responsible for implementing hedging policy / makes decisions to buy/sell energy | P/L | P/L | F | iii |
| Interacts with wider market participants to buy/sell energy | P/L | √ | F | iv |
| Holds unhedged positions (either short or long) | P/L | √ | F | v |
| Procures fuel for generation | N/A - gas P/L - coal, biomass and oil | - | F - all fuels | 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 | √ | F | viii |
| Forecasts total system demand | √ | √ | F | ix |
| 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 performed in segment
- : Neither function nor profit/losses reside in segment

10. Business Function Template – Explanatory notes

- i - Carried out on behalf of RWE npower by RWEST.
- ii - Policy is determined by the Commodity Management department in RWE AG.
- iii - Carried out on behalf of RWE npower for Generation by RWEST.
- iv – External commodity transactions are carried out by RWEST on behalf of RWE npower Generation and Supply. The Supply business also buys and sells energy with larger customers.
- v – Hedging of generation positions is carried out by RWEST on behalf of RWE npower. The RWE npower 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 6.1, 6.2 and 6.5 above.
- vii – In the short term market this is carried out by RWEST on behalf of RWE npower. In other periods, RWE npower 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. Less than 6% of Supply purchases were netted with Generation volumes.
- ix – Longer term forecasts are produced by RWE AG, medium term by the Generation and Supply business (aligned with RWE AG forecasts), and shorter term forecasts by RWEST.
- x – RWEST manages shape risk for Generation, and the Supply business manages this risk themselves.
- xi – The Supply business manages this risk until within-day when it is managed by RWEST based on RWE npower forecasts. All profits/losses sits within Supply.

Appendix 1 – Reconciliation of original and restated YE 2010 CSS EBIT

- As explained in section 2 above the basis of preparation of the 2011 CSS has been changed to reflect the modified Licence Conditions 16B & 19A.
- The table below shows the three adjustments necessary to the original 2010 CSS to restate it on a basis comparable to the 2011 CSS.

| CSS 2010 EBIT as originally reported | Notes | £m |
|---|-------|--------------|
| Generation EBIT | | (38) |
| Supply EBIT | | (90) |
| Total EBIT per 2010 CSS as originally reported | | (128) |
| Adjustments as per new guidance | | |
| Pensions scheme accounting | i | 43 |
| UK GAAP amortisation charge | ii | 70 |
| Remove impairment charge | iii | 249 |
| Total EBIT for 2010 CSS as restated | | 234 |

Notes:

i. Pension Scheme Accounting

- As stated in Section 6 of the 2010 CSS the Company pension scheme is accounted for as a multi-employer scheme under FRS 17 (Retirement Benefits) in the UK GAAP Statutory Accounts, therefore the contributions paid in the year were charged to other operating costs within the statutory accounts and within indirect costs in the 2010 CSS.
- Also as stated in the 2010 CSS, in the consolidated financial statements of RWE AG the Company pension scheme is accounted for as a defined benefit scheme and the £43m is therefore not charged as a cost in the consolidated income statement of RWE AG.

ii. UK GAAP amortisation

- Under UK GAAP the goodwill relating to acquisitions within the Supply business is amortised on a straight line basis over 20 years. Under IFRS goodwill is not subject to amortisation but instead to an annual impairment test.

iii. Impairment loss

- The 2010 impairment loss in the Generation segment has been removed based on the revised guidance from Ofgem which identifies impairment charges as an item they “would not expect to be included” in the CSS.