

RWE npower Consolidated Segmental Statement for the year ended 31 December 2012

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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.
- The Licence Conditions (LC’s) were effective from year ended 31 December 2009. In accordance with the LC’s, RWE npower has prepared and published its CSS for the years ended 31 December 2009, 2010, 2011 and now 2012. These are available to view on RWE npower’s website, www.npower.com.

2. Basis of preparation of the Consolidated Segmental Statement for the year ended 31 December 2012

- As with the YE 2011 CSS, the YE 2012 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 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 revised LC’s, the 2012 (and 2011) CSS is prepared from and reconciled to the divisional segmental report included on page 188 of the 2012 RWE AG Annual Report. RWE npower is represented by the “United Kingdom” segment. The 2012 RWE AG Annual Report can be found via the link below:
<http://www.rwe.com/web/cms/mediablob/en/1838516/data/110822/11/rwe/investor-relations/reports/RWE-Annual-Report-2012.pdf>
- The YE 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 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 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 YE 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.

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

- On 1 January 2013 responsibility for overseeing the operations of 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 RWE Npower plc will form part of the new RWE Generation organisation. These events are described in detail on page 48 of RWE's 2012 Annual Report (see link in section 2 above).
- As a consequence of the above there will be a change in the segments that are reported in the segmental report in the YE 2013 RWE Annual Report. For YE 2013 the segments that relate to the UK Generation and Supply business will be disclosed as follows:
 - A specific segment relating to the supply activities of the UK business;
 - A specific segment relating to the pan European RWE Generation business. Within this separate disclosure will be made of the operating result of the UK Generation business.
- In preparation for the changes detailed above, RWE AG disclosed in its "Report on the first quarter of 2013" the YE 2012 revenues and operating result for the UK Supply business and the operating result for the UK Generation business. This is provided to enable investors, analysts and other users of the RWE AG accounts to make like for like comparisons between the new segment structure in 2013 and the prior year. The Report on the first quarter of 2013 can be accessed via the following link:
<http://www.rwe.com/web/cms/en/280030/rwe/investor-relations/reports/2013/>
- The change in the RWE AG Group structure enables a reconciliation to be performed, at each of the Generation and Supply segment levels, between the YE 2012 revenues and operating result (as reported or derived from the RWE AG "Report on the first quarter of 2013") to the Generation & Supply segment revenue and EBIT in the 2012 CSS. This reconciliation is set out in section 9 below. It is not possible to reconcile at this level for YE 2011 because the Generation and Supply businesses were reported as one unit (the United Kingdom segment) in the RWE 2011 Annual Report.

4. Scope of entities included in the YE 2012 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 Holdings 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 2012.
- The Company, through its subsidiary companies:
 - Owns and manages a fleet of fossil fuel fired power stations located across England and Wales;
 - 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.

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4. Scope of entities included in the YE 2012 CSS (continued)

- 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 2012.

5. Treatment of Joint Ventures (JV's)

- The Company had 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. On 26 October 2012 the Company, along with its JV partner, sold its whole interest in Horizon Nuclear Power to Hitachi Ltd. As the JV Company did not hold a generation or supply licence and had no trading activities relating to the generation or supply of electricity up until the date of disposal, the profit/loss of the JV company is excluded from the CSS. Likewise the gain arising on disposal of the JV Company has been 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 GGOWL is included in the Generation segment of the CSS in accordance with paragraph 5 of the modified LC's.

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- The Consolidated Segmental Statement of RWE npower for the year ended 31 December 2012 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.
- As stated in Section 3 above, a full reconciliation of the RWE npower Generation and Supply segment revenue and operating result for YE 2012 (as reported or derived from the RWE AG "Report on the first quarter of 2013") to the 2012 CSS is presented in section 9 below.

| | Unit | Generation | Electricity supply | | Gas supply | | Aggregate supply business |
|---|--------------|--------------|--------------------|--------------|------------|--------------|---------------------------|
| | | | Domestic | Non-domestic | Domestic | Non-domestic | |
| | | 2012 | 2012 | 2012 | 2012 | 2012 | 2012 |
| Total revenue | £M | 819 | 1,993 | 3,040 | 1,633 | 144 | 6,810 |
| Revenue from sales of electricity and gas | £M | 819 | 1,993 | 3,040 | 1,633 | 144 | 6,810 |
| Other revenue | £M | - | - | - | - | - | - |
| Total operating costs | £M | 464 | 1,858 | 2,966 | 1,581 | 138 | 6,543 |
| Direct fuel costs | £M | See note 6.2 | 905 | 1,876 | 935 | 91 | 3,807 |
| Other direct costs | £M | 71 | 641 | 969 | 387 | 22 | 2,019 |
| Indirect costs | £M | 393 | 312 | 121 | 259 | 25 | 717 |
| WACO F/E/G | £/MWh, p/th | See note 6.5 | 58.39 | 54.22 | 64.67 | 66.00 | N/A |
| EBITDA | £M | 355 | 135 | 74 | 52 | 6 | 267 |
| Depreciation and amortisation | £M | (229) | (31) | (9) | (25) | (2) | (67) |
| EBIT | £M | 126 | 104 | 65 | 27 | 4 | 200 |
| Volume | TWh, MTherms | 42.4 | 15.5 | 34.6 | 1,446.0 | 137.9 | N/A |

N.B. Our WACO E/G is derived by dividing our direct fuel cost by our volume. The WACOF is discussed in note 6.5.

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6. Generation Segment

6.1 Revenue from sale of electricity and gas

6.1.1 Gas, Coal and Biomass Stations

- Our gas, coal and biomass power stations sell capability to the UK branch of RWE Supply and Trading GmbH (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 another 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 the forward markets at the time of the capability transfer. Transfer typically takes place 3 years ahead of generation. Thus, the bulk of the revenue of the business represents the sale of asset capability rather than the sale of electricity.
- RWEST will manage positions that it holds via the external markets and will secure the coal, gas and biomass required for generation. It will hedge its positions in accordance with RWE's risk management guidelines and will seek to maximise the stations' value ('optimisation') based on current market conditions and plant availability. Any profit or loss that RWEST makes through this optimisation process is passed back to RWE Npower as an adjustment to the initial capability fee. RWEST received a management fee of circa £4m in 2012 for managing this optimisation activity. This fee is shown as part of our operating costs.
- Other elements included within this category comprise post option income, ancillary services, balancing mechanism income. This is also the case in respect of 6.1.2 below.

6.1.2 Oil Power Stations

- 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 procurement is netted off against our 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 RWE Npower.

6.1.3 Renewable stations

- Also included within revenue from sale of electricity and gas is RWE Npower Renewable Ltd's share of revenues from GGOWL.

6.1.4 Other revenue

- Only revenue reported from the sale of electricity or gas is reported in the CSS. "Other revenue" falls under our non-licensed activities and is therefore treated as out of scope for the purposes of our OFGEM CSS.

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6.2 Direct Fuel Costs

The position for each of the fuel types used at our power plants is described below:

- Gas, coal and biomass: As described in section 6.1 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 coal, gas and biomass procurement activities managed by RWEST are for the account of the Generation business and are included within revenue in the CSS.
- Oil is 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 within 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 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.
- On the basis of the methodology set out above the total notional derived fuel cost is £1,450.1m and the notional WACOF is £34.19 per MWh based on total generation volumes of 42.4 TWh. This is calculated by dividing the total derived cost of fuel by the total generation volumes.
- The Company was granted free carbon allowances of 18.6 million tonnes.

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7. Supply Segment

7.1 Revenue from sale of electricity and gas

- Comprises 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.

7.1.2 Other revenue

- Only revenue reported from the sale of electricity or gas is reported. “Other revenue” falls under our non-licensed activities and is therefore treated as out of scope for the purposes of our OFGEM Consolidated Segmental Statement.

7.2 Direct Fuel (electricity and gas) 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. The take up of these products varies between the domestic and non-domestic customers.
- 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 £2m in 2012 for this service. All of our licensees procure their electricity or gas in this fashion.

7.3 Other Direct Costs comprise:

- Network costs, including electricity distribution/transmission, 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;
- 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. This methodology uses various drivers to attribute costs depending on their nature. Such drivers may be customer numbers, segmental headcount, correspondence levels, 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 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 2012.

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8. Common costs between Generation and Supply

- Up to and including YE 2012 RWE AG managed and reported its UK Supply and Generation 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 will be 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 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 2012 CSS and the 2012 operating result (as disclosed in the RWE Report on the first quarter of 2013) between the respective segments.
- For the YE 2011 CSS the costs of the central corporate functions were allocated across the Generation and Supply segments in proportion to the headcount directly attributable to each segment, this being the most relevant cost driver. Our analysis confirms that the application of the detailed bottom up activity analysis performed for YE 2012 would not have materially changed the allocation of shared costs between the segments for 2011.

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9. Reconciliation of Generation and Supply revenue and operating result for YE 2012 as reported in the RWE AG "Report on the first quarter of 2013" to turnover and EBIT per the 2012 CSS

| Reconciliation of Revenue and Operating Result ('OR') in RWE Annual Report to Revenue and EBIT in Ofgem CSS | Currency | Operating Result (OR) ⁱ | | | Segmental Revenue | | | |
|---|--------------|-------------------------------------|----------------------------------|------------------------|----------------------------------|-------------------------------|----------------------------|------------|
| | | Generation segment OR ^{iv} | Supply segment OR ⁱⁱⁱ | Total OR ⁱⁱ | Generation segment ^{vi} | Supply segment ^{vii} | Total Revenue ^v | |
| OR / Revenue (in Euros) as published in RWE Annual Report 2012 | €m | 194 | 286 | 480 | 138 | 8,935 | 9,073 | |
| Average exchange rate ^{viii} | £1 GBP = | € 1.230 | € 1.230 | € 1.230 | € 1.230 | € 1.230 | € 1.230 | |
| OR / Revenue (translated to GBP) as per RWE Annual Report | £m | 158 | 232 | 390 | a | 112 | 7,264 | 7,376 |
| EBIT / Revenue per YE 2012 Ofgem Consolidated Segmental Statement ^{ix} | £m | 126 | 200 | 326 | b | 819 | 6,810 | 7,629 |
| Variance | £m | (32) | (32) | (64) | = b-a | 707 | (454) | 253 |
| Reconciled as follows: | Notes | | | | | | | |
| Remove "Out of Scope" activities/transactions | 1 | (34) | (21) | (55) | | (182) | (453) | (635) |
| Remove loss from JV interest in Horizon Nuclear Power | 2 | 8 | | 8 | | | | - |
| Include profit from affiliate's JV interest in Greater Gabbard Offshore Winds Ltd | 3 | 19 | | 19 | | 64 | | 64 |
| Items specifically excluded from the CSS as required by Ofgem guidelines | 4 | | 2 | 2 | | | (2) | (2) |
| Inter company revenue reclassified as turnover for CSS | 5 | | | | | 836 | | 836 |
| Remove one-off transactions | 6 | (25) | (13) | (38) | | (11) | 1 | (10) |
| Total Variance | £m | (32) | (32) | (64) | = b-a | 707 | (454) | 253 |

Notes:

- i - Operating result ('OR') = EBITA (earnings before interest, taxation and non-operating amortisation)
- ii - 2012 Operating result of the total United Kingdom segment as per Page 188 of RWE Annual Report 2012
- iii - 2012 Operating result of the United Kingdom Supply segment as per Page 18 of RWE Report on the First Quarter of 2013
- iv - 2012 Operating result of the United Kingdom Generation segment as per Page 18 of RWE Report on the First Quarter of 2013
- v - 2012 Total revenue of the United Kingdom segment as per Page 188 of RWE Annual Report 2012
- vi - Generation segment revenue is derived by taking the full year UK Revenue and deducting the Supply segment revenue (the Generation segment revenue for YE 2012 is not separately disclosed in the RWE Report on the First Quarter of 2013)
- vii - 2012 Supply revenue (sum of external and internal revenue) as per Pages 16 and 17 of RWE Report on the First Quarter of 2013
- viii - Please refer to foreign currency translation statement on Page 138 of RWE Annual Report 2012
- ix - Per page 5 of YE 2012 CSS

(N.B. Please see the page 11 for notes 1 to 6)

9. 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 4).
2. Exclusion of the Company's share of the loss from its 50% joint venture interest in Horizon Nuclear Power (see section 5).
3. Inclusion of the share of the revenue and operating profit of RWE Npower Renewable Limited's 50% joint venture interest in Greater Gabbard Offshore Winds Ltd (see section 5).
4. Removal of mark to market adjustment and other items that are specifically excluded from the CSS as required by the Ofgem guidelines
5. Inter-company revenue reclassified as turnover in the CSS. This is purely a reclassification with no impact on EBIT.
6. 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 one-off and non-recurring in nature.

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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 | |
| 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 | 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 | √ | 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 RWE AG Executive Board.
- iii - Carried out on behalf of RWE npower for Generation by RWEST. The Supply segment determines its own hedging policy.
- iv – External commodity transactions are carried out by RWEST on behalf of RWE npower Generation and Supply.
- 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. An insignificant proportion of Supply purchases were netted with Generation volumes within the year.
- 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 sit within Supply.