

RWE - UK Generation & Supply Consolidated Segmental Statement

for the year ended 31 December 2015

Independent auditor's report to the Directors of RWE Npower Holdings Plc and its Licencees

We have audited the accompanying statement (the 'Consolidated Segmental Statement' or 'CSS') of RWE Npower Holdings Plc and its Licencees (as listed in footnote i) as at 31 December 2015 in accordance with the terms of our agreement dated 29 February 2016. The CSS has been prepared by the Directors of RWE Npower Holdings Plc and its Licencees 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 5 to 12.

Directors' responsibility

The Directors are responsible for the preparation of the CSS in accordance with the Licences and the basis of preparation on pages 5 to 12 and for maintaining the underlying accounting records and such internal control as the Directors determine is necessary to enable the preparation of the CSS that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the CSS based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the CSS is free from material misstatement. The materiality level that we used in planning and performing our audit is set at £18m for each of the segments on page 4 as follows: Conventional Electricity Generation, Renewable Electricity Generation, Domestic Electricity, Non-domestic Electricity, Domestic Gas and Non-domestic Gas.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the CSS. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the CSS, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the CSS in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the CSS.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the attached CSS of RWE Npower Holdings Plc and its Licencees as at 31 December 2015 is prepared, in all material respects, in accordance with:

- 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
- the basis of preparation on pages 5 to 12.

Basis of Accounting and Restriction on Distribution

Without modifying our opinion, we draw attention to pages 5 to 12 of the CSS, which describes the basis of preparation. The CSS is prepared in order for RWE Npower Holdings Plc and its Licencees 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 5 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.

This report, including our opinion, has been prepared solely for the Board of Directors of RWE Npower Holdings Plc and its Licencees in accordance with the agreement between us, to assist the Directors in reporting on the CSS to the Regulator Ofgem. We permit this report to be disclosed in the About Us (Reports) section of the website www.npower.com (ii), to enable the Directors to show 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 and RWE Npower Holdings Plc and its Licencees for our work or this report except where terms are expressly agreed between us in writing.

PricewaterhouseCoopers LLP

London

26 April 2016

- 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 RWE Npower 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 Npower Holdings PLC 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.

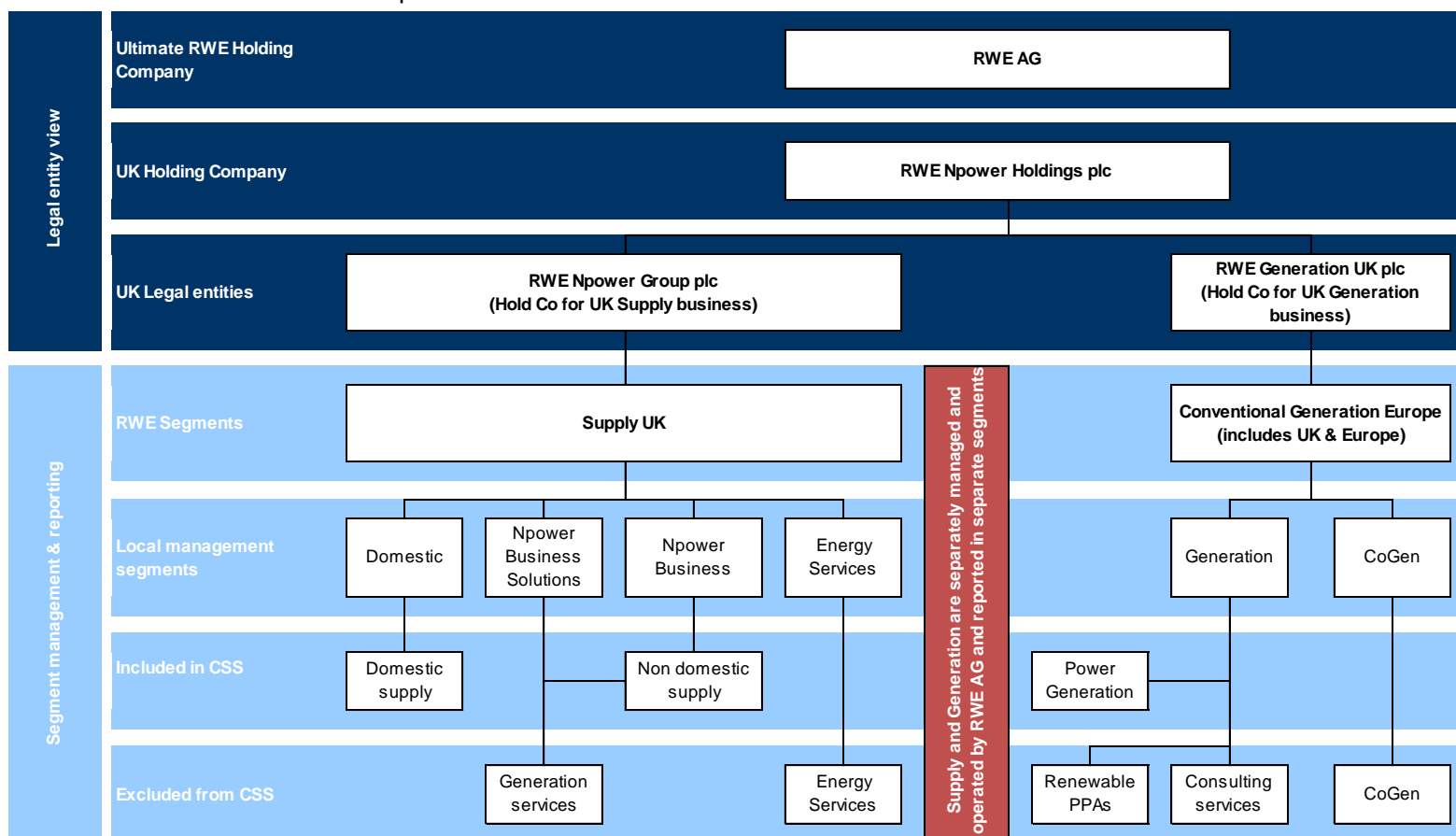
YE 2015 Consolidated Segmental Statement		GENERATION			SUPPLY				
		Electricity Generation		Aggregate Generation	Electricity		Gas		Aggregate Supply
		Conventional	Renewable		Domestic	Non-domestic	Domestic	Non-domestic	
Total revenue	£m	2,143	210	2,353	1,447	3,545	1,105	418	6,515
<i>Revenue from sales of electricity and gas (i)</i>	£m	2,089	208	2,297	1,447	3,545	1,105	418	6,515
<i>Other revenue</i>	£m	54	2	56	-	-	-	-	-
Total operating costs	£m	(2,056)	(65)	(2,121)	(1,530)	(3,509)	(1,158)	(383)	(6,580)
Direct fuel costs	£m	(1,333)	-	(1,333)	(593)	(1,860)	(575)	(233)	(3,261)
Direct costs	£m	(478)	(40)	(518)	(618)	(1,446)	(324)	(100)	(2,488)
<i>Transportation costs</i>	£m	(115)	(40)	(155)	(396)	(827)	(286)	(97)	(1,606)
<i>Environmental & social obligation costs</i>	£m	(329)	-	(329)	(210)	(596)	(28)	-	(834)
<i>Other direct costs</i>	£m	(34)	-	(34)	(12)	(23)	(10)	(3)	(48)
Indirect costs	£m	(245)	(25)	(270)	(319)	(203)	(259)	(50)	(831)
WACO F/E/G	£/MWh, p/th	45.16	N/A	N/A	57.57	53.30	59.65	58.38	N/A
EBITDA	£m	87	145	232	(83)	36	(53)	35	(65)
Depreciation and amortisation	£m	(175)	(75)	(250)	(19)	(6)	(18)	(2)	(45)
EBIT	£m	(88)	70	(18)	(102)	30	(71)	33	(110)
Volume	TWh, MThms	36.8	1.8	N/A	10.3	34.9	964.0	399.1	N/A
Customer numbers	000s	N/A	N/A	N/A	2,923	376	2,062	53	5,414
EBIT Margin		-4.1%	33.3%	-0.8%	-7.0%	0.8%	-6.4%	7.9%	-1.7%
Supply Total Domestic EBIT Margin									-6.8%
Supply Total Non-domestic EBIT Margin									1.6%

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

Basis of Preparation

1. RWE-UK Generation & Supply (G&S) legal and management structure (as at 31 December 2015)

- Detailed below is a summarised, high level view of the legal entity and management and reporting structure of the RWE-UK G&S operations in the UK. From a legal entity perspective the UK conventional generation and supply businesses are owned by RWE Npower Holdings plc (the Company).
- The UK Supply and Conventional generation businesses are separately managed and steered by RWE AG group.
- At the UK level the Supply business is organised into four sub-segments being: Domestic, Npower Business Solutions, Npower Business and Energy Services.
- The activities that are excluded from the CSS are explained further in section 2.



Basis of Preparation

2. Legal entities included in the 2015 CSS

- The CSS includes the revenues and costs attributable to the generation and electricity and gas supply activities of all subsidiaries of the Company that held an electricity generation or an electricity/gas supply licence AND engaged in generation or gas/electricity supply activities during the year ended 31 December 2015.
- A list of the legal entities (all of which are ultimately owned 100% by the Company) which held a generation or supply licence and traded during 2015 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 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 segment in the diagram in section 1 above);
 - the legal entities that provide energy services such as boiler installation and maintenance to domestic customers, metering services to third parties or electrical/mechanical installation services to the private and public sector (the Energy Services segment in the diagram in section 1 above).
- The CSS does not include subsidiaries of the Company that held either electricity generation or gas/electricity supply licences but which were dormant and had no trading activities during the year ended 31 December 2015.
- Any profit or loss created through RWE Supply & Trading (RWEST) acting on behalf of RWE’s supply or generation businesses in the wholesale markets is attributed to the supply or generation business as appropriate.
- In addition the CSS includes the revenues and costs of five joint venture entities that are held by other companies in the RWE AG Group. Information on the five joint venture 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 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 Supply segment.
- Both the Generation and Supply segments receive and provide central support services to each other and also to and from other divisions of the RWE AG Group. These are mainly support services and functions such as IT, HR, Transactional Accounting, Tax and Internal Audit.
- In accordance with RWE AG Group policy, 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 2015.

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

- RWE-UK G&S has no joint venture arrangements; therefore there are no joint ventures that should be included in the CSS.
- An affiliate company, RWE Innogy (UK) Ltd, has five joint venture interests in offshore wind farms which hold a generation licence.
- Although RWE Innogy (UK) Ltd does not form part of RWE UK G&S it is treated as an “Affiliate” for the purposes of the CSS.
- Accordingly, RWE Innogy (UK) Ltd’s share of the revenues, costs and operating result in the five JV wind farms is included in the Generation segment of the CSS in accordance with paragraph 5 of the modified LC’s. The details of the five JV’s and the proportionate share of the results reflected in the CSS are as follows:
 - 50% of the operating result of Greater Gabbard Offshore Winds Ltd (company registered number: 04985731).
 - 60% of the operating result of Gwynt Y Mor Offshore Wind Farm Ltd (company registered number: 03697015) until 31 October 2015, reducing to 50% from 1 November 2015. Due to the commercial arrangements in place this includes the operating result UK Green Investment Gym Participant Ltd (until 31 October 2015), RWE Innogy GYM 2 Ltd, RWE Innogy GYM 3 Ltd and RWE Innogy GYM 4 Ltd, (company registered numbers: 07233484, 07233494, 07233487 and 07233491).
 - 100% of RWE Innogy Galloper 1 Limited (company registered number: 07320585) and RWE Innogy Galloper 2 Limited (company registered number: 07320255). These entities each had a 25% holding in Galloper Wind Farm Limited (company registered number: 07320597) until 29 October 2015. From 29 October 2015 RWE restructured the project and reduced its share to 25% of Galloper Wind Farm Limited.

Basis of Preparation

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

- 100% of Carnedd Wen Wind Farm Limited (company registered number 05712858)
- 100% of Triton Knoll Offshore Windfarm Limited (company registered number 03696654) until 12 February 2015. From 12 February 2015 RWE reduced its share to a non-controlling 50%.
- The proportionate share of the RWE Innogy (UK) Ltd interest in the JV's is reflected in the Renewables column in the CSS. Operating result is defined as the earnings before interest and tax.
- Gwynt Y Mor Offshore Wind Farm Ltd and Greater Gabbard Offshore Winds Ltd are engaged in generation activities. Carnedd Wen Wind Farm Limited, Galloper Wind Farm Limited and Triton Knoll Offshore Windfarm Limited were not engaged in generation activities in 2015.

5. Generation segment

5.1.1 Overview of asset tolling arrangement

- RWE-UK G&S 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.
- Our remaining oil fired power station (which ceased operation at the end of Q1 2015) is run on a different basis to the gas and coal power stations and as such capability is not sold to RWEST. RWEST still manage the positions in respect of the oil power stations and will seek to optimise them in respect of market conditions and plant availability, again passing any gains or losses in respect of this back to the Generation segment.

Basis of Preparation

5.1.1 Overview of asset tolling arrangement (continued)

- 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.
- RWEST received a management fee of circa £7m in 2015 (£7m in 2014) for managing this optimisation activity for the main Generation fleet. This fee is shown as part of operating costs.

5.1.2. Change in basis of calculation and disclosing Generation revenue and direct fuel costs in the CSS

- From the start of 2015 the revenue reported in the RWE AG Annual Report has been shown gross of direct costs, whereas previously the revenue was shown net of fuel cost. As a result it is not necessary to show an adjustment in the CSS to revenue as in previous years.
- An additional impact for the CSS is in the calculation of the fuel cost. Due to the changes in the internal reporting and presentation, RWE Generation no longer have a requirement to derive a weighted average cost of fuel (WACOF) calculation to enable disclosure of the fuel costs, as actual fuel cost incurred is now visible and therefore able to be presented.
- This represents an improvement to prior year reporting transparency and the ability of CSS users to draw meaningful comparisons across the industry.

5.1.3 Renewable stations

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

5.1.4 Other revenue

- The balance of £54m in other revenue relates to other income earned from power generation including ancillary services.
- Other revenue excludes profit of £18m 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

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

5.4 Operating result

- Please note that the OR loss for the Generation business excludes a non-operating asset impairment of £450m as a result of continued pressure on the future market outlook.

6. 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 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.

Basis of Preparation

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.
- Our 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 a management fee of £2.4m in 2015 (£2.4m in 2014) for this service. All of our licenced activities procure their electricity or gas in this fashion.

6.3 Direct costs

- Direct costs for 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.
- 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 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.

Basis of Preparation

6.4 Indirect costs comprise (continued):

- 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 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 2015.

6.6 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).

6.7 Operating result

- Please note that the OR loss for the Supply business excludes a non-operating asset impairment of £121m.

7. Reconciliation of Generation and Supply revenue and operating result for year end 2015 as reported in the RWE AG Annual Report 2015 to revenue and EBIT per the 2015 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 2015	€m	(76)	(137)	(213)	3,136	9,238	12,374	
Average exchange rate ^{viii}	£1 GBP =	€ 1.381	€ 1.381	€ 1.381	€ 1.381	€ 1.381	€ 1.381	
OR / Revenue (translated to GBP) as per RWE Annual Report	£m	(55)	(99)	(154)	a	2,271	6,690	8,961
EBIT / Revenue per YE 2015 Ofgem Consolidated Segmental Statement ^{ix}	£m	(18)	(110)	(128)	b	2,353	6,515	8,868
Variance	£m	37	(11)	26	= b-a	82	(175)	(93)
Reconciled as follows:	Notes							
Remove "Out of Scope" activities/transactions	1	(1)	(30)	(31)		(51)	(185)	(236)
Remove PPAs with affiliated windfarms	2	(18)	-	(18)		(78)	-	(78)
Include operating result from affiliate's JV interests	3	70	-	70		211	-	211
Items specifically excluded from the CSS as required by Ofgem guidelines	4	3	19	22		-	-	-
Reclassification between revenue and costs for the CSS	5	-	-	-		-	10	10
Remove one-off transactions	6	(17)	-	(17)		-	-	-
Total Variance	£m	37	(11)	26	= b-a	82	(175)	(93)

- i - Operating result (OR) = EBITA (earnings before interest, taxation and non-operating amortisation).
- ii - 2015 Operating result of the total United Kingdom segments being the sum of the Supply and Generation segments in the United Kingdom.
- iii - 2015 Operating result of the United Kingdom Supply segment as per page 145 of RWE AG Annual Report 2015.
- iv - 2015 Operating result of the United Kingdom Generation segment as per page 50 of RWE AG Annual Report 2015 (excludes Renewables).
- v - 2015 Revenue of the total United Kingdom segments being the sum of the Supply and Generation segments in the United Kingdom.
- vi - Generation revenue from power generation in the United Kingdom as per page 145 of the RWE AG Annual Report 2015.
- vii - 2015 Supply revenue of the United Kingdom as per page 145 of the RWE AG Annual Report 2015.
- viii - Please refer to foreign currency translation statement on page 104 of RWE AG Annual Report 2015.
- ix - Year end 2015 CSS per page 4 of this document.

7.1 Reconciliation of Generation and Supply revenue and operating result – explanatory notes

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

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 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 boiler installation and maintenance to domestic customers, 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 operating profit of RWE Innogy (UK) Ltd’s joint venture interest 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 EBIT.
6. Removal of transactions that do not arise from the ongoing activities of RWE-UK G&S operations or relate to periods prior to the publication of the 2009 CSS.

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 G&S by RWEST.

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

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

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

vi - Please refer to section 5.1 above.

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

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

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

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

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

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