

Company Registration No. 03892782 (England and Wales)

**RWE GENERATION UK PLC**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

# RWE GENERATION UK PLC

## COMPANY INFORMATION

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<b>Directors</b>	Mrs H Mallett (Appointed 18 June 2019) Mr S Glover Mr M Suleman
<b>Company secretary</b>	Mr J Keene
<b>Company number</b>	03892782
<b>Registered office</b>	Windmill Hill Business Park Whitehill Way Swindon Wiltshire SN5 6PB
<b>Independent auditors</b>	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 3 Forbury Place, 23 Forbury Road Reading Berkshire United Kingdom RG1 3JH

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# RWE GENERATION UK PLC

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# RWE GENERATION UK PLC

## STRATEGIC REPORT

**FOR THE YEAR ENDED 31 DECEMBER 2019**

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The directors present the strategic report and financial statements for the year ended 31 December 2019 for RWE Generation UK plc ('the Company').

### **Section 172 statement**

The Directors take their duties and responsibilities seriously when managing the Company. The way in which their duties and responsibilities are applied is covered, in part, within the Governance report on pages 11 to 13 of these financial statements.

During the year there were a number of important decisions taken by the Directors. The following highlights how the Directors have delivered against the requirements of s.172 in the application of their duties.

#### ***S172(1) (A) "The likely consequences of any decision in the long term"***

The Directors understand the business and the evolving environment in which the Company operates. The UK strategy is aligned with the wider RWE Group strategy and is intended to maintain and strengthen the position as a leading energy generation company, while keeping safety and social responsibility fundamental to the core business approach.

The Directors recognise how operations are viewed by different parts of society and that some decisions taken today may not align with all stakeholder interests.

The business plan was designed to have a long-term beneficial impact on the Company and to contribute to its success in delivering security of supply for the UK, whilst seeking to optimise and improve the existing assets, together with consideration of new market opportunities. The Directors continue to operate the business within tight budgetary controls and in line with regulatory targets.

The Directors provide a safe and secure working environment for employees, contractors and local stakeholders. The planning process also takes into account the impact of the Company's operations on the community and environment and our wider societal responsibilities. A number of the proposed performance measures in the plan will deliver environmental improvements.

#### ***S172(1) (B) "The interests of the Company's employees"***

The Directors recognise that employees are fundamental and core to the business and delivery of strategic ambitions. The success of the business depends on attracting, retaining and motivating employees. From ensuring that the Company remains a responsible employer, to pay and benefits and to the health, safety and workplace environment, the Directors factor the implications of decisions on employees and the wider workforce, where relevant and feasible. The Directors also recognise that the Company's pensioners, though no longer employees, also remain important stakeholders. Further details of how the Directors engage with their employees is captured within the Governance report on pages 11 to 13.

The Directors agree that employee engagement is an important measure. As part of a wider Group survey, shared with all employees, an employee engagement process helps measure motivation, affiliation and commitment to RWE. It provides insights into employee views and has a consistently high response rate.

#### ***S172(1) (C) "The need to foster the Company's business relationships with suppliers, customers and others"***

Delivering the strategy requires good relationships with suppliers, customers, governments and local communities. The Directors assess the priorities related to the relevant stakeholders with whom we do business, and, where applicable, a member of the Board ensures close collaboration with the stakeholders on these particular topics, for example, within the context of business strategy updates and investment/divestment proposals.

The Directors receive information updates which inform how stakeholders have or will be engaged with on key decisions. They recognise the important role the Company has to play in society and remain committed to public collaboration and stakeholder engagement.



# RWE GENERATION UK PLC

## STRATEGIC REPORT (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

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The Company continues to build on how it communicates and engages with others, such as suppliers, industry and trade groups, universities, governments, NGOs and in some instances, our competitors through industry bodies. It also aims to act responsibly and fairly in how it engages with suppliers and co-operates with regulators, all of whom are integral to the successful delivery of the Company's plan.

#### ***S172(1) (D) "The impact of the Company's operations on the community and the environment"***

The Directors ensure that Environmental, Health and Safety, and social responsibility policy and plans adopted are in place to help protect both people and the environment.

#### ***S172(1) (E) "The desirability of the Company maintaining a reputation for high standards of business conduct"***

The Directors periodically review and approve clear plans, policies and frameworks, such as the RWE Code of Conduct, specific ethics & compliance Directives, and the Modern Slavery Statement, to ensure that high standards are maintained internally and across external business relationships. This is complemented by the ways the Directors are informed and monitor compliance with relevant governance standards.

The Company has a designated Compliance Officer to assure that both the way in which decisions are taken and how the Company acts promote high standards of business conduct. This is also augmented by Compliance (business ethics) training that is mandatory for all employees to undertake annually.

The Directors recognise their role in ensuring the desired culture is embedded in the values, attitudes and behaviours the Company demonstrates, including external activities and stakeholder relationships.

#### ***S172(1) (F) "The need to act fairly as between members of the Company"***

The Company is held directly by a single member, and has one ultimate parent company, RWE AG. After weighing up all relevant factors, the Directors consider which course of action best enables delivery of our strategy through the long-term, taking into consideration the impact on the RWE group. In doing so, the Directors act fairly as between the immediate Company's member and the ultimate parent.

During 2019, Board and Executive Committee, discussions and decisions included the following:

#### **Key decisions taken in 2019**

##### **Strategic, planning, risk and performance**

Internal controls audit  
Pension scheme restructuring  
Consolidated segmental statement  
Capital reduction project  
Capacity market auctions  
Restructuring  
Business plan 2020-2022

##### **Stakeholders engaged on this topic**

Shareholder and ultimate parent  
Government and regulators  
Our people

##### **Operational, investment, divestment**

Station upgrades and repairs  
Sale of land at Bristol Port  
Closure of embedded generation projects  
VOA rates appeal  
Demolition projects: Tilbury, Didcot A  
Little Barford power outage and Ofgem investigation  
Aberthaw closure and Capacity Market transfers  
King's Lynn power station acquisition  
Sale of freehold property in Birmingham

##### **Stakeholders engaged on this topic**

Shareholder and ultimate parent  
Communities and NGOs  
Government and regulators  
Suppliers  
Our people

# RWE GENERATION UK PLC

## STRATEGIC REPORT (CONTINUED)

*FOR THE YEAR ENDED 31 DECEMBER 2019*

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### **People, culture, stakeholders**

Diversity and inclusion review and planning  
Employee survey and action plans  
Charitable donations  
Gender pay gap report  
Drugs and alcohol policy  
Volunteering policy  
Managers' tool kit

### **Political and regulatory environment**

Brexit project  
Water Resources East  
Modern slavery statement  
NIS regulation improvement plan  
Communications, lobbying and engagement strategy  
Didcot B AGI incident update

### **Governance**

Executive committee terms of reference  
Dividend policy  
Formation of the Health, Safety & Wellbeing Review Committee  
Annual compliance review and report

### **Stakeholders engaged on this topic**

Shareholder and ultimate parent  
Communities  
Suppliers  
Our people

### **Stakeholders engaged on this topic**

Shareholder and ultimate parent  
Communities and NGOs  
Government and regulators  
Our people

### **Stakeholders engaged on this topic**

Shareholder and ultimate parent  
Our people

# RWE GENERATION UK PLC

## STRATEGIC REPORT (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

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#### Review of the business

The financial statements for the year ended 31st December 2019 are set out on pages 17 - 59.

The Company reports a profit before tax of £187m compared to a £120m loss before tax in 2018. Net assets increased to £1,550m (2018: £1,514m). During the year, the Company paid an interim dividend of £160m (2018: £nil).

The movement in the year-on-year operating result is explained below:

- Reinstatement of the Capacity Market has resulted in additional £176m being recognised in the income statement compared to the previous year.
- Short-term earnings and greater reliability from power generation earned the Company £43m more than the previous year.
- Fair value movements of derivatives resulted in a net gain of £22m in 2019 against a £18m loss in 2018. This is due to significant changes in the market prices and timing of hedges. £46m of the year-on-year movement is recognised in revenue and cost of sales with other income reduced by £6m.
- In the prior year, the Company impaired two of its power stations. The Company reviewed the carrying amount of its power stations in 2019 and concluded one of its stations was impaired by £2m. The prior year saw an impairment loss of £99m recognised.
- The prior year also saw the Company recognise a net gain of £48m resulting from the hive-up of RWE Cogen UK Limited and RWE Cogen UK (Hythe) Limited and a final dividend from Transpower Limited.

During the year, the Company planned, organised and delivered 4 major outages at Staythorpe and Pembroke power stations using in-house capability, delivering the units back to production on time. The Company's continuing investment in its power stations reflects a strong commitment to having a highly efficient gas-fired fleet of power stations that are ready to respond to the emerging needs of the UK energy market.

On 1 August 2019, the Company announced that its coal-fired power station at Aberthaw would close on 31 March 2020. It has been clear for some time that market conditions for coal fired generation in the UK have been challenging and this decision follows the closure of several other coal plants in the UK. Aberthaw's remaining Capacity Market obligations have been or will be transferred to third parties and to a lesser degree internally. Whilst the closure is an important step for the future of the Company, generating electricity at Aberthaw for 60 years has brought a high level of pride for everyone associated with the plant and the Company is supporting all affected employees through the closure process.

On 12 February 2020, the Company acquired 100% of the shares in RWE KL Limited (formerly Centrica KL Limited) from GB Gas Holdings Limited, a subsidiary of Centrica plc. Total consideration for both the shares and repayment of existing Centrica KL Limited's loan with its former parent was £101.35m. RWE KL Limited is the trading company of King's Lynn Power Station. King's Lynn Power Station is a gas-fired combined cycle power plant situated in King's Lynn, Norfolk. The plant's capacity is 382 megawatts. The acquisition takes the Company's gas portfolio to an electricity production capacity of 7.1GWh, making the Company one of the largest operators of gas-fired powered stations in the UK.

During 2019 the Company carried out a capital reduction to create distributable reserves. Ordinary shares were reduced to 50,000 shares of £1 each. Share premium was reduced to £nil. The reduction in capital is recognised in retained earnings.

	2019	2018
	£m	£m
Profit/(loss) before taxation	187	(120)
Net assets	1,550	1,514
Total assets less current liabilities	1,966	1,869

# RWE GENERATION UK PLC

## STRATEGIC REPORT (CONTINUED)

*FOR THE YEAR ENDED 31 DECEMBER 2019*

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### **Business environment**

On 24 October 2019, the European Commission approved the United Kingdom Capacity Market scheme following an in-depth investigation into its state aid compliance. The Capacity Market was suspended in 2018 following a ruling by the General Court of the Court of the Justice of the European Union. The Company resumed recognising Capacity Market income in 2019 including the recognition of £45m that would have been accounted for in 2018 had the Capacity Market not been in 'standstill'. The Company welcomes the reinstatement of the Capacity Market and will continue to bid for Capacity Market contracts in future auctions.

The UK formally left the European Union on 31 January 2020. In practice, nothing has changed for the Company, however the RWE Brexit Working Group will continue to monitor the trade negotiations closely through 2020. The key areas of work in this group include data protection, HR/labour mobility, procurement, supply chain, EU ETS, Internal Energy Market, financial regulation, tax, legal and IT.

In December 2018, Ofgem launched its Significant Code Review (SCR) looking at network access and forward-looking charges. The impact of this is uncertain but it looks likely to lead to additional costs being incurred by the Company in its network charges. Ofgem's 'minded to' decision and impact assessment were published in Q4 2019. A published decision with final impact assessment is expected in 2020.

The Company is expecting changes in Q4 2020 to the short-haul benefits derived from the gas charging regime, which could lead to higher gas transportation costs in power generation. The Company is looking at ways of mitigating the loss of short-haul benefit.

Since the tragic incident on February 23 2016, which resulted in the death of 4 people at the Company's decommissioned Didcot A power station when the boiler houses at that site collapsed during demolition being carried out by its contractors, RWE continues to co-operate with the HSE and Thames Valley Police in their investigation of the incident and support any employees who have been affected. Thames Valley Police have indicated that they cannot yet give an idea when the investigation might come to an end.

The Didcot A power station site has now been returned to RWE control and the site is almost at its final stage of clearance.

The Company and RWE Group are closely monitoring the Covid-19 outbreak and have activated a Group-wide crisis response. Teams involved include representatives from Group Security, Group Occupational Medicine and Organisational Management. The crisis teams regularly exchange information on current developments and assess the situation within the RWE Group with regard to the risk of infection and preventative measures.

The Company is committed to providing security of supply and protecting key workers. Preventative measures have been taken such as restricting travel between RWE sites, maximising working from home, reviewing outage profiles and scope and switching to telephone and online conferences.

No adjustments have been made to these financial statements for Covid-19 effects given the pandemic occurred in Q1 2020. There is a downside in energy spreads and volumes expected in 2020, however the Company's hedge position and associated trading activity has largely shielded the Company from these effects.

Management are confident that despite the uncertainties caused by the pandemic, the Company has sufficient resources and liquidity to continue to provide security of supply.

# RWE GENERATION UK PLC

## STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

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### Strategy and future outlook

Management recognises that attention needs to be paid to the challenges of the UK energy market. An internal restructuring project has been initiated which aims to review our structure and operations and implement an efficient business model that is fit for purpose. The outcome will enable the Company to operate a safe, reliable, sustainable and adaptable business into the future.

The acquisition of King's Lynn Power Station, which holds a 15 year Capacity Market agreement, demonstrates the Company's commitment to providing security of supply through a portfolio of flexible gas-fired power stations.

The Company has a number of planned, major outages across the fleet in 2020, including Pembroke, Great Yarmouth, Little Barford and Didcot B. The outages will be supported by our in-house expertise and dedicated outage workforce allowing the units to continue safe and reliable operations in to the future. The extent and scope of these outages will be reviewed in light of the current Covid-19 situation.

Later in 2020, the Company plans to acquire and integrate the Hydro power business from RWE Renewables following completion of the Eon asset swap transaction. This will enable the Company to support the RWE Group's energy transition strategy.

### Principle risks and uncertainties

The energy sector is particularly dynamic, with changes in the regulatory, environmental and commercial situation having significant effects on the profitability of the portfolio and influencing the direction of the business and future strategy. Such changes in these areas means that risk management is critical to the Company to the extent that all risks are systematically identified, assessed, managed and mitigated by way of formal processes.

The primary responsibility for risk management lies with the Executive Board of RWE AG who monitors and manages the overall risk of the Group and its operational subsidiaries.

In line with the requirements of the German Corporate Control and Transparency Act (KonTraG), the Company's risk management system enables the directors to identify risks at an early stage and carry out a formal review and assessment to initiate mitigating action where necessary. The energy risk management activities undertaken by RWE Supply and Trading GmbH ("RWEST") on behalf of the Company are also overseen by the RWE AG Board.

The management of the business and execution of the Company's strategy are subject to a number of risks. Detailed discussions of these risks and opportunities, in the context of the RWE AG Group as a whole, are provided on pages 84 through 92 of the RWE AG 2019 Annual Report.

On behalf of the board



3rd June 2020

.....  
Mrs H Mallett  
**Director**  
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# RWE GENERATION UK PLC

## DIRECTORS' REPORT

### FOR THE YEAR ENDED 31 DECEMBER 2019

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The directors present their annual report and financial statements for the year ended 31 December 2019.

The corporate governance statement set out on pages 11 to 13 forms part of this report.

#### **Principal activities**

The Company is a wholly owned subsidiary of RWE Generation UK Holdings Limited. The Company manages a fleet of twelve fossil fuel and gas-fired power stations located across England and Wales with an installed capacity of 8.5 GW, producing approximately 35TWh of electricity.

#### **Results and dividends**

The results for the year are set out on page 17.

The directors proposed and paid interim dividends to its immediate United Kingdom parent company of £160m in 2019. The directors do not propose a final dividend for the year ending 31 December 2019.

#### **Directors**

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

Mrs H Mallett (Appointed 18 June 2019)

Mr S Glover

Mr M Suleman

Mrs R Wall (Resigned 18 June 2019)

#### **Qualifying third party indemnity provisions**

The Company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the reporting date.

#### **Financial instruments**

##### **Capital management**

The Company's objectives, policies and processes for managing capital are consistent with those of the RWE AG group. Detailed discussions of these, in the context of the RWE AG group as a whole, are provided on page 114 of the RWE AG 2019 Annual Report.

##### **Commodity price risk**

Market risk is the risk that changes in commodity price will affect the Company's profits. It is the group policy of RWE AG that commodity price risks should be managed by RWEST to the extent that the markets are sufficiently liquid. The principles for the transfer of market price risk to RWEST are controlled by the risk policies issued by RWE AG.

##### **Foreign currency risks**

All of the Company's trading activities are located in the United Kingdom. The majority of the Company's transactions are denominated in sterling and do not give rise to foreign currency exposure apart from its obligations to procure carbon certificates in the EU Emissions Trading System. The Company also has contracts in place for the ongoing maintenance and outage related costs at Pembroke, Staythorpe, Didcot and Great Yarmouth power stations which involve non-sterling payments. Forward foreign currency contracts are used to hedge these exposures.

# RWE GENERATION UK PLC

## DIRECTORS' REPORT (CONTINUED)

**FOR THE YEAR ENDED 31 DECEMBER 2019**

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### **Credit risk**

The credit risk associated with the use of financial instruments in connection with the Company's energy trading activities is carried out by RWEST on behalf of the Company.

In financial and trading operations, we primarily have credit relationships with banks and other financial institutions with good creditworthiness. The ultimate parent undertaking, RWE AG, assesses their credit standing based on external ratings and if no such ratings are available applies internal assessment methods. Any changes to the credit standing of banks and other financial institutions are communicated by RWE AG to its subsidiaries and appropriate action taken.

### **General risk management**

Operational risk relates to the risk that processes, controls or competencies affect the Company's profits. These are formally reviewed and assessed by the Company's directors. The energy risk management activities undertaken by RWEST on behalf of the Company are overseen by a Risk Committee, chaired by a member of the RWE AG Board. This Risk Committee must approve the types of financial instrument used for risk management purposes and establishes limits, in terms of positions, which can be held with respect to our market risk and a control framework within which energy risk management activities are conducted.

### **Equal opportunities and diversity**

We are committed to creating a diverse and inclusive organisation and to valuing the contribution that our employees make.

We welcome and respect differences in culture, background, working style, education and other less obvious differences. We value the contribution that people from all backgrounds can make to the success of our business, irrespective of sex, marital status, race, nationality, ethnic or national origins, disability, age, religion or belief, sexual orientation and trade union affiliation.

Our commitment means that we continually seek to improve our policies, procedures and codes of practice to ensure that our employees, potential employees and other workers are treated equally, fairly and on merit.

Employment decisions affecting both job applicants and employees with disabilities will be made following any reasonable adjustments that may be necessary to ensure fair treatment. In addition, appropriate arrangements are made for training, career development and promotion of disabled persons employed by the Company. If members of staff become disabled the Company continues employment, either in the same or an alternative position, with appropriate training being given if necessary.

### **Employees**

The success of our business depends on the ability, commitment and dedication of our employees and we thank them for their continued efforts this year in the challenging business environment that we find ourselves in.

The Company is committed to the development of all staff in order to leverage our intellectual capital. Among many development and training initiatives, all staff are encouraged to maintain personal development plans.

The ongoing changes within the Company mean that effective communications with staff are vital. The Company provides employees with information on matters of concern to them, consulting them or their representatives regularly, so that their views can be taken into account when making decisions that are likely to affect their interests. Corporate publications and other media, including distribution of key development messages and team briefings, are used to promote wide understanding of policies and strategy.

Health and Safety remains of the utmost priority and we are committed to sharing best practice across the Company, maintaining our high standards and striving for improvements. We take every measure to protect everyone we work with – not only our employees, but also our contractors, visitors and the public. We also take every opportunity to promote wellbeing at work.

Details of how the Company engages with its employees can be found in the Strategic Report on pages 1 to 6 and Corporate Governance statement on pages 11 to 13.

# RWE GENERATION UK PLC

## DIRECTORS' REPORT (CONTINUED)

**FOR THE YEAR ENDED 31 DECEMBER 2019**

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### **Business relationships**

The Company's objectives, policies and processes for managing its relationships with suppliers, customers and others with a business relationship with the Company are consistent with those of the RWE AG group. Detailed discussions of these, in the context of the RWE AG group as a whole, are provided in the 2019 RWE AG Corporate Responsibility Report available at [www.rwe.com](http://www.rwe.com).

### **Post reporting date events**

Since the reporting date, the directors have agreed to acquire King's Lynn power station from Centrica. The Covid-19 pandemic emerged in Q1 2020. Both events are non-adjusting. See note 37 for more information.

### **Future developments**

Details of likely future developments of the Company are provided in the Strategic Report on pages 1 to 6.

### **Auditor**

The independent auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office.

### **Statement of directors' responsibilities**

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### **Statement of disclosure to auditor**

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the Company's auditor is unaware. Additionally, the directors individually have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the Company's auditor is aware of that information.



# RWE GENERATION UK PLC

## DIRECTORS' REPORT (CONTINUED)

**FOR THE YEAR ENDED 31 DECEMBER 2019**

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On behalf of the board



.....  
Mrs H Mallett  
**Director**

Date: 3rd June 2020 .....

# RWE GENERATION UK PLC

## CORPORATE GOVERNANCE STATEMENT

**FOR THE YEAR ENDED 31 DECEMBER 2019**

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### **Introduction**

For the year ended 31 December 2019, under The Companies (Miscellaneous Reporting) Regulations 2018, the Company has applied the Wates Corporate Governance Principles for Large Private Companies (published by the Financial Reporting Council ('FRC') in December 2018).

This report sets out below how the Principles have been applied over the past year across RWE Generation UK plc and its active subsidiary undertakings.

### **Principle 1 – Purpose and leadership**

Both the Board and the wider RWE Group take our role as a major partner for the energy transition and for security of supply very seriously, particularly when it comes to acting responsibly. Integrating this fundamental concept of corporate responsibility in all of our business processes is one of our key objectives. To do this, we participate in international initiatives and have set ourselves strict principles for our actions with internal guidelines.

The Board have adopted the RWE Group values which are TRUST, PERFORMANCE and PASSION. These describe the core of our identity, also differentiating us from our peers and competitors. They provide stability and reliable guidelines for our behaviour and decisions, but also build the basis of all our personnel systems and evaluation tools.

### **Principle 2 – Board Composition**

The Board is represented by Directors from three core business areas in the UK, Head of UK Hard Coal & Gas, Head of UK Finance, and Head of Commercial Asset Optimisation. All Directors have an equal standing. Whilst there is not a separate Chairman and Chief Executive, each of the Board members holds a clear balance of responsibilities, accountabilities and decision making in respect of the business areas they represent. Steve Glover (Head of UK Coal & Gas) holds the role of the primary operational interface with our intermediate shareholder RWE Generation SE.

The Directors have equal voting rights when making decisions. All Directors have access to the advice and services of the Company Secretary and may, if they wish, take professional advice at the Company's expense. The duties of the Board are executed partially through committees.

The Executive Committee (a committee of the Board) ensures that the values, strategy and culture align, are implemented and are communicated consistently to the workforce through regular team brief cascades, senior management conferences and site visits. Directors update their skills, knowledge and familiarity with the RWE Group by meeting with senior management, visiting operational sites and by attending appropriate external seminars and training courses.

The Board instructed the Company Secretary to carry out a full Governance and Steering Review in 2017. Following this review there has been a significant change in the Board and Executive Committee agendas and areas of focus, review and challenge. The next Governance and Steering Review is set to be carried out in 2020.

### **Principle 3 – Director Responsibilities**

Accountability and good governance supports open and fair business, ensures that the Company has the right safeguards in place and makes certain that every decision it takes is underpinned by the right considerations. Whilst Board oversight is always maintained, key decisions are made by the individuals and committees with the most appropriate knowledge and industry experience. Each Board member has a clear understanding of their accountability and responsibilities.

# RWE GENERATION UK PLC

## CORPORATE GOVERNANCE STATEMENT (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

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The Board has a programme of nine principal meetings every year, plus two additional days for strategic planning with the Executive Committee. The Board's key areas of focus in 2019 are included on in the Strategic Report on pages 1 to 6. The Directors, Committee members and other members of the wider leadership team complete an annual RWE Code of Conduct declaration confirming that they have behaved in accordance with the Group's behaviours and values. In addition, measures are in place for all Directors and Committee members to declare any potential conflicts of interest. These declarations are collated by the Company Secretary and shared with the external auditors and, where applicable, the RWE AG Chief Compliance Officer. Where there are potential conflicts, appropriate safeguards are implemented.

#### **Committees**

Together with matters reserved for the Board, the Board also delegates authority for certain matters to the following Committees:-

##### Executive Committee

The Executive Committee is responsible for the day-to-day management of the Company's business affairs. The Committee's duties and key focus areas include Business Change, Financial Performance and Risk Management, Investments and Divestments, People Priorities and Employee Engagement, Compliance, and also Health, Safety and Wellbeing.

The Executive Committee includes all Board members as well as individuals responsible for the strategic business units and key functions. Together with the Board, the following individuals are members of the Executive Committee: Stephen Duffy, UK HR Director; Stephen Boughton, Head of Business Development UK and Michael Magee, Director RWE Technology UK Limited.

##### Health, Safety and Wellbeing Review Committee

In 2019 the Board established The Health, Safety & Wellbeing Review Committee (HSWRC). The HSWRC's purpose is to define and develop the Strategy to deliver the desired Health and Safety culture of the business, by driving forward new programmes that are expected to result in a continuous reduction of H&S incidents and accidents across the UK, and to regularly review the effectiveness of the strategy and actions.

The HSWRC consists of individuals responsible for the delivery, implementation and employee and senior management engagement associated with health and safety in the UK. Together with the Board, the following individuals are members of the HSWRC: Steve Glover, Director of Hard Coal and Gas; Stephen Duffy, UK HR Director; Steve Boughton, Head of Business Development UK; Becky Wall, Station Manager, Didcot B; Alison Chappell, Didcot A Incident Manager; John Reilly, Head of Safety UK; Michael Magee, Director RWE Technology UK Limited and Mark Thomas, Business Planning and Performance Reporting Manager RWE Supply & Trading GmbH.

#### **Principle 4 – Opportunity and Risk**

The Board seeks out opportunity whilst mitigating risk. The Board seeks out opportunities drawn from the business and which align to the overall RWE Group strategy. Short term opportunities to improve performance, resilience and liquidity are collated through the internal business review process.

The Board ensure that inherent and emerging risks are identified and managed appropriately and in a timely manner. A list of emerging risks and opportunities are maintained, reported and reviewed on a frequent basis by the Board, Financial Controlling and Legal. Specific points raised by the Board are discussed in the Executive Committee.

# RWE GENERATION UK PLC

## CORPORATE GOVERNANCE STATEMENT (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

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#### **Principle 5 – Remuneration**

The Company continues to apply a framework against which it seeks to recruit and retain quality senior management who can deliver the RWE Group's strategic ambitions in a manner consistent with both its purpose and the interests of its shareholders.

The HR Director makes recommendations to the Board concerning the RWE Group's remuneration strategy, recruitment framework and long-term incentive plans for senior executives. The Company takes advice from both internal specialists together with independent external consultants who provide updates on legislative requirements, best market practice and remuneration benchmarking, drawing on evidence from across the sectors in which the Company operates and from other sectors.

Pay is aligned with performance and takes in to account fair pay and conditions across the Company's workforce. The Company's remuneration policy for executives is consistent with companies of a similar size and complexity, as well as other companies operating within the energy sector.

In 2019, the Company reported its Gender Pay Reporting for the first time which highlighted some specific areas of focus for 2019 and beyond.

#### **Principle 6 – Stakeholders**

The Board understands how good governance and effective communication are essential to the Company's relationship with its stakeholders. Good governance and effective communication help to protect the RWE brand, reputation and relationships with all our stakeholder community including shareholders, customers, employees, suppliers and the local communities in which we work. The Board continues to seek to align the Company's strategic direction with RWE Group's aspirations for sustainability, growth, diversification and investment in the UK.

#### **External impacts**

The Board is committed to social responsibility, community engagement and environmental sustainability. It achieves this in part through its commitment to ensuring the safety, health and wellbeing of everyone who the Company engages with; creating positive environmental and social impact; being an employer of choice where everyone is valued and respected; and seeking new ways to ensure the sustainability in our buildings and operational sites.

The RWE Group stands for transparency and is committed to sustainability. We have clear principles, which form the basis for our corporate and social activities.

# RWE GENERATION UK PLC

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF RWE GENERATION UK PLC

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### Opinion

In our opinion, RWE Generation UK plc's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2019; the income statement, the statement of comprehensive income, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Independence*

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

### 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 where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's 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 company's ability to continue as a going concern.

# RWE GENERATION UK PLC

## INDEPENDENT AUDITOR'S REPORT (CONTINUED) TO THE MEMBERS OF RWE GENERATION UK PLC

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### **Reporting on other information**

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

#### *Strategic report and directors' report*

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

### **Responsibilities for the financial statements and the audit**

#### *Responsibilities of the directors for the financial statements*

As explained more fully in the Statement of Directors' Responsibilities set out on page 9, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

#### *Auditors' responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

#### *Use of this report*

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

# RWE GENERATION UK PLC

## INDEPENDENT AUDITOR'S REPORT (CONTINUED) TO THE MEMBERS OF RWE GENERATION UK PLC

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### Other required reporting Companies Act 2006 Exception Reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



**Richard French (Senior Statutory Auditor)**  
**for and on behalf of PricewaterhouseCoopers LLP**  
**Chartered Accountants and Statutory Auditors**  
**Reading**  
**3 June 2020**

# RWE GENERATION UK PLC

## INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2019

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		2019	2018
	Notes	£m	as restated* £m
Revenue	4	1,789	2,062
Cost of sales: excluding exceptional items		(1,802)	(2,320)
Cost of sales: exceptional items	5	(2)	(99)
<b>Gross loss</b>		<u>(15)</u>	<u>(357)</u>
Administrative expenses		(47)	(52)
Other income	6	245	236
<b>Operating loss</b>	7	<u>183</u>	<u>(173)</u>
Finance income	8	8	11
Finance costs	9	(4)	(6)
Exceptional items	10	-	48
Finance income - net		<u>4</u>	<u>53</u>
<b>Profit/(loss) before taxation</b>		<u>187</u>	<u>(120)</u>
Tax on profit/(loss)	14	(35)	25
<b>Profit/(loss) for the financial year</b>		<u><u>152</u></u>	<u><u>(95)</u></u>

\*Refer to notes 2, 4 and 6 for details of restatement.



# RWE GENERATION UK PLC

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

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	2019 £m	2018 £m
<b>Profit/(loss) for the year</b>	152	(95)
	<u>          </u>	<u>          </u>
<b>Other comprehensive income/(expense):</b>		
<b>Items that will not be reclassified to profit or loss</b>		
Actuarial gain/(loss) on defined benefit pension schemes net of deferred tax	46	(10)
	<u>          </u>	<u>          </u>
<b>Items that may be reclassified to profit or loss</b>		
Investments held at fair value through other comprehensive income:		
- Valuation gain arising in the year	1	-
Cash flow hedges:		
- Hedging loss arising in the year	(3)	(11)
	<u>          </u>	<u>          </u>
<b>Total items that may be reclassified to profit or loss net of deferred tax</b>	(2)	(11)
	<u>          </u>	<u>          </u>
<b>Total other comprehensive income/(expense) for the year</b>	44	(21)
	<u>          </u>	<u>          </u>
<b>Total comprehensive income/(expense) for the year</b>	196	(116)
	<u>          </u>	<u>          </u>

# RWE GENERATION UK PLC

## STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	Notes	2019 £m	2018 £m
<b>Non-current assets</b>			
Property, plant and equipment	15	1,009	1,048
Investments	16	22	22
Defined benefit pension surplus	26	4	-
		<u>1,035</u>	<u>1,070</u>
<b>Current assets</b>			
Inventories	18	10	37
Finance lease receivables	19	8	-
Derivative financial instruments	20	4	94
Deferred tax asset: realisable after more than one year	21	74	117
Trade and other receivables	22	907	1,439
Current tax recoverable		1	-
Investments	16	16	15
Cash and cash equivalents		8	20
		<u>1,028</u>	<u>1,722</u>
<b>Current liabilities</b>			
Trade and other payables	23	89	808
Derivative financial instruments		6	115
Lease liabilities	24	2	-
		<u>97</u>	<u>923</u>
<b>Net current assets</b>		<u>931</u>	<u>799</u>
<b>Total assets less current liabilities</b>		<u>1,966</u>	<u>1,869</u>
<b>Non-current liabilities</b>			
Trade and other payables	23	25	14
Lease liabilities	24	19	-
		<u>44</u>	<u>14</u>
<b>Provisions for liabilities</b>			
Retirement benefit obligations	26	-	71
Other provisions	25	372	270
		<u>372</u>	<u>341</u>
<b>Net assets</b>		<u><u>1,550</u></u>	<u><u>1,514</u></u>

# RWE GENERATION UK PLC

## STATEMENT OF FINANCIAL POSITION (CONTINUED)

AS AT 31 DECEMBER 2019

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	Notes	2019 £m	2018 £m
<b>Equity</b>			
Called up share capital	29	-	6
Share premium account	30	-	2,072
Revaluation reserve	31	10	9
Hedging reserve	33	(3)	-
Retained earnings		1,543	(573)
<b>Total equity</b>		<u>1,550</u>	<u>1,514</u>

The financial statements were approved by the board of directors and authorised for issue on 3rd June 2020... and are signed on its behalf by:



.....

Mrs H Mallett  
Director

Company Registration No. 03892782

**RWE GENERATION UK PLC**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

	Notes	Share capital £m	Share premium account £m	Share Revaluation reserve £m	Hedging reserve £m	Retained earnings £m	Total £m
<b>Balance at 1 January 2018</b>		6	2,072	9	11	(472)	1,626
<b>Year ended 31 December 2018:</b>							
Loss for the year		-	-	-	-	(95)	(95)
Other comprehensive expense:							
Actuarial losses on defined benefit plans		-	-	-	-	(10)	(10)
Cash flow hedges losses		-	-	-	(11)	-	(11)
Total comprehensive expense for the year		-	-	-	(11)	(105)	(116)
Other movements		-	-	-	-	4	4
<b>Balance at 31 December 2018</b>		6	2,072	9	-	(573)	1,514
<b>Year ended 31 December 2019:</b>							
Profit for the year		-	-	-	-	152	152
Other comprehensive income/(expense):							
Actuarial gains on defined benefit plans		-	-	-	-	46	46
Adjustments to fair value of financial assets		-	-	1	-	-	1
Cash flow hedges losses		-	-	-	(3)	-	(3)
Total comprehensive income for the year		-	-	1	(3)	198	196
Dividends	32	-	-	-	-	(160)	(160)
Reduction in shares	30	(6)	(2,072)	-	-	2,078	-
<b>Balance at 31 December 2019</b>		-	-	10	(3)	1,543	1,550

# RWE GENERATION UK PLC

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019

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#### 1 Accounting policies

##### Company information

RWE Generation UK plc is a public company limited by shares incorporated in England and Wales. The registered office is Windmill Hill Business Park, Whitehill Way, Swindon, Wiltshire, SN5 6PB.

##### 1.1 Accounting convention

The financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards.

The financial statements are prepared in sterling, which is the functional currency of the Company. Monetary amounts in these financial statements are rounded to the nearest £m.

The financial statements have been prepared under the historic cost convention, as modified by the revaluation of financial assets and financial liabilities held at fair value, in accordance with the Companies Act 2006.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share based Payment;
- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of: (i) paragraph 79(a) (iv) of IAS 1, (ii) paragraph 73(e) of IAS 16 Property Plant and Equipment (iii) paragraph 118 (e) of IAS 38 Intangibles Assets;
- the requirements of paragraphs 10(d), 10(f), 16, 38A to 38D, 39 to 40, 111 and 134-136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraph 17 of IAS 24 Related Party Disclosures;
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share based payments, financial instruments, capital management, presentation of a cash flow statement, presentation of comparative information in respect of certain assets, standards not yet effective, business combinations and related party transactions.

RWE Generation UK plc is a wholly owned subsidiary of RWE Generation UK Holdings Limited. The ultimate parent is RWE AG. The financial statements contain information about RWE Generation UK plc as an individual company and so do not contain consolidated financial information as the parent of a group.

The Company has taken advantage of the exemption under section 400 of the Companies Act 2006 not to prepare consolidated accounts. The financial statements present information about the Company as an individual entity and not about its group.

##### 1.2 Going concern

The directors have at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the financial statements.

# RWE GENERATION UK PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

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### 1 Accounting policies

(Continued)

#### 1.3 Revenue

Revenue is measured at the fair value of the consideration received or receivable. The Company recognises revenue when performance obligations have been satisfied and this is when power generated has been transferred to RWEST. The Company also recognises income from power sold to National Grid and Capacity Market income with Ofgem. The Company's activities are described in detail below.

##### **Costs to obtain a contract**

The Company has not incurred any costs to obtain a contract. The Company chooses to apply the practical expedient of IFRS 15.94 which allows the Company not to capitalise contract costs if the amortisation period of the asset would be 12 months or less.

##### **Unsatisfied Performance Obligations**

At the year-end, there are no performance obligations outstanding that are fully or partially unsatisfied by the Company. For contracts that have an original contract term of 12 months or less, the Company does not disclose the future revenue making use of the practical expedient of IFRS 15 article 121.

The Company recognises revenue from the following major sources:

- Power generation
- Ancillary services
- Renewables obligations certificates
- Capacity Market

The nature, timing of satisfaction of performance obligations and significant payment terms of the Company's major sources of revenue are as follows:

##### **Power generation**

Revenue mostly represents the value of power generated and sold through RWEST onwards to the market, adjusted for physically-settled derivatives (see note 2). Power generation and supplementary revenue is recognised in the period in which it is earned with payment typically occurring one month after the satisfaction of the Company's performance obligations. A receivable is recognised when the services are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

##### **Ancillary services**

National Grid require a constant level of back-up generation that is ready to deal with sudden changes in demand, network failure and maintenance requirements in order to maintain a constant service of supply. Under most contracts, usage over a period dictates the amount of revenue recognised. Under other contracts we are paid for being available to operate under certain conditions, which are tested to demonstrate compliance.

##### **Renewables obligations certificates**

The Company acquires ROCs resulting from the power purchase agreements it has entered into. The revenue associated with the onward sale of the acquired certificates is recognised at the time the control of the asset associated with the certificate passes to the purchaser, at which point the value of the ROC is transferred to cost of sales in the income statement.

##### **Capacity Market**

The Capacity Market is designed to ensure sufficient reliable capacity is available so that consumers benefit from reliable electricity supplies. The Company has Capacity Market agreements and recognises revenue from the start and throughout the Capacity Market contract on an accruals basis. Included within revenue for 2019 is Capacity Market income relating to the 2018/2019 and 2019/2020 capacity years. Capacity Market obligations transferred to third parties is recognised in other income.

# RWE GENERATION UK PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

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### 1 Accounting policies

(Continued)

#### 1.4 Property, plant and equipment

Property, plant and equipment are stated at historic purchase cost less accumulated depreciation and any provision for impairment in value. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. In the case of assets constructed by the Company, cost includes related works and administrative overheads and commissioning costs. Assets in the course of construction are included in tangible fixed assets on the basis of expenditure incurred at the statement of financial position date and are not depreciated until brought into use. Interest costs are capitalised for qualifying assets according to IAS 23 (Borrowing costs).

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Depreciation is calculated so as to write down the cost of tangible fixed assets to their residual value evenly over their estimated useful lives. Estimated useful lives are reviewed periodically, taking into account commercial and technological obsolescence as well as normal wear and tear with a provision being made for any impairment in value.

Depreciation charges on power station buildings are shown against land and buildings and charges on the remainder of power station assets are shown against plant, machinery and equipment within note 15.

Freehold land and buildings	40 years
Leasehold land and buildings	10 years
Plant and equipment	3-40 years

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset and is recognised in the income statement.

#### Plant spares

Plant spares are shown within property, plant and equipment. Plant spares are valued at the lower of cost and net realisable value. Obsolescence is reviewed annually on a plant by plant basis. The year-end plant spares value is written down on a straight line basis over the remaining life of the plant. No provision is made for slow moving or defective stock over and above this straight line reduction.

#### 1.5 Non-current investments

All non-current investments are stated at cost less provision for any impairment. Impairment reviews are performed by the directors when there has been an indication of potential impairment.

#### 1.6 Impairment of tangible assets

At each reporting end date, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Where a reasonable and consistent basis of allocation can be identified, assets are allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

# RWE GENERATION UK PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

---

### 1 Accounting policies

(Continued)

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

#### 1.7 Inventories

Inventories are stated at the lower of cost and net realisable value and comprise of stocks of oil, coal and spare parts. Cost is determined on a weighted average basis.

Net realisable value is the price at which stocks can be sold in the normal course of business after allowing for the costs of realisation. At each reporting date, inventories are assessed for impairment. If inventory is impaired, the carrying amount is reduced to its selling price less costs to complete and sell; the impairment loss is recognised immediately in the income statement.

Provision for obsolescence is recognised against spare parts and recognised over the life of the station.

#### 1.8 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

#### 1.9 Financial assets

Financial assets are recognised in the Company's statement of financial position when the Company becomes party to the contractual provisions of the instrument. Financial assets are classified into specified categories, depending on the nature and purpose of the financial assets.

At initial recognition, financial assets classified as fair value through profit and loss are measured at fair value and any transaction costs are recognised in profit or loss. Financial assets not classified as fair value through profit and loss are initially measured at fair value plus transaction costs.

#### ***Financial assets at fair value through profit or loss***

When any of the above-mentioned conditions for classification of financial assets is not met, a financial asset is classified as measured at fair value through profit or loss. Financial assets measured at fair value through profit or loss are recognized initially at fair value and any transaction costs are recognised in profit or loss when incurred. A gain or loss on a financial asset measured at fair value through profit or loss is recognised in profit or loss and is included within finance income or finance costs in the statement of income for the reporting period in which it arises.



# RWE GENERATION UK PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

---

### 1 Accounting policies

(Continued)

#### ***Financial assets held at amortised cost***

Financial instruments are classified as financial assets measured at amortised cost where the objective is to hold these assets in order to collect contractual cash flows, and the contractual cash flows are solely payments of principal and interest. They arise principally from the provision of goods and services to customers (e.g. trade receivables). They are initially recognised at fair value plus transaction costs directly attributable to their acquisition or issue and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment where necessary.

#### ***Financial assets at fair value through other comprehensive income***

Debt instruments are classified as financial assets measured at fair value through other comprehensive income where the financial assets are held within the Company's business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument measured at fair value through other comprehensive income is recognised initially at fair value plus transaction costs directly attributable to the asset. After initial recognition, each asset is measured at fair value, with changes in fair value included in other comprehensive income. Accumulated gains or losses recognised through other comprehensive income are directly transferred to profit or loss when the debt instrument is derecognised.

#### ***Impairment of financial assets***

Financial assets, other than those measured at fair value through profit or loss, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

#### ***Derecognition of financial assets***

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership to another entity.

### 1.10 Financial liabilities

The Company recognises financial debt when the Company becomes a party to the contractual provisions of the instruments. Financial liabilities are classified as either 'financial liabilities at fair value through profit or loss' or 'other financial liabilities'.

#### ***Financial liabilities at fair value through profit or loss***

Financial liabilities are classified as measured at fair value through profit or loss when the financial liability is held for trading. A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of selling or repurchasing it in the near term, or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit taking, or
- it is a derivative that is not a financial guarantee contract or a designated and effective hedging instrument.

Financial liabilities at fair value through profit or loss are stated at fair value with any gains or losses arising on remeasurement recognised in profit or loss.

# RWE GENERATION UK PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

---

### 1 Accounting policies

(Continued)

#### **Other financial liabilities**

Other financial liabilities, including borrowings, trade payables and other short-term monetary liabilities, are initially measured at fair value net of transaction costs directly attributable to the issuance of the financial liability. They are subsequently measured at amortised cost using the effective interest method. For the purposes of each financial liability, interest expense includes initial transaction costs and any premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

#### **Derecognition of financial liabilities**

Financial liabilities are derecognised when, and only when, the Company's obligations are discharged, cancelled, or they expire.

#### 1.11 Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the Company.

#### 1.12 Derivatives

Derivative financial instruments are recognised as assets or liabilities. All derivative financial instruments are measured at fair value regardless of their purpose. Changes in the fair value are recognised as gains or losses with an effect on the income statement, unless they are designated as a cash flow hedge. Gains are recognised within other income and losses within other costs. Physically-settled derivatives that fail the own-use test are recognised through revenue or cost of sales in the income statement.

Financial assets and liabilities relating to commodity contracts and derivatives are offset and the net amount reported in the statement of financial position where there is a legal right to offset the recognised amounts and there is an intention to settle on a net basis.

Prices on active markets are drawn upon for measurement of fair value derivatives. If no prices are available, for example because the market is not sufficiently liquid, the fair values are determined on the basis of generally accepted valuation methods. In doing so, prices on active markets are drawn on as much as possible.

Future power and commodity positions are forward traded in line with expected future volume delivery/usage. These trades may be bought and sold as the forward market changes; hence there is a practice of net settlement.

#### **Hedge accounting**

The Company applies hedge accounting to foreign exchange contracts relating to payables and receivables denominated in a foreign currency. All unrealised trading positions at the statement of financial position date are recognised at fair value and held on the statement of financial position as a liability or asset with year on year movement taken through other comprehensive income.

#### 1.13 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

#### **Current tax**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

# RWE GENERATION UK PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

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### 1 Accounting policies

(Continued)

#### **Deferred tax**

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when the Company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

#### **1.14 Provisions**

Provisions are recognised when the Company has a legal or constructive present obligation as a result of a past event and it is probable that the Company will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting end date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

#### **1.15 Employee benefits**

The costs of short-term employee benefits are recognised as a liability and an expense, unless those costs are required to be recognised as part of the cost of inventories or non-current assets.

The cost of any unused holiday entitlement is recognised in the period in which the employee's services are received.

Termination benefits are recognised immediately as an expense when the Company is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

#### **1.16 Retirement benefits**

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

The cost of providing benefits under defined benefit plans is determined separately for each plan using the projected unit credit method and is based on actuarial advice.

The change in the net defined benefit liability arising from employee service during the year is recognised as an employee cost. The cost of plan introductions, benefit changes, settlements and curtailments are recognised as an expense in measuring profit or loss in the period in which they arise.

# RWE GENERATION UK PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

---

#### 1 Accounting policies

(Continued)

The net interest element is determined by multiplying the net defined benefit liability by the discount rate, taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments. The net interest is recognised in profit or loss as other finance revenue or cost.

Remeasurement changes comprise actuarial gains and losses, the effect of the asset ceiling and the return on the net defined benefit liability excluding amounts included in net interest. These are recognised immediately in other comprehensive income in the period in which they occur and are not reclassified to profit and loss in subsequent periods.

The net defined benefit pension asset or liability in the balance sheet comprises the total for each plan of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less the fair value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information, and in the case of quoted securities is the published bid price. The value of a net pension benefit asset is limited to the amount that may be recovered either through reduced contributions or agreed refunds from the scheme.

#### 1.17 Share-based payments

The Company operates both a cash-settled compensation plan and an equity share-based plan. In respect of the cash-settled plans, whereby RWE AG introduced a new cash-settled plan in 2016, the Share Performance Plan ("SPP"), to replace the previous BEAT plan, certain employees of the Company are awarded options over performance shares which are linked to the performance of the shares in the ultimate parent undertaking, RWE AG. The fair value of the employee services received in exchange for these grants of options is recognised as a provision and expensed in the income statement. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each statement of financial position date, the Company revises its estimates and recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to its provision.

The Company introduced a new Share Incentive Plan ("SIP") to all employees from January 2018. The newly introduced SIP scheme replaces the previously offered annual Share Save schemes. Unlike those previous schemes, employees can join and leave the scheme on a flexible monthly basis and there is no grant date as it continues to roll forward from one year to the next. The cost associated with SIP is recognised in the income statement.

#### 1.18 Leases

At inception, the Company assesses whether a contract is, or contains, a lease within the scope of IFRS 16. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Where a tangible asset is acquired through a lease, the Company recognises a right-of-use asset and a lease liability at the lease commencement date. Right-of-use assets are included within property, plant and equipment, apart from those that meet the definition of investment property.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date plus any initial direct costs and an estimate of the cost of obligations to dismantle, remove, refurbish or restore the underlying asset and the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of other property, plant and equipment. The right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

# RWE GENERATION UK PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

---

### 1 Accounting policies

(Continued)

The lease liability is initially measured at the present value of the lease payments that are unpaid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Lease payments included in the measurement of the lease liability comprise fixed payments, variable lease payments that depend on an index or a rate, amounts expected to be payable under a residual value guarantee, and the cost of any options that the Company is reasonably certain to exercise, such as the exercise price under a purchase option, lease payments in an optional renewal period, or penalties for early termination of a lease.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in: future lease payments arising from a change in an index or rate; the Company's estimate of the amount expected to be payable under a residual value guarantee; or the Company's assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company has elected not to recognise right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less, or for leases of low-value assets including IT equipment. The payments associated with these leases are recognised in profit or loss on a straight-line basis over the lease term.

When the Company acts as a lessor, leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessees, over the major part of the economic life of the asset. All other leases are classified as operating leases. If an arrangement contains lease and non-lease components, the Company applies IFRS 15 to allocate the consideration in the contract. When the Company is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately, classifying the sub-lease with reference to the right-of-use asset arising from the head lease instead of the underlying asset.

#### 1.19 Foreign exchange

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting end date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting end date. Gains and losses arising on translation in the period are included in profit or loss.

### 2 Adoption of new and revised standards and changes in accounting policies

#### IFRS 16 Leases

IFRS 16 is a new accounting standard that is effective for the year ended 31 December 2019 and has had a material impact on the Company's financial statements - see note 24.

# RWE GENERATION UK PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

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2 Adoption of new and revised standards and changes in accounting policies	(Continued)
	<b>£m</b>
Operating lease commitments disclosed as at 31 December 2018	(25)
Simplified application for short-term leases	1
Lease instalments related to contractually agreed leases that have not yet commenced	22
Useful economic life change following IFRS 16 adoption	(1)
Nominal value of lease liabilities as at 1 January 2019	(3)
Effect of discounting liabilities	-
Lease liabilities recognised as at 1 January 2019	(3)

### IFRS IC Agenda Decision on Physically Settled Failed Own Use Transactions

IFRIC announced a decision in March 2019 that impacted the recognition of derivative financial instruments in the income statement relating to physically settled derivatives that fail the own-use test. Previously the mark to market movement on derivative financial instruments relating to commodity and power trades was recognised through other income/other costs in the income statement.

Revenue and cost of sales for such contracts is now stated at the spot price with the difference to contracted prices recognised through other income/other cost. This has resulted in the restatement of prior year revenue, cost of sales and other income/other costs but there is no change to underlying profit before taxation.

### 3 Critical accounting estimates and judgements

In the application of the Company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are outlined below.

#### Critical judgements

##### Impairment of assets

The Company's management makes an estimate annually of the recoverable amounts of its assets based on the present value of future cashflows expected to be derived from use of the asset. If the recoverable amount is estimated to be less than its carrying amount, an impairment loss is recognised immediately in the income statement. Further information on how the recoverable amount is calculated is described in the accounting policy note.

# RWE GENERATION UK PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

### 3 Critical accounting estimates and judgements

(Continued)

#### Supplementary pension plan

The Company has an obligation to pay benefits to certain former employees and directors of the Company. The cost of these benefits and the present value of the obligation depend on a number of factors, including life expectancy, discount rates and pension growth rates. Management uses a third party to estimate these factors in determining the net pension obligation in the statement of financial position. See note 26 for further details.

#### Defined benefit pension scheme

The Company has an obligation to pay pension benefits to certain employees. The cost of these and the present value of the obligation depend on a number of factors, including: life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management uses a third party to estimate these factors in determining the net pension obligation in the statement of financial position. The assumptions reflect historical experiences and current trends. See note 26 for the disclosures of the defined benefit pension scheme.

### 4 Revenue

	2019	2018
	£m	as restated £m
<b>Revenue analysed by class of business</b>		
Electricity	1,564	1,995
Gas	8	9
Other	217	58
	<u>1,789</u>	<u>2,062</u>

#### Restatement

The implementation of the failed own-use IFRS IC agenda decision increased revenue in 2018 by £182m and increased cost of sales by £432m. This did not have an effect on the prior year profit before tax because other income increased by £250m.

### 5 Impairments

Impairment tests have been carried out where appropriate and the following impairment losses have been recognised in profit or loss:

	2019	2018
	£m	£m
In respect of:		
Property, plant and equipment	<u>2</u>	<u>99</u>
Recognised in:		
Cost of sales	<u>2</u>	<u>99</u>

# RWE GENERATION UK PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

### 5 Impairments

(Continued)

During the year, the Company reviewed the carrying amount of its power stations and concluded that its power station at Grimsby was impaired. An impairment of £2m has been recognised.

In the prior year the Company reviewed the carrying amount of its power stations following an indication of impairment. An impairment of £99m was recorded against property, plant and equipment against the power stations at Pembroke and Staythorpe.

### 6 Other income/Other costs

	2019	2018 as restated
	£m	£m
Fair value movement on derivatives	226	232
Capacity Market obligations transferred to third parties	16	-
Property recharges	2	-
Foreign exchange gain	1	2
Profit on disposal of property, plant and equipment	-	2
	<u>          </u>	<u>          </u>
Other income	245	236
	<u>          </u>	<u>          </u>

#### Restatement

The implementation of the failed own-use IFRS IC agenda decision increased revenue in 2018 by £182m and increased cost of sales by £432m. This did not have an effect on the prior year profit before tax because other income increased by £250m.

### 7 Operating loss

	2019	2018
	£m	£m
Operating loss for the year is stated after charging/(crediting):		
Exchange gains	(1)	(2)
Depreciation of property, plant and equipment	133	121
Cost of inventories recognised as an expense	32	21
Share-based payments	1	1
	<u>          </u>	<u>          </u>

### 8 Finance income

	2019	2018
	£m	£m
<b>Interest income</b>		
Interest receivable from group companies	8	10
Other interest income	-	1
	<u>          </u>	<u>          </u>
Total income	8	11
	<u>          </u>	<u>          </u>



# RWE GENERATION UK PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

### 9 Finance costs

	2019 £m	2018 £m
<b>Interest on financial liabilities measured at amortised cost:</b>		
Interest payable to group undertakings	2	4
<b>Interest on other financial liabilities:</b>		
Net interest on the net defined benefit liability	1	1
	<u>3</u>	<u>5</u>
Total interest expense	3	5
<b>Other finance costs:</b>		
Unwinding of discount on provisions	1	1
	<u>4</u>	<u>6</u>
Total finance costs	<u>4</u>	<u>6</u>

### 10 Exceptional items

	2019 £m	2018 £m
Net dividend income	-	48
	<u>-</u>	<u>48</u>

There were no exceptional items in the current year. In the prior year, the exceptional item was a net dividend comprising £46m relating to the hive up of RWE Cogen UK Limited and RWE Cogen UK (Hythe) Limited and a net dividend of £2m from Transpower Limited.

### 11 Auditor's remuneration

	2019 £'000	2018 £'000
Fees payable to the Company's auditor and associates:		
<b>For audit services</b>		
Audit of the financial statements of the Company	425	405
	<u>425</u>	<u>405</u>
<b>For other services</b>		
Other services pursuant to legislation	-	81
Other services	-	25
	<u>-</u>	<u>106</u>
Total non-audit fees	<u>-</u>	<u>106</u>

Brexit consultancy fees of £44K were incurred and invoiced to RWE AG, the ultimate parent company. 60% of the consultancy related to the Company. No recharge was made by RWE AG to the Company.

# RWE GENERATION UK PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

### 12 Employees

The average monthly number of persons (including directors) employed by the Company during the year was:

	<b>2019</b>	<b>2018</b>
	<b>Number</b>	<b>Number</b>
Central functions	129	153
Distributed assets	165	178
Fleet support	361	350
Stations	384	403
Other	58	40
Total	<u>1,097</u>	<u>1,124</u>

Their aggregate remuneration comprised:

	<b>2019</b>	<b>2018</b>
	<b>£m</b>	<b>£m</b>
Wages and salaries	64	60
Social security costs	8	7
Pension costs	11	11
	<u>83</u>	<u>78</u>

### 13 Directors' remuneration

	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
Remuneration for qualifying services	<u>542</u>	<u>537</u>

The number of directors for whom retirement benefits are accruing under defined benefit schemes amounted to 2 (2018: 2).

Remuneration disclosed above include the following amounts paid to the highest paid director:

Remuneration for qualifying services	369	342
Accrued pension at the end of the year	53	52
Accrued lump sum at the end of the year	<u>160</u>	<u>157</u>

# RWE GENERATION UK PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

### 14 Taxation

	2019 £m	2018 £m
<b>Current tax</b>		
UK corporation tax on profits for the current period	7	(3)
Adjustments in respect of prior periods	(1)	24
	<u>6</u>	<u>21</u>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	29	(25)
Adjustment in respect of prior periods	-	(21)
	<u>29</u>	<u>(46)</u>
<b>Total tax charge/(credit)</b>	<u>35</u>	<u>(25)</u>

The charge for the year can be reconciled to the profit/(loss) per the income statement as follows:

	2019 £m	2018 £m
Profit/(loss) before taxation	<u>187</u>	<u>(120)</u>
Expected tax charge/(credit) based on a corporation tax rate of 19.00% (2018: 19.00%)	36	(23)
Effect of expenses not deductible in determining taxable profit	4	24
Income not taxable	-	(31)
Adjustment in respect of prior years	(2)	3
Impact of difference between current and deferred tax rates	(3)	2
<b>Taxation charge/(credit) for the year</b>	<u>35</u>	<u>(25)</u>

# RWE GENERATION UK PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

### 14 Taxation

(Continued)

In addition to the amount charged to the income statement, the following amounts relating to tax have been recognised directly in other comprehensive income:

	2019 £m	2018 £m
Current tax arising on:		
Actuarial differences recognised as other comprehensive income	6	1
Deferred tax arising on:		
Actuarial differences recognised as other comprehensive income	(14)	1
	<u>-</u>	<u>-</u>
Reclassifications from equity to profit or loss:		
Relating to cash flow hedges	-	2
	<u>-</u>	<u>2</u>
Total tax recognised in other comprehensive income	<u>(8)</u>	<u>4</u>

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2016 on 6 September 2016. These include reductions to the main rate to reduce the rate to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

In the Spring Budget 2020, the Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020. As the proposal to keep the rate at 19% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements. However, it is likely that the overall effect of the change, had it been substantively enacted by the balance sheet date, would be to reduce the tax expense for the period by £9m and increase the deferred tax asset by £9m.

# RWE GENERATION UK PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

### 15 Property, plant and equipment

	Freehold land and buildings	Leasehold land and buildings	Assets under construction	Plant and equipment	Total
	£m	£m	£m	£m	£m
<b>Cost</b>					
At 31 December 2018	217	-	39	3,015	3,271
Additions	-	14	43	40	97
Disposals	(1)	-	-	(59)	(60)
Transfers	14	-	(41)	27	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
At 31 December 2019	230	14	41	3,023	3,308
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Accumulated depreciation and impairment</b>					
At 31 December 2018	134	-	-	2,089	2,223
Charge for the year	7	1	-	125	133
Impairment loss	-	-	-	2	2
Eliminated on disposal	-	-	-	(59)	(59)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
At 31 December 2019	141	1	-	2,157	2,299
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Carrying amount</b>					
At 31 December 2019	89	13	41	866	1,009
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
At 31 December 2018	83	-	39	926	1,048
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

Additions to leasehold land and buildings includes £3m arising from the adoption of IFRS 16.

### 16 Investments

	Current		Non-current	
	2019	2018	2019	2018
	£m	£m	£m	£m
Investments held at fair value through other comprehensive income	16	15	-	-
Investments in subsidiaries	-	-	22	22
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
	16	15	22	22
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

A fixed and floating charge was created by the Company on 28 August 2003 in favour of The Law Debenture Pension Trust Corporation plc over the Treasury index linked gilts. The market value of these Treasury index linked gilts at 31 December 2019 was £16m (2018: £15m).

# RWE GENERATION UK PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

### 16 Investments (Continued)

#### Movements in non-current investments

	Shares in group undertakings £m
<b>Cost or valuation</b>	
At 1 January 2019 & 31 December 2019	22
	_____
<b>Carrying amount</b>	
At 31 December 2019	22
	=====
At 31 December 2018	22
	=====

### 17 Subsidiaries

All subsidiaries incorporated in the United Kingdom are registered at Windmill Hill Business Park, Whitehill Way, Swindon, Wiltshire, SN5 6PB, United Kingdom.

Electra Insurance Limited is registered at Victoria Hall, 11 Victoria Street, Hamilton, Bermuda, HM11.

Transpower Limited is registered at 25/28 North Wall Quay, Dublin 1, Ireland.

Details of the Company's subsidiaries at 31 December 2019 are as follows:

Name of undertaking	Registered office	Principal activities	% Held Direct
Electra Insurance Limited	Bermuda	Insurance	100.00
RWE Markinch Limited	United Kingdom	Power Generation	100.00
RWE Ingenlus Limited	United Kingdom	Holding Company	100.00
RWE Cogen UK Limited	United Kingdom	Dormant	100.00
RWE Cogen UK (Hythe) Limited	United Kingdom	Dormant	100.00
Transpower Limited	Ireland	Dormant	100.00

### 18 Inventories

	2019 £m	2018 £m
Raw materials and consumables	10	37
	=====	=====

# RWE GENERATION UK PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

### 19 Finance lease receivables

	2019 £m	2018 £m
<b>Gross amounts receivable under finance leases:</b>		
One to two years	2	-
Two to three years	1	-
Three to four years	1	-
Four to five years	1	-
Over five years	4	-
	<u>          </u>	<u>          </u>
<b>Total undiscounted lease payments receivable</b>	9	-
Unearned finance income	(1)	-
	<u>          </u>	<u>          </u>
<b>Net investment</b>	<u>          </u> <u>          </u>	<u>          </u> <u>          </u>

#### Analysis of finance leases

The Company enters into financial leasing arrangements for the use of office space. The average term of finance leases entered into is 10 years. The finance lease receivable is considered low risk as it is mostly inter-company.

### 20 Derivative financial instruments

	2019 £m	2018 £m
Financial derivatives	4	94
	<u>          </u>	<u>          </u>
Derivative financial assets	4	94
	<u>          </u>	<u>          </u>
Commodity derivatives	(3)	(115)
Cash flow hedges	(3)	-
	<u>          </u>	<u>          </u>
Derivative financial liabilities	(6)	(115)
	<u>          </u>	<u>          </u>

At 31 December 2019, derivative instruments outstanding related to gas swaps, physical gas, power and FX trades. The derivative instruments expire over the period 2020 to 2026.

RWE Generation UK plc mitigates its exposure to commodity price and foreign currency movements through hedging, in line with group policy of RWE AG.

# RWE GENERATION UK PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

### 21 Deferred taxation

The following are the major deferred tax liabilities and assets recognised by the Company and movements thereon during the current and prior reporting period.

	ACAs £m	Retirement benefit obligations £m	Other £m	Total £m
Deferred tax asset at 1 January 2018	51	12	1	64
<b>Deferred tax movements in prior year</b>				
Credit to profit or loss	42	2	2	46
(Debit)/credit to other comprehensive income	-	(3)	6	3
Other	4	-	-	4
	<u>97</u>	<u>11</u>	<u>9</u>	<u>117</u>
Deferred tax asset at 1 January 2019				
<b>Deferred tax movements in current year</b>				
(Debit)/credit to profit or loss	(26)	1	(4)	(29)
(Debit)/credit to other comprehensive income	-	(14)	-	(14)
	<u>71</u>	<u>(2)</u>	<u>5</u>	<u>74</u>
Deferred tax asset at 31 December 2019	<u><u>71</u></u>	<u><u>(2)</u></u>	<u><u>5</u></u>	<u><u>74</u></u>

Deferred tax assets and liabilities are offset in the financial statements only where the Company has a legally enforceable right to do so.

### 22 Trade and other receivables

	2019 £m	2018 £m
Trade receivables	250	15
Other receivables	70	30
Amounts owed by fellow group undertakings	11	97
Loans owed by group undertakings	570	1,291
Prepayments	6	6
	<u>907</u>	<u>1,439</u>
	<u><u>907</u></u>	<u><u>1,439</u></u>



# RWE GENERATION UK PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

### 23 Trade and other payables

	Current		Non-current	
	2019	2018	2019	2018
	£m	£m	£m	£m
Trade payables	14	9	-	-
Amounts owed to fellow group undertakings	31	717	-	-
Accruals and deferred income	37	64	-	-
Other payables	7	18	25	14
	<u>89</u>	<u>808</u>	<u>25</u>	<u>14</u>

### 24 Lease liabilities

	2019	2018
	£m	£m
<b>Maturity analysis</b>		
Within one year	3	-
In two to five years	10	-
In over five years	11	-
	<u>24</u>	<u>-</u>
<b>Total undiscounted liabilities</b>	24	-
Future finance charges and other adjustments	(3)	-
	<u>21</u>	<u>-</u>
<b>Lease liabilities in the financial statements</b>	<u>21</u>	<u>-</u>

Lease liabilities are classified based on the amounts that are expected to be settled within the next 12 months and after more than 12 months from the reporting date, as follows:

	2019	2018
	£m	£m
Current liabilities	2	-
Non-current liabilities	19	-
	<u>21</u>	<u>-</u>

# RWE GENERATION UK PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

### 25 Other provisions

	2019 £m	2018 £m
Decomm. and plant closure	82	84
Carbon emission allowances	254	151
Restructuring and other	31	30
Supplementary pension plan	5	5
	<u>372</u>	<u>270</u>

Movements on provisions:	Decomm. and plant closure £m	Carbon emission allowances £m	Restructuring and other £m	Supplementary pension plan £m	Total £m
At 1 January 2019	84	151	30	5	270
Additional provisions in the year	5	419	6	-	430
Reversal of provision	(2)	(2)	(4)	-	(8)
Utilisation of provision	(7)	(314)	(1)	-	(322)
Unwinding of discount	1	-	-	-	1
Adjustment for change in discount rate	1	-	-	-	1
At 31 December 2019	<u>82</u>	<u>254</u>	<u>31</u>	<u>5</u>	<u>372</u>

#### Decommissioning and plant closure

Provisions for decommissioning and plant closure are in relation to the expected site costs of closed plants consisting of decommissioning and demolition costs. The provisions will be utilised over the period of closure, estimated to be within 1 to 16 years. The provisions used in the year relate to the closure of Didcot A and Tilbury. Additional provisions were made in the year relating to Didcot A.

#### Carbon emission allowances

The provision for carbon emission allowances reflects the costs of carbon emissions generated during the financial year. The provision also includes the Company's liability in respect of carbon taxes.

#### Restructuring and other

Provisions for the share based payment schemes are included within restructuring and other in addition to ongoing restructuring costs such as employee termination costs, particularly in respect of closed plants.

#### Supplementary pension plan

Further details of the supplementary pension plan can be found in note 26.

### 26 Retirement benefit schemes

#### Defined contribution schemes

The Company operates a defined contribution pension scheme for all qualifying employees. The assets of the scheme are held separately from those of the Company in an independently administered fund.

The total costs charged to income in respect of defined contribution plans is £1m (2018: £1m).

# RWE GENERATION UK PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

### 26 Retirement benefit schemes

(Continued)

#### Defined benefit scheme

Throughout the whole of 2019, the majority of pensions were funded through the defined benefit scheme within the RWE Group of the industry-wide scheme, the Electricity Supply Pension Scheme (ESPS). It is a defined benefit scheme with assets invested in separate trustee administered funds. The ESPS is divided into sections. During 2009, the decision was taken to close the defined benefit scheme, described above, to new entrants. New employees are now only able to participate in a defined contribution scheme. RWE Generation UK plc was the sponsoring entity for the RWE Group of the ESPS throughout 2019.

#### Valuation

The scheme was most recently valued on 31 March 2019, which revealed a funding shortfall, technical provisions minus value of assets, of £44.3m. Independent actuaries have assessed the IAS 19R position as at 31 December 2019 for the RWE section by updating the last formal calculations using method appropriate for IAS 19R. As at 31 December 2019, there was a surplus of £4m (2018: a deficit of £71m).

#### Risks

There are a number of risks associated with operating a defined pension scheme, including exposure to investment and longevity risk. As the vast majority of benefits provided are linked to inflation, this is also a risk. The Trustees of the Scheme have implemented measures to reduce the risks associated with making investments as part of its investment strategy, by making use of liability matching investment techniques. This means investing in instruments such as liability matching bonds, interest rate and inflation swaps and other liability instruments. It is estimated the Group currently hedges around 86% of its interest rate exposure and around 83% of its inflation exposure. In addition, the Trustees conduct regular reviews of concentration in particular investments.

#### Funding policy

As part of the 31 March 2019 scheme valuation and in accordance with the Recovery Plan dated 11 September 2019, to eliminate the shortfall a payment of £50.6m was made on 6 March 2020, of which £37.7m payable by RWE Generation UK plc.

#### Other information

The RWE Group of the ESPS is governed by UK pensions legislation. This requires funded defined occupational pension schemes to comply with statutory funding objective to have sufficient and appropriate assets to cover its technical provisions. Valuation of technical provisions must be on prudent assumptions taking into account the demographic characteristics of the scheme membership and market yields on assets held by the scheme and/or government bonds. The Group's rules do not restrict the Company's use of potential future surpluses, i.e. there is no ceiling.

The Group is administered by a body of trustees. Under UK pensions law, the Group Trustees are responsible for the overall management of the pension scheme, including investment of assets, payment of benefit to members and agreement of a funding plan with the Company.

	2019	2018
<i>Key assumptions</i>	%	%
Discount rate	1.9	2.6
Pension growth rate	3	3.2
Salary growth rate	3	3.2
Rate of increase of pension in payment - Main, 60th and Executive sections	2.8	3
Rate of increase of pension in payment - 2005 section	1.9	2.1
Rate of increase of pension in deferment	3	3.2

# RWE GENERATION UK PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

### 26 Retirement benefit schemes

(Continued)

<i>Mortality assumptions</i>	<b>2019</b>	<b>2018</b>
	<b>Years</b>	<b>Years</b>
Assumed life expectations on retirement at age 65:		
Retiring today		
- Males	23	23
- Females	23	24
	<u>          </u>	<u>          </u>
Retiring in 25 years		
- Males	25	25
- Females	25	26
	<u>          </u>	<u>          </u>
	<b>2019</b>	<b>2018</b>
	<b>£m</b>	<b>£m</b>
<i>Amounts recognised in the income statement</i>		
Current service cost	16	18
Net interest on defined benefit liability/(asset)	1	1
Past service cost	1	-
Other gains and losses	-	(2)
The effect of any curtailment or settlement	-	4
	<u>          </u>	<u>          </u>
Total costs	18	21
	<u>          </u>	<u>          </u>
	<b>2019</b>	<b>2018</b>
	<b>£m</b>	<b>£m</b>
<i>Amounts recognised in other comprehensive income</i>		
Actuarial changes arising from changes in demographic assumptions	(12)	(13)
Actuarial changes arising from changes in financial assumptions	106	(30)
Actuarial changes arising from experience adjustments	(67)	5
Actuarial changes related to plan assets	(73)	55
Other gains and losses	-	5
	<u>          </u>	<u>          </u>
Total costs/(income)	(46)	22
	<u>          </u>	<u>          </u>

# RWE GENERATION UK PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

### 26 Retirement benefit schemes

(Continued)

Contributions towards deficit repair from other group companies of £9m is recognised in other comprehensive income (2018: £9m).

The amounts included in the statement of financial position arising from the Company's obligations in respect of defined benefit plans are as follows:

	<b>2019</b>	<b>2018</b>
	<b>£m</b>	<b>£m</b>
Present value of defined benefit obligations	1,516	1,555
Fair value of plan assets	(1,520)	(1,484)
	<u>          </u>	<u>          </u>
(Surplus)/deficit in scheme	(4)	71
	<u>          </u>	<u>          </u>
	<b>2019</b>	<b>2018</b>
	<b>£m</b>	<b>£m</b>
<i>Movements in the present value of defined benefit obligations</i>		
At 1 January 2019	1,555	1,665
Current service cost	16	18
Past service cost	1	-
Settlements	-	4
Benefits paid	(128)	(133)
Contributions from scheme members	3	3
Actuarial gains and losses	27	(38)
Interest cost	39	36
Other	3	-
	<u>          </u>	<u>          </u>
At 31 December 2019	1,516	1,555
	<u>          </u>	<u>          </u>
	<b>2019</b>	<b>2018</b>
	<b>£m</b>	<b>£m</b>
<i>The defined benefit obligations arise from plans funded as follows:</i>		
Wholly unfunded obligations	-	-
Wholly or partly funded obligations	1,516	1,555
	<u>          </u>	<u>          </u>
	<u>1,516</u>	<u>1,555</u>
	<u>          </u>	<u>          </u>

# RWE GENERATION UK PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

### 26 Retirement benefit schemes

(Continued)

	2019 £m	2018 £m
<i>Movements in the fair value of plan assets:</i>		
At 1 January 2019	1,484	1,589
Interest income	38	35
Return on plan assets (excluding amounts included in net interest)	73	(55)
Benefits paid	(128)	(133)
Contributions by the employer	50	53
Contributions by scheme members	3	3
Other	-	(8)
	<u>1,520</u>	<u>1,484</u>
At 31 December 2019	<u>1,520</u>	<u>1,484</u>

#### *Sensitivity of the defined benefit obligations to changes in assumptions*

Scheme obligations would have been affected by changes in assumptions as follows:

		2019	2018
1% change in discount rate	- increase	-£0.3m	-£0.4m
	- decrease	+£0.4m	0
1% change in pension growth rate	- increase	+£0.3m	+£0.4m
	- decrease	-£0.3m	-£0.4m
Life expectancy changed by 1 year	- increase	+£0.2m	+£0.2m
	- decrease	n/a	n/a
		<u>      </u>	<u>      </u>

The fair value of plan assets at the reporting period end was as follows:

	2019 £m	2018 £m
Equity instruments	128	104
Government bonds	905	702
Corporate bonds	455	545
Hedge funds	-	78
Other	32	55
	<u>1,520</u>	<u>1,484</u>
	<u>1,520</u>	<u>1,484</u>

# RWE GENERATION UK PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

### 26 Retirement benefit schemes

(Continued)

#### *Other long term benefits*

Certain former employees of the Company are members of a Supplementary Pension Plan (SPP), which is paid in addition to their ESPS defined benefit scheme entitlements. The SPP is made up of three elements:

The Npower Supplementary Plan (NSP) which comprises of no active members (2018: 0) and 2 (2018: 1) pensioners. This plan is different to the remainder of the SPP's in that its membership will continue to receive payment if the Company is insolvent, as a result of the gilts held to match this liability. The NSP is also in addition to the individual's ESPS defined benefit scheme entitlement.

2 (2018: 2) former directors employed by RWE Generation UK plc have similar unfunded arrangements to the individuals in the NSP, but do not have the protection of the gilts that the members of the NSP scheme have.

The third element provides enhanced benefits to 138 (2018: 153) non-directors who were employees at the time of the Company's privatisation in 1990.

A provision of £5m (2018: £6m) is in place to cover the ongoing costs of the scheme. Monthly payments are being made by the Company. As these monthly payments are made they will be utilised against the provision. £4m of the past service cost charge was recharged upon creation in 2015 to the subsidiaries of the Npower Group Limited to cover their element of the provision charged.

#### **Risks**

As per defined benefit schemes, there are a number of risks associated with operating supplementary pension plans, including exposure to longevity risk. As the vast majority of benefits are linked to inflation, this is also a risk.

### 27 Financial instruments

Financial assets and liabilities can be broken down into the measurement categories with the following carrying amounts according to IFRS 9 in the year under review.

	Debt instruments measured at amortised cost	Assets at fair value through profit or loss	Derivatives used for hedging	Debt instruments measured at FVOCI	Total
At 31 December 2019	£m	£m	£m	£m	£m
Investments				16	16
Derivative financial instruments	-	4	-	-	4
Trade and other receivables excluding prepayments	901	-	-	-	901
Cash and cash equivalents	8	-	-	-	8
	<u>909</u>	<u>4</u>	<u>-</u>	<u>16</u>	<u>929</u>

# RWE GENERATION UK PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

### 27 Financial instruments

(Continued)

	Liabilities at amortised cost	Liabilities at fair value through profit or loss	Derivatives used for hedging	Total
	£m	£m	£m	£m
<b>At 31 December 2019</b>				
Derivative financial instruments	-	(3)	(3)	(6)
Trade and other payables excluding non-financial liabilities	(52)	-	-	(52)
<b>Total</b>	<b>(52)</b>	<b>(3)</b>	<b>(3)</b>	<b>(58)</b>

	Debt instruments measured at amortised cost	Assets at fair value through profit or loss	Derivatives used for hedging	Debt instruments measured at FVOCI	Total
	£m	£m	£m	£m	£m
<b>At 31 December 2018</b>					
Investments	-	-	-	15	15
Derivative financial instruments	-	94	-	-	94
Trade and other receivables excluding prepayments	1,433	-	-	-	1,433
Cash and cash equivalents	20	-	-	-	20
<b>Total</b>	<b>1,453</b>	<b>94</b>	<b>-</b>	<b>15</b>	<b>1,562</b>

	Liabilities at amortised cost	Liabilities at fair value through profit or loss	Derivatives used for hedging	Total
	£m	£m	£m	£m
<b>At 31 December 2018</b>				
Derivative financial instruments	-	(115)	-	(115)
Trade and other payables excluding non-financial liabilities	(744)	-	-	(744)
<b>Total</b>	<b>(744)</b>	<b>(115)</b>	<b>-</b>	<b>(859)</b>

#### Valuation methods and assumptions

The following overview presents the main parameters for the measurement of financial instruments recognised at fair value. In accordance with IFRS 13, the individual levels are defined as follows:

Level 1: measurement using (unadjusted) prices of identical financial instruments quoted on active markets;

Level 2: measurement on the basis of input parameters which are not the quoted prices from level 1 but which can be observed directly or indirectly;

Level 3: measurement on the basis of models using input parameters which cannot be observed on the market.



# RWE GENERATION UK PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

### 27 Financial instruments

(Continued)

	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
<b>At 31 December 2019</b>				
Commodity derivatives	-	(3)	-	(3)
Financial derivatives	-	4	-	4
Cash flow hedges - net	-	(3)	-	(3)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Derivative financial liabilities	-	(2)	-	(2)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
<b>At 31 December 2018</b>				
Commodity derivatives	-	(115)	-	(115)
Financial derivatives	-	94	-	94
Cash flow hedges - net	-	-	-	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Derivative financial liabilities	-	(21)	-	(21)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

### Maturity profile of financial assets/liabilities

	Liabilities at fair value through OCI	Liabilities at FVPL
	£m	£m
<b>At 31 December 2019</b>		
Due within one year	(1)	1
Due in more than one year and less than two years	(2)	-
Due in more than two years and less than five years	-	-
	<u>          </u>	<u>          </u>
Total	(3)	1
	<u>          </u>	<u>          </u>

	Assets at fair value through OCI	Liabilities at FVPL
	£m	£m
<b>At 31 December 2018</b>		
Due within one year	-	(2)
Due in more than one year and less than two years	-	(19)
Due in more than two years and less than five years	-	-
	<u>          </u>	<u>          </u>
Total	-	(21)
	<u>          </u>	<u>          </u>

# RWE GENERATION UK PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

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### 27 Financial instruments

(Continued)

#### Financial risk management

##### *Foreign currency risk*

The majority of contracts entered into are in sterling; however, there are some contracts with a third party in euros. Positions relating to carbon commodity assets are entered into using carbon futures. RWEST actively manage positions alongside currency risk in line with RWE AG Group policy.

##### *Price risk*

Market price risk is the risk that changes in commodity prices will affect the Company's profits. It is RWE AG Group policy that commodity price risks should be managed by RWEST to the extent that the market is sufficiently liquid. The principles for the transfer of market price risk to RWEST are controlled by the risk policies issued by RWE AG.

##### *Credit risk*

The majority of commodity contracts entered into are with RWEST, a subsidiary of RWE AG. RWE AG has an investment grade credit rating with major rating agencies and is the ultimate controlling company for both RWEST and the Company. Due to the nature of the relationship between RWEST and RWE Generation UK plc, the exposure to credit risk is considered immaterial.

Other contracts are with other RWE AG group entities and therefore the level of credit risk is considered immaterial.

Provision for impairment on trade receivables has been recognised of £249k (2018: £180k).

##### *Liquidity risk*

A maturity analysis of financial liabilities relating to the commodity and financial derivatives is included within this note. Settlement of the contracts entered into with respective parties is settled on a monthly basis through the payment of cash amounts or reduction in intercompany debts.

Cash flow risk is mitigated by the use of forward derivatives for the sale of power and also the purchase of fuel. This reduces the Company's exposure to unforeseen cash requirements in the future.

##### **Gross value of assets and liabilities**

The following financial assets are subject to offsetting, enforceable master netting arrangements and similar agreements.

# RWE GENERATION UK PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

### 27 Financial instruments

(Continued)

	Gross amounts of recognised financial assets £m	Gross amounts of recognised financial liabilities set off £m	Net amounts of financial assets £m
<b>At 31 December 2019</b>			
Commodity derivatives	4,034	(4,034)	-
Financial derivatives	475	(471)	4
	<u>4,509</u>	<u>(4,505)</u>	<u>4</u>

	Gross amounts of recognised financial assets £m	Gross amounts of recognised financial liabilities set off £m	Net amounts of financial assets £m
<b>At 31 December 2018</b>			
Commodity derivatives	3,124	(3,124)	-
Financial derivatives	407	(313)	94
	<u>3,531</u>	<u>(3,437)</u>	<u>94</u>

	Gross amounts of recognised financial liabilities £m	Gross amounts of recognised financial assets set off £m	Net amounts of financial liabilities £m
<b>At 31 December 2019</b>			
Commodity derivatives	4,037	(4,034)	3
Financial derivatives	471	(471)	-
	<u>4,508</u>	<u>(4,505)</u>	<u>3</u>

	Gross amounts of recognised financial liabilities £m	Gross amounts of recognised financial assets set off £m	Net amounts of financial liabilities £m
<b>At 31 December 2018</b>			
Commodity derivatives	3,239	(3,124)	115
Financial derivatives	313	(313)	-
	<u>3,552</u>	<u>(3,437)</u>	<u>115</u>

# RWE GENERATION UK PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

### 28 Share-based payment transactions

During the year there were four share-based payment schemes in existence:

- Strategic Performance Plan (SPP)
- Share Incentive Plan (SIP)
- BEAT
- Sharesave

The BEAT and Sharesave schemes expired in 2019 with no effect on the Company's financial statements.

#### SPP

	2016 tranche	2017 tranche	2018 tranche	2019 tranche
Grant date	07/10/2016	01/01/2017	01/01/2018	01/01/2019
Number of conditionally granted performance shares	21,530	81,154	46,986	56,121
Term	4 years	4 years	4 years	4 years
Fair value per share (EUR)	€13.78	€11.62	€18.80	€19.10
Form of settlement	Cash settled	Cash settled	Cash settled	Cash settled
Payment date	2020	2021	2022	2023

#### Grant of performance shares

For the tranches 2017 to 2019, the determination of the number of conditionally granted performance shares is conducted at the beginning of the respective Grant Year. For the conversion to conditionally granted performance shares, the target amount is divided by the arithmetic mean, commercially rounded to two decimal places, of the closing prices (considering all available decimal places) of RWE AG (ISIN: DE0007037129) as quoted on the XETRA trading system of Deutsche Börse AG (or any successor system replacing the XETRA trading system) over the last 30 Trading Days prior to January 1 of the respective Grant Year. For the tranche 2016, in contrast, the arithmetic mean over the first ten Trading Days following the Date of the IPO (October 7 to October 20) is used.

#### Key performance criterion

The key performance criterion used to determine the final number of performance shares is the Adjusted Net Income ("ANI") of RWE AG. ANI is calculated by subtracting / adding the following positions from / to net income:

- a) Non-operating result (minus taxes on the non-operating result)
- b) Income from securities sales

The periodical external publications (annual report, quarterly reports) cover such aspects.

The Executive Board of RWE AG once sets ANI target values ("ANI target value") for the fiscal years 2017 to 2019 prior to January 1, 2017. If the ANI target value set for the respective grant year is achieved, 100% of the conditionally granted performance shares of this tranche are finally allocated. For the tranche 2016, in contrast, the ANI of the fiscal year 2017 is used for the target setting and the assessment of the conditionally granted performance shares.

If the ANI target value set by the Executive Board for the fiscal years 2017 to 2019 is missed by exactly €400m ("ANI threshold") at the end of the respective fiscal year, 50% of the conditionally granted performance shares are finally allocated. If the ANI threshold is missed, all conditionally granted performance shares of this tranche lapse. If the ANI target value is exceeded by €400m or more ("ANI maximum value"), the maximum number of 150% of the conditionally granted performance shares are finally allocated. Between the ANI threshold and the ANI target value as well as between the ANI target value and the ANI maximum value linear interpolation is used to determine the number of finally allocated performance shares. The determined number is commercially rounded up to complete shares.

# RWE GENERATION UK PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

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### 28 Share-based payment transactions

(Continued)

#### Pay-out of performance shares

The pay-out amount is calculated using the number of finally allocated performance shares multiplied with the sum of:

a) the arithmetic mean (considering all available decimal places) of the closing prices of RWE AG common share (ISIN: DE0007037129) as quoted on XETRA trading system of Deutsche Börse AG (or any successor system replacing the XETRA trading system) over the last 30 trading days prior to the end of the vesting period, commercially rounded to two decimal places, and

b) dividends paid per share in the fiscal years between the final allocation of performance shares and the end of the vesting period. Dividends are not reinvested or eligible to any interest payments. If a dividend payment occurs within the 30 trading days prior to the end of the vesting period, share prices of the trading days before the payment (cum-prices) are adjusted for the dividend payment in order to avoid proportionate double counting of the dividends.

Pay-out amount = (number of finally allocated performance shares) x (arithmetic mean of closing prices + paid dividends)

The pay-out amount shall be limited to twice the target amount.

The plan participant is informed of the pay-out amount via a pay-out letter.

If the financial statements of the subsidiary employing the plan participant are kept in a currency other than the euro, the payment shall be made in said currency. The pay-out amount shall be converted based on the average fixing rates of the European Central Bank over the last 30 trading days prior to the end of the vesting period.

#### Changes in control

A change of control ("Change of Control") shall be deemed to have taken place if:

a) shareholder has taken control pursuant to § 29 of the German Wertpapiererwerbs-und Übernahmegesetz (WpÜG, German Securities Acquisition and Takeover Act) by holding at least 30% of the voting rights including the attributed voting rights of third parties pursuant to § 30 of the WpÜG or

b) a controlling agreement (Beherrschungsvertrag) with RWE AG is entered into and has taken effect with RWE AG as dependent company pursuant to § 291 of the German Aktiengesetz (AktG, German Stock Corporation Act) or

c) RWE AG is merged with a legal entity which is not part of RWE AG group pursuant to § 2 of the German Umwandlungsgesetz (UmwG, German Transformation Act), unless the value of the external legal entity amounts to less than 50% of the Company value according to the agreed upon conversion ratio. Under these circumstances, lit. a) is not applicable.

# RWE GENERATION UK PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

### 28 Share-based payment transactions

(Continued)

In the event of a Change of Control all performance shares which have been finally allocated and have not yet been paid out, are paid out prematurely. The pay-out amount is calculated as described above. However, the arithmetic mean is calculated over the last 30 trading days preceding the announcement of the Change of Control plus the paid dividends per share in the respective fiscal years - referring to the finally allocated number of performance shares - between the final allocation of the performance shares and the Change of Control. The accordingly calculated pay-out amount will be paid out to the plan participant with the next possible payroll.

All performance shares which have not been finally allocated at the time of the Change of Control will lapse without replacement and compensation.

#### Share incentive plan

The Company offered a new Share Incentive Plan ("SIP") to all employees from January 2018. The newly introduced SIP scheme replaces the previously offered annual Share Save schemes. Unlike those previous schemes, employees can join and leave the scheme on a flexible monthly basis and there is no grant date as it continues to roll forward from one year to the next.

The scheme operates by allowing members to obtain one free share called a "matching share" for every 3 shares they buy, these are referred to as "partnership shares". Matching shares and partnership shares are worth the same and refer to the RWE AG share price.

The investment contribution per employee is limited to between £10 and £80 per month. On a monthly basis, the scheme administrator uses the money invested to buy RWE AG shares. One free share is awarded to the employee for every three shares bought and any cash left over carries forward to the following month.

#### Liabilities and expenses

Liabilities arising in relation to cash settled share based payment transactions during the year was £2.9m (2018: £1.5m).

Total expenses of £1m related to cash settled share based payment transactions were recognised in the year (2018: £1m).

<b>29 Share capital</b>	<b>2019</b>	<b>2018</b>
	<b>£m</b>	<b>£m</b>
<b>Ordinary share capital</b>		
<b><i>Issued and fully paid</i></b>		
50,000 Ordinary shares of £1 each	-	6
	=====	=====
<b>30 Share premium account</b>	<b>2019</b>	<b>2018</b>
	<b>£m</b>	<b>£m</b>
At the beginning of the year	2,072	2,072
Share capital reduction	(2,072)	-
	=====	=====
At the end of the year	-	2,072
	=====	=====

# RWE GENERATION UK PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

### 30 Share premium account

(Continued)

During 2019 the Company carried out a capital reduction to create distributable reserves. Ordinary shares were reduced to 50,000 shares of £1 each. Share premium was reduced to £nil. The reduction in capital is recognised in retained earnings.

### 31 Revaluation reserve

	2019 £m	2018 £m
At the beginning of the year	9	9
Fair value adjustment - investments	1	-
	<u>10</u>	<u>9</u>
At the end of the year	<u><u>10</u></u>	<u><u>9</u></u>

### 32 Dividends

	2019 per share	2018 per share	2019 £m	2018 £m
Amounts recognised as distributions to equity holders:				
<b>Ordinary shares</b>				
Interim dividend paid	3,200.00	-	160	-
	<u>3,200.00</u>	<u>-</u>	<u>160</u>	<u>-</u>

### 33 Hedging reserve

	2019 £m	2018 £m
At the beginning of the year	-	11
Gains and losses on cash flow hedges	(3)	(11)
	<u>(3)</u>	<u>(11)</u>
At the end of the year	<u><u>(3)</u></u>	<u><u>(11)</u></u>

### 34 Contingent liabilities

HM Revenue and Customs hold a £2m (2018: £2m) guarantee from the Company in relation to excise duty.

UK trading arrangements for the Generation business are supported by indemnities and letters of credit totalling £20m (2018: £14m).

Bank issued guarantees of £5m (2018: £17m) have been issued.

All of the above guarantees are in place as security against the Company failing to meet certain payment obligations. It is considered to be very unlikely that any event will occur that gives rise to any of the guarantees being affected.

# RWE GENERATION UK PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

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### 35 Other leasing information

#### Lessee

	2019 £m	2018 £m
Expense relating to short-term leases	1	-

Set out below are the future cash outflows to which the lessee is potentially exposed that are not reflected in the measurement of lease liabilities:

<b>Non-cancellable operating leases</b>	<b>2019 £m</b>	<b>2018 £m</b>
Within one year	-	3
Between two and five years	-	9
In over five years	-	13
	-	25

Information relating to lease liabilities is included in note 24. Information relating to finance lease receivables is included in note 19.

### 36 Capital commitments

	2019 £m	2018 £m
At 31 December 2019 the Company had capital commitments as follows:		
Contracted for but not provided in the financial statements:		
Acquisition of property, plant and equipment	36	78



# RWE GENERATION UK PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

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### 37 Events after the reporting date

#### Acquisition of the King's Lynn power station

On 12 February 2020, the acquisition of a 100 % stake in Centrica KL Limited (CKLL), Windsor, UK, agreed with the British energy company GB Gas Holdings Limited, a subsidiary of Centrica plc, Windsor, UK, at the end of December 2019, was completed.

The power station is a combined-cycle gas turbine (CCGT) power plant located in King's Lynn, Norfolk, UK. The plant has a capacity of 382 megawatts and will receive reliable, stable capacity payments until 2035 based on a 15-year contract in the British capacity market with a term starting in October 2020.

The preliminary purchase price amounts to £28 million (excluding repaid shareholder loans in the amount of £73 million). The final purchase price is subject to adjustments depending on the net debt and net working capital as of the completion date. The closing balance sheet as of this cut-off date is currently being finalised.

Since the closing balance sheet of CKLL had not been finalised when the RWE Generation UK plc financial statements were prepared, the statements cannot present the information on the fair values of the acquired assets (including acquired receivables) and liabilities, or the information on the factors which may comprise goodwill, or any necessary information on acquisition at a price below market value.

#### Covid-19

The Company and RWE Group are closely monitoring the Covid-19 outbreak and have activated a Group-wide crisis response. Teams involved include representatives from Group Security, Group Occupational Medicine and Organisational Management. The crisis teams regularly exchange information on current developments and assess the situation within the RWE Group with regard to the risk of infection and preventative measures.

The Company is committed to providing security of supply and protecting key workers. Preventative measures have been taken such as restricting travel between RWE sites, maximising working from home, reviewing outage profiles and scope and switching to telephone and online conferences.

No adjustments have been made to these financial statements for Covid-19 effects given the pandemic occurred in Q1 2020. There is a downside in energy spreads and volumes expected in 2020, however the Company's hedge position and associated trading activity has largely shielded the Company from these effects.

Management are confident that despite the uncertainties caused by the pandemic, the Company has sufficient resources and liquidity to continue to provide security of supply.

# RWE GENERATION UK PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

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### 38 Legal proceedings against the Company

The Company is aware of certain claims and potential claims which involve or could involve legal proceedings against the Company or International Power Ltd (formerly known as International Power plc). The Company has agreed to indemnify International Power Ltd (formerly known as International Power plc) on an after-tax basis in respect of any liabilities or losses which it may incur in relation to potential claims outlined and to the extent set out in the paragraphs below:

International Power Ltd (formerly known as International Power plc) is subject to claims and potential claims by or on behalf of current and former employees, including former employees of the CEGB, and contractors in respect of industrial illness and injury that arose as a direct result of the claimants' employment with the Company under the CEGB structure. The Company has agreed to indemnify International Power Ltd (formerly known as International Power plc) on an after-tax basis to the extent of 50% of any losses for liability that International Power Ltd (formerly known as International Power plc) may incur whether directly or indirectly or as a consequence of those claims and potential claims to the extent that such liability is not insured by Electra Insurance Limited.

The directors are of the opinion that it is unlikely that the matters referred to above will, in aggregate, have a material effect on the Company's financial position, results of operations or liquidity. Due consideration has been given to legal advice received, the Company's insurance arrangements and provisions carried in the statement of financial position.

### 39 Controlling party

The Company's immediate parent is RWE Generation UK Holdings Limited.

The ultimate parent is RWE AG, a company incorporated in Germany.

The most senior parent entity producing publicly available financial statements is RWE AG. This is the smallest and largest group to consolidate these financial statements.

These financial statements are available upon request from RWE AG, Altenesser Straße 35, 45141 Essen, Germany. They can be accessed at [www.rwe.com](http://www.rwe.com).

The ultimate controlling party is RWE AG.