

Company Registration No. 03892782 (England and Wales)

RWE GENERATION UK PLC
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

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RWE GENERATION UK PLC

COMPANY INFORMATION

Directors

Mrs H Mallett
Mr M Suleman
Mr W Jeffery (Appointed 1 April 2021)

Company secretary

Mr J Keene

Company number

03892782

Registered office

Windmill Hill Business Park
Whitehill Way
Swindon
Wiltshire
United Kingdom
SN5 6PB

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
3 Forbury Place, 23 Forbury Road
Reading
Berkshire
United Kingdom
RG1 3JH

RWE GENERATION UK PLC

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RWE GENERATION UK PLC

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

The directors present the strategic report and financial statements for the year ended 31 December 2020 for RWE Generation UK plc ('the Company').

Review of the business

The financial statements for the year ended 31st December 2020 are set out on pages 20 to 64.

The Company reports a profit before tax of £19m compared to a £187m profit before tax in 2019. Net assets decreased to £1,371m (2019: £1,550m). During the year, the Company paid an interim dividend of £170m (2019: £160m).

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

- £64m fall in Capacity Market turnover primarily due to the one-off effect in 2019 of the reinstatement of the Capacity Market.
- £20m increase in net power generation revenue due to the first-time inclusion of the hydro-electrical generators. See further comments below in this report.
- £15m decrease in operating costs due to the reduced power volume generated as a result of the Covid-19 pandemic and the deferral of outage and maintenance programs.
- £144m impact of derivatives. In 2019, income from derivatives was £23m compared to a cost of £121m in 2020. The movement is split between turnover, cost of sales and other income as some of the movement will relate to physically settled derivatives.
- £18m costs from the hive-up and impairment of King's Lynn power station. See further comments below in this report.
- £18m dividend income from subsidiary company RWE Markinch Limited.
- Depreciation was £5m lower in prior years.

The Company's power generation volumes in the year fell to 26TWh from 35TWh in 2019. The Company hedges a large portion of its power generation income through the arrangement with RWE Supply & Trading GmbH (RWEST), which has helped to protect the Company from the negative financial impacts of the Covid-19 pandemic.

	2020	2019
	£m	£m
Profit before tax	19	187
Net assets	1,371	1,550
Total assets less current liabilities	1,791	1,966

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 £102m. The trade assets and liabilities of RWE KL Limited were hived up to RWE Generation UK plc on 1 September 2020.

The Company acquired the hydro-electric power generation assets from RWE Renewables UK Swindon Limited on 1 July 2020 for £94m. The acquisition of the hydro-electric power generation assets will enable the Company to support RWE AG's goal to reach net zero carbon emissions by 2040.

The 10th anniversary of Staythorpe power station was celebrated in a year that also marked the 70th anniversary of power generation being carried out in some form at the site. The Company are proud of the dedication and commitment shown by colleagues who have contributed to the site over the years.

RWE GENERATION UK PLC

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

Business environment

The transition period following the UK formally leaving the European Union on 31 January 2020 has now ended, with the UK Government and European Union reaching a free trade agreement. The RWE Brexit Working Group has worked to ensure compliance with data protection, HR/labour mobility, procurement, supply chain, EU ETS, Internal Energy Market, financial regulation, tax, legal and IT topics and the Company has continued to operate as normal.

The business environment for conventional power generation continues to be challenging. Ofgem confirmed in its Significant Code Review that negative residual charges relating to transmission charges will be removed and it is expected this will lead to a substantial increase in costs. In addition short-haul benefits associated with delivering gas to the gas-fired power stations are expected to be much smaller. The Company is looking at ways to mitigate the loss of short-haul benefits such as the possibility of direct pipelines to avoid transmission charges.

On 15 December 2020, the UK government published the Energy White Paper (EWP): Powering our Net Zero Future with far-reaching impacts on the energy industry. The UK has set a target to reach net zero emissions by 2050 with a transition to a significantly decarbonised power sector in the 2030s. This will mean an increase in renewables and new hydrogen/storage technologies to meet the energy demands of the future. It is expected that conventional power generation will continue to decline as the energy transition progresses. The paper also sets out that the UK will opt for a UK Emissions Trading Scheme following the end of the Brexit transition period.

Since the tragic incident on 23 February 2016 involving the death of 4 people due to the catastrophic collapse of the boiler houses during the process of demolition by RWE contractors Coleman, RWE continues to co-operate with the Health and Safety Executive and Thames Valley Police investigation into the incident. It also continues to offer ongoing support to any employees who have been affected by the incident. Thames Valley Police has indicated that it cannot yet give an idea when the investigation might be finalised and there have been delays in the investigation due to both the amount of evidence to review and the Covid-19 pandemic. As a result the authorities do not anticipate any significant activity until the latter part of 2021.

The Company and RWE Group continue to closely monitor the Covid-19 pandemic through its 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 continue to be in place such as restricting travel between RWE sites, maximising working from home, reviewing outage profiles and scope and switching to telephone and online conferences.

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. No adjustments have been made to these financial statements for Covid-19 effects.

Strategy and future outlook

The acquisition of the hydro-electric power generation assets from RWE Renewables UK Swindon Limited demonstrates the Company's commitment to reducing its CO2 emissions to net zero by 2040. The Company is actively looking at new technologies to support the energy transition.

During the year an internal restructuring project was concluded. Management are confident the new organisation set-up will enable the Company to operate a safe, reliable, sustainable and adaptable business now and into the future.

Our teams are constantly reviewing the commercial and technical capabilities of our plants. The current review demonstrates that the long-term economics of the Seal Sands facility remain extremely challenging. In addition to difficult market conditions for a plant that began operation in 1999, Seal Sands was unsuccessful in the 2022/23 and 2023/24 Capacity Market auctions. These combined factors have led to the decision to close the plant from 1 October 2022. The net book value of Seal Sands as at year end 2020 is nil.

RWE GENERATION UK PLC

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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 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 69 through 78 of the RWE AG 2020 Annual Report.

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 13 to 15 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 such as upgrades at Didcot B to meet the updated best reference (BREF) rules on air pollutants.

RWE GENERATION UK PLC

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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

The Directors recognise that employees are fundamental and core to the business and to the 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 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 13 to 15.

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.

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 and Trafficking 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.

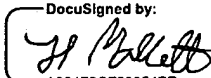
RWE GENERATION UK PLC**STRATEGIC REPORT (CONTINUED)****FOR THE YEAR ENDED 31 DECEMBER 2020**

During 2020, Board and Executive Committee discussions and decisions included the following:

Key decisions taken in 2020

	Stakeholders engaged on this topic
Strategic planning, risk and performance Capacity Market auctions Restructuring Dividend RWE KL Limited hive-up Business plan 2021-2023	Shareholder and ultimate parent Government and regulators Our people
Operational, investment, divestment Station upgrades and repairs VOA rates appeal Demolition projects: Didcot A and Tilbury King's Lynn power station acquisition Sale of freehold property in Birmingham Hydro business transfer Closure of Seal Sands OCGT	Shareholder and ultimate parent Communities and NGOs Government and regulators Suppliers Our people
People, culture, stakeholders Health & Safety Covid-19 pandemic Diversity and inclusion review and planning Employee survey and action plans Charitable donations Gender pay gap report	Shareholder and ultimate parent Communities Suppliers Our people
Political and regulatory environment Brexit Modern slavery statement NIS regulation improvement plan Communications, lobbying and engagement strategy	Shareholder and ultimate parent Communities and NGOs Government and regulators Our people
Governance Governance and steering project Formal board	Shareholder and ultimate parent Our people

On behalf of the board

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Mrs H Mallett

Director 18/06/2021

RWE GENERATION UK PLC

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

The directors present their annual report and audited financial statements for the year ended 31 December 2020.

The corporate governance statement set out on pages 13 to 15 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 gas-fired power stations and 21 hydro-electric power stations located across Great Britain with an installed capacity of 7.4 GW.

Results and dividends

The results for the year are set out on page 20.

The directors proposed and paid interim dividends to its immediate United Kingdom parent company of £170m in 2020. The directors do not propose a final dividend for the year ending 31 December 2020.

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	
Mr S Glover	(Resigned 31 March 2021)
Mr M Suleman	
Mr W Jeffery	(Appointed 1 April 2021)

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 120 of the RWE AG 2020 Annual Report.

Commodity price risk

Market risk is the risk that changes in commodity prices 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 Combined-Cycle Gas Turbine (CCGT) fleet of 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 2020

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 that 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 5 and Corporate Governance statement on pages 13 to 15.

RWE GENERATION UK PLC

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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 2020 RWE AG Corporate Responsibility Report available at www.rwe.com.

Post reporting date events

Since the reporting date, the directors have agreed to the disposal on land at Blyth. This event is non-adjusting. See further details at note 37.

Future developments

Details of likely future developments of the Company are provided in the Strategic Report on pages 1 to 5.

Auditors

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

RWE GENERATION UK PLC

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

Streamlined Energy and Carbon Report

Introduction

2020 is the first year for which RWE Generation UK plc has been required to comply with the Streamlined Energy and Carbon Reporting (SECR) requirements. In line with the RWE Group objectives, RWE Generation UK plc will use 2019 as the base year for the monitoring of Greenhouse Gas (GHG) emissions. Therefore, although not specifically required for the first year of SECR reporting, the full set of 2019 data is included here for comparison.

The RWE Group has already set itself the target to be carbon neutral by 2040 and has recently expanded this goal by extending its climate protection targets to all activities and greenhouse gas emissions of the Group. Greenhouse gas emissions are grouped into three scopes:

Scope 1 – Direct emissions from controlled or owned sources

Scope 2 – Indirect energy emissions from generation of purchased energy

Scope 3 – Emissions associated with plane, train and taxi journeys undertaken by employees

RWE has committed to achieving a 50 percent reduction in specific greenhouse gas emissions from Scope 1 and 2 by the year 2030, compared to the base year 2019. The Company aims to reduce Scope 3 emissions by 30 percent by 2030. While the wider RWE Group includes a substantial and growing portfolio of renewable energy assets, RWE Generation UK plc is committed to supporting the RWE Group objectives and continues to play a significant role in achieving this wider goal.

Over recent years, RWE Generation UK plc has actively moved towards cleaner power generation technologies by closing all of its coal-fired power stations and replacing them with highly efficient Combined-Cycle Gas Turbine (CCGT) plant. For example, during 2020 RWE Generation UK plc closed its last operational coal-fired power station at Aberthaw and acquired King's Lynn CCGT Power Station and a large portfolio of Hydro generation UK sites.

Reporting scope

The data covered by this report for both 2019 and 2020 includes all of the mandatory GHG emissions and energy use as a result of RWE Generation UK plc activities within the UK and offshore areas.

In summary, this includes all GHG emissions and energy use associated with the following:

- All operational generation sites
- Residual RWE activities on decommissioned generation sites
- Office buildings, workshops and stores buildings
- Business travel in company cars, site vehicles, rental cars or employee-owned vehicles where the Company is responsible for purchasing the fuel

MWh are presented as net calorific value (lower heating value).

Energy use

The energy used as a result of RWE Generation UK plc activities during 2020 is summarised and compared with that for 2019 in Table 1, below. The energy data for both years includes all of the energy use for the activities set out in the scope above.

The commercial impacts of the Covid-19 pandemic have led to a downturn in UK electricity demand. During 2020, this reduction in demand was reflected in the reduced electricity generation from the RWE Generation UK plc plant, reducing by 26.0% compared to 2019 (25,617,043 MWh compared to 34,628,822 MWh). As can be seen from Table 1, below, this reduction in electricity generation resulted in a corresponding reduction in energy consumption in fuels used for power generation.

Due to the reduction in operation, there was also a decrease in imported works power consumption at the business' generating sites. However, at 10.3%, this reduction was less significant. This was because a slightly higher proportion of the total works power required needed to be imported during periods when the plant were off-load.

RWE GENERATION UK PLC

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

During 2020, again, as a consequence of the Covid-19 pandemic, energy consumption for business travel reduced compared to that of 2019.

Table 1, Energy consumption

Energy Consumption (MWh)	2020	2019	2020 Change from 2019 (%)
Fuels for Power Generation	45,427,469	60,738,291	-25.2%
Imported Works Power	106,047	118,269	-10.3%
Gas - Offices & other buildings	1,070	1,364	-21.5%
Purchased Electricity – Offices etc. & auxiliary supplies	4,459	4,833	-7.7%
Business travel	3,534	3,813	-7.3%
Total Energy Consumption (MWh)	45,542,579	60,866,569	-25.2%

Greenhouse Gas Emissions

Due to the reduced energy consumption in fuels used for power generation, the Scope 1 GHG emissions for the business reduced correspondingly. During 2020, there was also a reduction in Scope 2 GHG emissions. Much of this reduction was due to the previously mentioned commercial impacts of the Covid-19 pandemic. However, some of this reduction in Scope 2 GHG emissions was a result of planned business activities, such as, the reconfiguration of the business's head office buildings, the closure of Aberthaw Power Station and the sale of some redundant sites. As mentioned above, business travel also reduced during 2020, leading to a fall in Scope 3 GHG emissions.

In recent years, as the vast majority of the company's electricity generation has been from CCGT plant fuelled by natural gas, Aberthaw Power Station has been the only generating plant in the business using biomass and coal for power generation. Therefore, with Aberthaw's closure, the associated emissions from these fuels fell to zero in 2020. The greenhouse gas emissions associated with the above energy consumption are summarised in Table 2, below.

Table 2, Greenhouse gas emissions

GHG Emissions (t CO ₂ e)	2020	2019	2020 Change from 2019 (%)
EU ETS Emissions (fossil fuel)	9,114,840	12,747,187	-28.5%
Total Scope 1 Emissions	9,160,965	12,805,765	-28.5%
Total Scope 2 Emissions	25,763	31,465	-18.1%
Total Scope 3 Emissions	875	1,031	-15.1%
Biomass Emissions (CO ₂)	0	956	-100.0%
Biomass N ₂ O and CH ₄ Emissions (t CO ₂ e)	0	12	-100.0%
N ₂ O and CH ₄ Emissions from other fuels (t CO ₂ e)	46,125	58,566	-21.2%
Total Scope 1, 2 & 3 Emissions (including N₂O and CH₄ Emissions from Biomass)	9,187,603	12,838,261	-28.4%

Intensity ratio

For electricity utilities, the most commonly used intensity metric is the carbon intensity of their power plant measured in tonnes CO₂e per megawatt hour (t CO₂e/MWh).

For RWE Generation UK plc generating plant, during 2020 the carbon intensity from the combustion of EU ETS fossil fuels continued its downward trajectory of recent years, decreasing from 0.37 t CO₂e/MWh during 2019 to 0.36 t CO₂e/MWh during 2020. This decrease in carbon intensity was a result of the Company's continued move toward cleaner power generation technologies with the closure of Aberthaw Power Station in early 2020.

RWE GENERATION UK PLC

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

Energy Efficiency action

As energy efficiency is central to the operation of the RWE Generation UK plc generating plant, the site teams, supported by the central functions, are continually striving to improve the performance of the generating plant. During 2020, one of the more significant energy saving actions was the further optimisation of the operating regime of one of the business' CCGT plant.

Methodologies used in calculations and disclosure

All fuel consumption and CO₂ emissions data for RWE Generation UK plc generating plants are externally verified as required for compliance with the EU Emissions Trading System. Also, the majority of the environmental parameters are legally required to be submitted to the respective regulators. Other information such as GHG emissions and energy consumption from business travel has been calculated using the UK Government GHG Conversion Factors for Company Reporting for the relevant year.

Estimated data and assumptions

As can be seen from Table 3, below, in terms of volume, the vast majority of the business' energy consumption and GHG emissions data are externally verified for the generating plant's EU ETS compliance. Almost all other operating plant data and the associated emissions are either measured or calculated from known values. The principal area where energy consumption and the associated GHG emissions have needed to be estimated, is the business travel data, and in particular, the activity of site vehicles. Estimations have also been necessary where the interpolation of billing data for purchased electricity has been required in cases where billing periods have deviated from the normal monthly schedule or data has been missing due to site changes. Also, as RWE Generation UK plc acquired King's Lynn Power Station in February 2020, it has been necessary to estimate the secondary fuel consumption pro rata for the period of RWE ownership. However, as can clearly be recognised from the figures below, the sum total of this estimated data is immaterial.

Table 3, Data quality

Data Quality	2020	2019
Energy consumption		
Externally verified data (%)	99.74%	99.79%
Total estimated data (%)	0.01%	0.01%
Fossil Fuel Emissions (tCO₂e)		
Externally verified data (%)	99.55%	99.29%
Total estimated data (%)	0.02%	0.01%

RWE GENERATION UK PLC

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

Under company law, 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

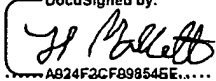
The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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.

Statement of disclosure to auditors

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 auditors are 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 auditors are aware of that information.

On behalf of the board

DocuSigned by:

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Mrs H Mallett
Director

Date: 18/06/2021

RWE GENERATION UK PLC

CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2020

Introduction

For the year ended 31 December 2020, 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 Hard Coal & Gas) held 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 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. Site visits were limited in 2020 however due to the Covid-19 pandemic. 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 Governance and Steering Review in 2020. Following this review, further updates were made to adhere to best practices and areas of focus, review and challenge.

Principle 3 – Directors 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.

The Board has a programme of eleven meetings every year. The Board's key areas of focus in 2020 are included on in the Strategic Report on pages 1 to 5. 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.

RWE GENERATION UK PLC

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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 allows the Board further engagement and input from additional executives outside of the Board. Key focus areas in 2020 included 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. In 2020, together with the Board, the following individuals were members of the Executive Committee: Stephen Duffy, UK HR Director; Mary Drury, Head of Hydro UK, and Michael Magee, Director RWE Technology UK Limited.

In 2020 there were 8 meetings of the Executive Committee.

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 Health and Safety 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 2020

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 2020, the Company produced its second annual Gender Pay Report. The report highlighted improvements on the previous year, together with further areas of focus for the future.

Principle 6 – Stakeholders

The Board understands 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.

In the UK there is an overarching Charities Committee, together with local site committees. In 2020, across RWE Generation, donations of £121k were made to over 200 charities and community groups in the UK.

RWE GENERATION UK PLC

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF RWE GENERATION UK PLC

Report on the audit of the financial statements

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 2020 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, which comprise: the statement of financial position as at 31 December 2020; 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

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- assessment of the assumptions used by company in its forecast
- performed sensitivity analysis over key figures
- performed inquiries with management regarding any events that could adversely impact the business
- comparison of budgeted figures with the actual results of the first quarter of 2021 to ensure the reasonability of the forecast

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

RWE GENERATION UK PLC

INDEPENDENT AUDITORS' REPORT (CONTINUED)

TO THE MEMBERS OF RWE GENERATION UK PLC

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 Statement of Directors' Responsibilities, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic Report and Statement of Directors' Responsibilities

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Statement of Directors' Responsibilities for the year ended 31 December 2020 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 Statement of Directors' Responsibilities.

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, 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.

RWE GENERATION UK PLC

INDEPENDENT AUDITORS' REPORT (CONTINUED) TO THE MEMBERS OF RWE GENERATION UK PLC

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to health and safety regulations, environmental regulations and OFGEM requirements, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to manipulation of results through posting fraudulent journals and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- enquiry of management, those charged with governance and the entity's solicitors (or in-house legal team) around actual and potential litigation and claims;
- enquiry of entity staff in tax and compliance functions to identify any instances of non-compliance with laws and regulations;
- reviewing minutes of meetings of those charged with governance;
- evaluation of management's controls designed to prevent and detect irregularities as well as reviewing internal audit reports;
- reviewing financial statement disclosures and testing to supporting documentation to assess compliance with applicable laws and regulations; and
- auditing the risk of management override of controls, including through testing journal entries and other adjustments for appropriateness, testing accounting estimates (because of the risk of management bias), and evaluating the business rationale of significant transactions outside the normal course of business.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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. 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 AUDITORS' REPORT (CONTINUED) TO THE MEMBERS OF RWE GENERATION UK PLC

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 obtained 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.



**Katharine Finn (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors**

Reading 18 June 2021
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RWE GENERATION UK PLC**INCOME STATEMENT****FOR THE YEAR ENDED 31 DECEMBER 2020**

	Notes	2020 £m	2019 £m
Turnover	3	1,177	1,789
Cost of sales: excluding exceptional items		(1,331)	(1,802)
Cost of sales: exceptional items	4	(21)	(2)
Gross loss		(175)	(15)
Administrative expenses		(43)	(47)
Other income	5	213	245
Operating (loss)/profit	6	(5)	183
Finance income	7	25	8
Interest payable and similar expenses	8	(2)	(4)
Exceptional items	9	1	-
Finance income - net		24	4
Profit before taxation		19	187
Tax on profit	13	5	(35)
Profit for the financial year		24	152

RWE GENERATION UK PLC**STATEMENT OF COMPREHENSIVE INCOME****FOR THE YEAR ENDED 31 DECEMBER 2020**

	2020	2019
	£m	£m
Profit for the year	24	152
Other comprehensive (expense)/income:		
Items that will not be reclassified to profit or loss		
Actuarial (loss)/gain on defined benefit pension schemes net of deferred tax	(30)	46
Items that may be reclassified to profit or loss		
Investments held at fair value through other comprehensive income:		
- Valuation gain arising in the year	1	1
Cash flow hedges:		
- Hedging gain/(loss) arising in the year	3	(3)
Total items that may be reclassified to profit or loss net of deferred tax	4	(2)
Total other comprehensive (expense)/income for the year	(26)	44
Total comprehensive (expense)/income for the year	(2)	196

RWE GENERATION UK PLC**STATEMENT OF FINANCIAL POSITION****AS AT 31 DECEMBER 2020**

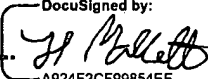
	Notes	2020 £m	2019* £m
Fixed assets			
Tangible fixed assets	14	1,110	1,009
Investments	15	22	22
		<u>1,132</u>	<u>1,031</u>
Current assets			
Stocks	17	6	10
Finance lease receivables	18	7	8
Derivative financial instruments	19	220	4
Deferred tax asset: realisable after more than one year	21	77	74
Defined benefit pension surplus	22	1	4
Trade and other receivables	23	785	907
Current tax recoverable		-	1
Investments	15	17	16
Cash at bank and in hand		9	8
		<u>1,122</u>	<u>1,032</u>
Creditors: amounts falling due within one year			
Trade and other payables	24	118	89
Taxation and social security		3	-
Derivative financial instruments	19	340	6
Lease liabilities	25	2	2
		<u>463</u>	<u>97</u>
Net current assets		<u>659</u>	<u>935</u>
Total assets less current liabilities		<u>1,791</u>	<u>1,966</u>
Creditors: amounts falling due after more than one year			
Trade and other payables	24	24	25
Lease liabilities	25	19	19
		<u>43</u>	<u>44</u>
Provisions for liabilities			
Other provisions	26	377	372
		<u>377</u>	<u>372</u>
Net assets		<u>1,371</u>	<u>1,550</u>

RWE GENERATION UK PLC**STATEMENT OF FINANCIAL POSITION (CONTINUED)****AS AT 31 DECEMBER 2020**

	Notes	2020 £m	2019* £m
Capital and reserves			
Revaluation reserve	29	11	10
Hedging reserve	30	-	(3)
Profit and loss reserves		1,360	1,543
Total equity		<u>1,371</u>	<u>1,550</u>

*There is a presentational prior year restatements of the pension surplus. This has been re-classified as a current asset from fixed assets.

The financial statements on pages 20 to 64 were approved by the board of directors and authorised for issue on 18/06/2021 and are signed on its behalf by:

.....
 DocuSigned by:

 A924F2CF99854EE...
 Mrs H Mallett
 Director

Company Registration No. 03892782

RWE GENERATION UK PLC**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020**

	Notes	Share capital £m	Share premium account £m	Revaluation reserve £m	Hedging reserve £m	Profit and loss reserves £m	Total £m
Balance at 1 January 2019		6	2,072	9	-	(573)	1,514
Year ended 31 December 2019:							
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	31	-	-	-	-	(160)	(160)
Reduction in shares	32	(6)	(2,072)	-	-	2,078	-
Balance at 31 December 2019		-	-	10	(3)	1,543	1,550

RWE GENERATION UK PLC**STATEMENT OF CHANGES IN EQUITY (CONTINUED)****FOR THE YEAR ENDED 31 DECEMBER 2020**

	Notes	Share capital £m	Share premium account £m	Revaluation reserve £m	Hedging reserve £m	Profit and loss reserves £m	Total £m
Balance at 1 January 2020		-	-	10	(3)	1,543	1,550
Year ended 31 December 2020:							
Profit for the year		-	-	-	-	24	24
Other comprehensive income/(expense):							
Actuarial losses on defined benefit plans		-	-	-	-	(30)	(30)
Adjustments to fair value of financial assets		-	-	1	-	-	1
Cash flow hedges gains		-	-	-	3	-	3
Total comprehensive expense for the year		-	-	1	3	(6)	(2)
Dividends	31	-	-	-	-	(170)	(170)
Other movements *		-	-	-	-	(7)	(7)
Balance at 31 December 2020		-	-	11	-	1,360	1,371

* Other movements relate to deferred tax on hive up of RWE KL limited.

RWE GENERATION UK PLC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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, United Kingdom, SN5 6PB.

1.1 Accounting convention

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

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.

RWE GENERATION UK PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

1 Accounting policies

(Continued)

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, which the directors consider to be at least 1 year. Thus, they continue to adopt the going concern basis of accounting in preparing the financial statements.

1.3 Turnover

Turnover is measured at the fair value of the consideration received or receivable. The Company recognises turnover 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 turnover making use of the practical expedient of IFRS 15 article 121.

The Company recognises turnover from the following major sources:

- Power generation
- Ancillary and balancing mechanism 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 turnover are as follows:

Power generation

Turnover mostly represents the value of power generated and sold through RWEST onwards to the market, adjusted for physically-settled derivatives. Power generation and supplementary turnover 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 and balancing mechanism services

Ancillary services relate to services provided to the National Grid. 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 turnover recognised. Under other contracts such as balancing market contracts we are paid for being available to operate under certain conditions, which are tested to demonstrate compliance.

Balancing mechanism services objective are to enable National Grid to balance generation against system demand in real time. This is done through instructing willing generators to deviate from their contracted output at Gate Closure for a price. Generators submit Bids to buy energy back from National Grid (i.e. reduce their output) and Offers to sell energy to National Grid (i.e. increase their output). RWEST are responsible for the management of these Bids and Offers and their pricing levels. Turnover is recognised in the period in which it is earned.

RWE GENERATION UK PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

1 Accounting policies

(Continued)

Renewables obligations certificates

The Company acquires ROCs resulting from the power purchase agreements it has entered into relating to the Zephyr assets. The turnover 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.

ROC's are also granted to the Company in relation to the Hydro assets. They are recognised within turnover as eligible electricity is generated. They are recognised as current assets, grouped within accrued income. They are held at the best estimate of the prevailing market value at the year-end.

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 turnover from the start and throughout the Capacity Market contract on an accruals basis. Included within turnover for 2020 is Capacity Market income relating to the 2019/2020 and 2020/2021 capacity years. Capacity Market obligations transferred to third parties is recognised in other income.

Feed in tariffs

The Feed in Tariff (FIT) scheme is a government programme designed to promote the uptake of small-scale renewable and low-carbon electricity generation technologies. Introduced on 1 April 2010, the scheme provides payments on both generation and export. Payments for both elements of the FIT are made on the same bill quarterly in arrears, the subsidy (generation) is paid on the total generation and the actual power exported to the grid is then paid as the export. FIT payments are made based on meter readings taken from compliant metering and submitted to the elected FIT Licensee and are at annually inflated fixed rates. Income is recognised in the month in which the generation occurred.

1.4 Tangible fixed assets

Tangible fixed assets 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 14. Depreciation is provided on all tangible assets other than freehold land.

Freehold buildings	40 years
Leasehold land and buildings	Period of lease term
Plant and equipment	3-40 years

RWE GENERATION UK PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

1 Accounting policies

(Continued)

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 profit and loss account.

Plant spares

Non-consumable plant spares are shown within tangible fixed assets. 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 through depreciation 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 Fixed asset investments

All fixed asset 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.

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 Stocks

Stocks are stated at the lower of cost and net realisable value and comprise of stocks of oil and consumable 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, stocks are assessed for impairment. If stock 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.

RWE GENERATION UK PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

1 Accounting policies

(Continued)

1.8 Cash at bank and in hand

Cash at bank and in hand, 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 creditors: amounts falling due within one year.

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 the income statement. 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

Financial assets that are held within a different business model other than 'hold' or 'hold and sell' are categorised as fair value through profit or loss. Financial assets measured at fair value through profit or loss are recognised initially at fair value and any transaction costs are recognised in the income statement when incurred. A gain or loss on a financial asset measured at fair value through profit or loss is recognised in the income statement and is included within finance income or finance costs in the income statement for the reporting period in which it arises.

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 the income statement 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 adversely affected.

RWE GENERATION UK PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

1 Accounting policies

(Continued)

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 the income statement.

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.

RWE GENERATION UK PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

1 Accounting policies

(Continued)

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 turnover 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 receivable/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.

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.

RWE GENERATION UK PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

1 Accounting policies

(Continued)

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 fixed 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.

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 the income statement as other finance income 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 the income statement in subsequent periods.

The net defined benefit pension asset or liability in the statement of financial position 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.

RWE GENERATION UK PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

1 Accounting policies

(Continued)

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, 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.

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 the share incentive plan (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 tangible fixed assets, 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 tangible fixed assets. The right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

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 the income statement if the carrying amount of the right-of-use asset has been reduced to zero.

RWE GENERATION UK PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

1 Accounting policies

(Continued)

The Company has elected not to recognise right-of-use assets and lease liabilities for short-term leases 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 the income statement 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 the income statement.

2 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.

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 22 for further details.

RWE GENERATION UK PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

2 Critical accounting estimates and judgements

(Continued)

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 22 for the disclosures of the defined benefit pension scheme.

Decommissioning costs

The estimated cost of decommissioning and plant closure at the end of life of the site is provided for at the statement of financial position date. The decommissioning and plant closure provision is sensitive to changes in estimated useful life, cost estimation and discount rates.

- Costs are comprised of demolition contractors costs, decommissioning costs and project management costs. These costs are reviewed annually with demolition quotes being updated every 5 years. Costs are inflated to the estimated closure date using the forecast Consumer Price Index (CPI) which is calculated by RWE group. The CPI rate used as at 31 December was 2.0% per annum (2019: 2.25% per annum reducing to 2.00% per annum from 2022).
- Inflated costs are discounted over the life of the stations which are currently between 6 and 16 years. The discount rate is re-assessed on a quarterly basis by RWE Group and as at 31 December the greater than 4 year rate was 0.25% (2019: 1.00%). The 1-4 year rate was 0.00% (2019: 0.50%).

3 Turnover

	2020	2019
	£m	£m
Turnover analysed by class of business		
Electricity	1,022	1,564
Gas	3	8
Other	152	217
	<u>1,177</u>	<u>1,789</u>

RWE GENERATION UK PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

4 Cost of sales: exceptional items

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

	2020 £m	2019 £m
In respect of:		
Tangible fixed assets	21	2
	<u>21</u>	<u>2</u>
Recognised in:		
Cost of sales: exceptional items	21	2
	<u>21</u>	<u>2</u>

In the current year, the Company reviewed the carrying amount of its power stations and concluded that its power station at King's Lynn was impaired. An impairment of £21m has been recognised. In assessing the value, the following significant assumptions were made:

- Post tax (real) discount rate of 6.5% were applied.
- Future cash flows were estimated to the end of the generating assets' useful lives.

In the prior 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 was recognised.

5 Other income

	2020 £m	2019 £m
Fair value movement on derivatives	200	226
Capacity Market obligations transferred to third parties	13	16
Property recharges	-	2
Foreign exchange gain	-	1
	<u>213</u>	<u>245</u>
Other income	213	245

6 Operating (loss)/profit

	2020 £m	2019 £m
Operating (loss)/profit for the year is stated after charging/(crediting):		
Exchange gains	-	(1)
Depreciation of property, plant and equipment	127	133
Cost of inventories recognised as an expense	-	32
Share-based payments	3	1
	<u>127</u>	<u>165</u>

RWE GENERATION UK PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

7 Finance income

	2020 £m	2019 £m
Interest income		
Interest on the net defined benefit asset	1	-
Interest receivable from group companies	6	8
	<u>7</u>	<u>8</u>
Total interest income	7	8
Income from fixed asset investments		
Income from shares in group undertakings	18	-
	<u>18</u>	<u>-</u>
Total finance income	<u>25</u>	<u>8</u>

8 Interest payable and similar expenses

	2020 £m	2019 £m
Interest on financial liabilities measured at amortised cost:		
Interest payable to group undertakings	1	2
Interest on other financial liabilities:		
Net interest on the net defined benefit liability	-	1
	<u>1</u>	<u>3</u>
Total interest expense	1	3
Other finance costs:		
Unwinding of discount on provisions	1	1
	<u>1</u>	<u>1</u>
Total finance costs	<u>2</u>	<u>4</u>

9 Exceptional items

	2020 £m	2019 £m
Net dividend income	1	-
	<u>1</u>	<u>-</u>

In the current year, the exceptional items were a net dividend comprising £1m relating to the hive up of RWE KL Limited. There were no exceptional items in the prior year.

10 Auditors' remuneration

	2020 £'000	2019 £'000
Fees payable to the Company's auditors and associates:		
For audit services		
Audit of the financial statements of the Company	457	425
	<u>457</u>	<u>425</u>

RWE GENERATION UK PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

11 Employees

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

	2020 Number	2019 Number
Central functions	110	129
Distributed assets	136	165
Fleet support	358	361
Stations	333	384
Other	63	58
	<u>1,000</u>	<u>1,097</u>

Their aggregate remuneration comprised:

	2020 £m	2019 £m
Wages and salaries	58	64
Social security costs	7	8
Pension costs	11	11
	<u>76</u>	<u>83</u>

12 Directors' remuneration

	2020 £'000	2019 £'000
Remuneration for qualifying services	<u>521</u>	<u>542</u>

The number of directors for whom retirement benefits are accruing under defined contribution schemes amounted to 1 (2019 - 1). The aggregate value of employer contributions paid under money purchase schemes in 2020 amount to £19K.

The number of directors for whom retirement benefits are accruing under defined benefit schemes amounted to 1 (2019 - 2).

The number of directors who are entitled to receive shares under long term incentive schemes during the year was 2 (2019 - 2).

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

Remuneration for qualifying services	298	369
Long term incentive schemes	37	-
Accrued pension at the end of the year	55	53
Accrued lump sum at the end of the year	<u>167</u>	<u>160</u>

RWE GENERATION UK PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

13 Taxation

	2020 £m	2019 £m
Current tax		
UK corporation tax on profits for the current period	8	7
Adjustments in respect of prior periods	-	(1)
	<u>8</u>	<u>6</u>
Total UK current tax	<u>8</u>	<u>6</u>
Deferred tax		
Origination and reversal of temporary differences	(4)	29
Changes in tax rates	(9)	-
	<u>(13)</u>	<u>29</u>
Total tax charge/(credit)	<u>(5)</u>	<u>35</u>

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

	2020 £m	2019 £m
Profit before taxation	<u>19</u>	<u>187</u>
Expected tax charge based on a corporation tax rate of 19.00% (2019: 19.00%)	4	36
Effect of expenses not deductible in determining taxable profit	9	4
Income not taxable	(9)	-
Adjustment in respect of prior years	-	(2)
Effect of change in UK corporation tax rate	(10)	-
Impact of difference between current and deferred tax rates	-	(3)
Write-off of deferred tax asset	1	-
	<u>(5)</u>	<u>35</u>
Taxation (credit)/charge for the year	<u>(5)</u>	<u>35</u>

RWE GENERATION UK PLC**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 31 DECEMBER 2020****13 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:

	2020 £m	2019 £m
Current tax arising on:		
Actuarial differences recognised as other comprehensive income	8	6
Deferred tax arising on:		
Actuarial differences recognised as other comprehensive income	(3)	(14)
	<u>5</u>	<u>(8)</u>
Reclassifications from equity to profit or loss:		
Relating to cash flow hedges	(1)	
	<u>4</u>	<u>(8)</u>
Total tax recognised in other comprehensive income	<u><u>4</u></u>	<u><u>(8)</u></u>

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. In the Spring Budget 2021, the Government announced that from 1 April 2023 the main rate of corporation tax rate will increase to 25%. The rate change had not been substantively enacted at the statement of financial position date and is not reflected in these financial statements. The effect of this change would be to increase the deferred tax asset at 31 December 2020 by £9m.

RWE GENERATION UK PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

14 Tangible fixed assets

	Freehold buildings	Leasehold land and buildings	Assets under construction	Plant and equipment	Total
	£m	£m	£m	£m	£m
Cost					
At 31 December 2019	230	14	41	3,023	3,308
Additions	39	2	26	178	245
Disposals	(3)	(1)	-	(43)	(47)
Transfers	7	-	(32)	25	-
Change in estimates	-	-	-	6	6
At 31 December 2020	273	15	35	3,189	3,512
Accumulated depreciation and impairment					
At 31 December 2019	141	1	-	2,157	2,299
Charge for the year	8	2	-	117	127
Impairment loss	-	-	-	21	21
Eliminated on disposal	(1)	(1)	-	(43)	(45)
At 31 December 2020	148	2	-	2,252	2,402
Carrying amount					
At 31 December 2020	125	13	35	937	1,110
At 31 December 2019	89	13	41	866	1,009

All amounts relating to right-of-use assets are disclosed in the leasehold land and buildings column above.

15 Investments

	Current		Non-current	
	2020	2019	2020	2019
	£m	£m	£m	£m
Investments held at fair value through other comprehensive income	17	16	-	-
Investments in subsidiaries	-	-	22	22
	17	16	22	22

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 2020 was £17m (2019: £16m).

RWE GENERATION UK PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

15 Investments (Continued)

Movements in fixed asset investments

	Shares in group undertakings £m
Cost or valuation	
At 1 January 2020 & 31 December 2020	22
Carrying amount	
At 31 December 2020	22
At 31 December 2019	22

16 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.

Details of the Company's subsidiaries at 31 December 2020 are as follows:

Name of undertaking	Registered office	Principal activities	Class of shares held	% Held Direct
Electra Insurance Limited	Bermuda	Insurance	Ordinary shares	100.00
RWE Markinch Limited	United Kingdom	Power Generation	Ordinary shares	100.00
RWE Ingenlus Limited	United Kingdom	Holding Company	Ordinary shares	100.00
RWE KL Limited	United Kingdom	Dormant	Ordinary shares	100.00

RWE Cogen UK Limited and RWE Cogen UK (Hythe Limited) were both dissolved on 24 November 2020. Transpower Limited was also dissolved in the year on 19 May 2020.

	2020 £m	2019 £m
Raw materials and consumables	6	10

RWE GENERATION UK PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

18 Finance lease receivables

	2020 £m	2019 * £m
Gross amounts receivable under finance leases:		
Within one year	1	1
One to two years	1	1
Two to three years	1	1
Three to four years	1	1
Four to five years	1	1
Over five years	3	4
	<u>8</u>	<u>9</u>
Total undiscounted lease payments receivable	8	9
Unearned finance income	(1)	(1)
	<u>7</u>	<u>8</u>
Net investment	<u>7</u>	<u>8</u>

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.

The Company has no expected credit loss in respect of finance lease receivables. These receivables are not past due and not impaired in the current and past period.

*In the prior year £2m was disclosed as the gross amount receivable within one to two years. This was incorrect and has been corrected above.

19 Derivative financial instruments

	2020 £m	2019 £m
Financial derivatives	219	4
Cash flow hedges	1	-
	<u>220</u>	<u>4</u>
Derivative financial assets	<u>220</u>	<u>4</u>
Commodity derivatives	(339)	(3)
Cash flow hedges	(1)	(3)
	<u>(340)</u>	<u>(6)</u>
Derivative financial liabilities	<u>(340)</u>	<u>(6)</u>

At 31 December 2020, derivative instruments outstanding related to gas swaps, physical gas, power and FX trades. The derivative instruments expire over the period 2021 to 2024.

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 2020

20 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 2020	£m	£m	£m	£m	£m
Investments	-	-	-	17	17
Derivative financial instruments	-	219	1	-	220
Trade and other receivables excluding prepayments	780	-	-	-	780
Cash at bank and in hand	9	-	-	-	9
Total	789	219	1	17	1,026

	Liabilities at amortised cost	Liabilities at fair value through profit or loss	Derivatives used for hedging	Total
At 31 December 2020	£m	£m	£m	£m
Derivative financial instruments	-	(339)	(1)	(340)
Trade and other payables excluding non-financial liabilities	(77)	-	-	(77)
Total	(77)	(339)	(1)	(417)

	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 at bank and in hand	8	-	-	-	8
Total	909	4	-	16	929

RWE GENERATION UK PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

20 Financial instruments

(Continued)

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

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.

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 31 December 2020				
Commodity derivatives	-	(339)	-	(339)
Financial derivatives	-	219	-	219
Cash flow hedges - net	-	-	-	-
Derivative financial liabilities	-	(120)	-	(120)
At 31 December 2019				
Commodity derivatives	-	(3)	-	(3)
Financial derivatives	-	4	-	4
Cash flow hedges - net	-	(3)	-	(3)
Derivative financial liabilities	-	(2)	-	(2)

RWE GENERATION UK PLC**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 31 DECEMBER 2020****20 Financial instruments****(Continued)****Maturity profile of financial assets/liabilities**

	Liabilities at fair value through OCI £m	Liabilities at FVPL £m
At 31 December 2020		
Due within one year	1	(107)
Due in more than one year and less than two years	(1)	(13)
Total	<u>-</u>	<u>(120)</u>
	Liabilities at fair value through OCI £m	Liabilities at FVPL £m
At 31 December 2019		
Due within one year	(1)	1
Due in more than one year and less than two years	(2)	-
Total	<u>(3)</u>	<u>1</u>

RWE GENERATION UK PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

20 Financial instruments

(Continued)

Financial risk management

Foreign currency risk

The majority of contracts entered into are in sterling; however, there are some contracts in euros. Positions relating to carbon commodity assets are entered into using carbon futures. RWEST actively manage commodity positions alongside currency risk in line with RWE AG Group policy. The Company applies hedge accounting to foreign exchange contracts relating to payables and receivables denominated in a foreign currency 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 £280k (2019: £249k).

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 2020

20 Financial instruments

(Continued)

	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off	Net amounts of financial assets
	£m	£m	£m
At 31 December 2020			
Commodity derivatives	4,389	(4,389)	-
Financial derivatives	756	(537)	219
Total	5,145	(4,926)	219

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

	Gross amounts of recognised financial liabilities assets set off	Gross amounts of recognised financial assets set off	Net amounts of financial liabilities
	£m	£m	£m
At 31 December 2020			
Commodity derivatives	4,050	(4,389)	(339)
Financial derivatives	537	(537)	-
Total	4,587	(4,926)	(339)

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

RWE GENERATION UK PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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 2019	97	11	9	117
Deferred tax movements in prior year				
Credit to profit or loss	(26)	1	(4)	(29)
(Debit)/credit to other comprehensive income	-	(14)	-	(14)
Deferred tax asset at 1 January 2020	71	(2)	5	74
Deferred tax movements in current year				
(Debit)/credit to profit or loss	(24)	1	20	(3)
(Debit)/credit to other comprehensive income	-	-	(2)	(2)
Effect of change in tax rate - profit or loss	6	2	2	10
Effect of change in tax rate - other comprehensive income	-	(2)	-	(2)
Deferred tax asset at 31 December 2020	53	(1)	25	77

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

22 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 (2019: £1m).

Defined benefit scheme

Throughout the whole of 2020, 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 2020.

RWE GENERATION UK PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

22 Retirement benefit schemes

(Continued)

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 2020 for the RWE section by updating the last formal calculations using method appropriate for IAS 19R. As at 31 December 2020, there was a surplus of £1m (2019: a surplus of £4m).

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 87% of its interest rate exposure and around 85% 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 £48.3m was made on 6 March 2020, of which £36.0m was 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.

	2020	2019
<i>Key assumptions</i>	%	%
Discount rate	1.2	1.9
Pension growth rate	3.0	3.0
Salary growth rate	3.0	3.0
Rate of increase of pension in payment - Main, 60th and Executive sections	2.9	2.8
Rate of increase of pension in payment - 2005 section	2.1	1.9
Rate of increase of pension in deferment	3.0	3.0

RWE GENERATION UK PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

22 Retirement benefit schemes	(Continued)	
<i>Mortality assumptions</i>	2020	2019
Assumed life expectations on retirement at age 65:	Years	Years
Retiring today		
- Males	23	23
- Females	24	23
	<u> </u>	<u> </u>
Retiring in 25 years		
- Males	25	25
- Females	25	25
	<u> </u>	<u> </u>
	2020	2019
<i>Amounts recognised in the income statement</i>	£m	£m
Current service cost	17	16
Net interest on defined benefit liability/(asset)	(1)	1
Past service cost	3	1
	<u> </u>	<u> </u>
Total costs	19	18
	<u> </u>	<u> </u>
	2020	2019
	2020	2019
<i>Amounts recognised in other comprehensive income</i>	£m	£m
Actuarial changes arising from changes in demographic assumptions	(4)	(12)
Actuarial changes arising from changes in financial assumptions	156	106
Actuarial changes arising from experience adjustments	(15)	(67)
Actuarial changes related to plan assets	(90)	(73)
	<u> </u>	<u> </u>
Total costs/(income)	47	(46)
	<u> </u>	<u> </u>

Contributions towards deficit repair from other group companies of £12m is recognised in other comprehensive income (2019: £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:

	2020	2019
	£m	£m
Present value of defined benefit obligations	1,596	1,516
Fair value of plan assets	(1,597)	(1,520)
	<u> </u>	<u> </u>
Surplus in scheme	(1)	(4)
	<u> </u>	<u> </u>

RWE GENERATION UK PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

22 Retirement benefit schemes	(Continued)	
	2020	2019
	£m	£m
<i>Movements in the present value of defined benefit obligations</i>		
At 1 January 2020	1,516	1,555
Current service cost	17	16
Past service cost	3	1
Benefits paid	(124)	(128)
Contributions from scheme members	4	3
Actuarial gains and losses	137	27
Interest cost	27	39
Other	16	3
	<u>1,596</u>	<u>1,516</u>
At 31 December 2020	<u>1,596</u>	<u>1,516</u>
<i>The defined benefit obligations arise from plans funded as follows:</i>		
	2020	2019
	£m	£m
Wholly or partly funded obligations	1,596	1,516
	<u>1,596</u>	<u>1,516</u>
<i>Movements in the fair value of plan assets:</i>		
	2020	2019
	£m	£m
At 1 January 2020	1,520	1,484
Interest income	28	38
Return on plan assets (excluding amounts included in net interest)	90	73
Benefits paid	(124)	(128)
Contributions by the employer	63	50
Contributions by scheme members	4	3
Other	16	-
	<u>1,597</u>	<u>1,520</u>
At 31 December 2020	<u>1,597</u>	<u>1,520</u>

RWE GENERATION UK PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

22 Retirement benefit schemes

(Continued)

Sensitivity of the defined benefit obligations to changes in assumptions

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

		2020	2019
1% change in discount rate	- increase	-£181m	-£159m
	- decrease	+£234m	+£202m
1% change in pension growth rate	- increase	+£125m	+£124m
	- decrease	-£107m	-£95m
Life expectancy changed by 1 year	- increase	+£52m	+£108m
	- decrease	n/a	n/a
1% change in salary increase rate	- increase	+£72m	+£60m
	- decrease	-£54m	-£44m
		<u> </u>	<u> </u>

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

	2020	2019
	£m	£m
Equity instruments	134	128
Government bonds	963	905
Corporate bonds	462	455
Other	38	32
	<u> </u>	<u> </u>
	<u>1,597</u>	<u>1,520</u>

RWE GENERATION UK PLC**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 31 DECEMBER 2020****22 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 (2019: 0) and 2 (2019: 2) 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 (2019: 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 119 (2019:138) non-directors who were employees at the time of the Company's privatisation in 1990.

A provision of £5m (2019: £5m) 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.

23 Trade and other receivables

	2020	2019
	£m	£m
Trade debtors	79	250
Other receivables	28	70
Amounts owed by fellow group undertakings	55	11
Loans owed by group undertakings	618	570
Prepayments	5	6
	<u>785</u>	<u>907</u>

RWE GENERATION UK PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

24 Trade and other payables

	Due within one year		Due after one year	
	2020 £m	2019 £m	2020 £m	2019 £m
Trade creditors	7	14	-	-
Amounts owed to fellow group undertakings	63	31	-	-
Accruals and deferred income	41	37	-	-
Other creditors	7	7	24	25
	<u>118</u>	<u>89</u>	<u>24</u>	<u>25</u>

25 Lease liabilities

	2020 £m	2019 £m
Maturity analysis		
Within one year	3	3
In two to five years	10	10
In over five years	12	11
Total undiscounted liabilities	<u>25</u>	<u>24</u>
Future finance charges and other adjustments	(4)	(3)
Lease liabilities in the financial statements	<u>21</u>	<u>21</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:

	2020 £m	2019 £m
Current liabilities	2	2
Non-current liabilities	19	19
	<u>21</u>	<u>21</u>

RWE GENERATION UK PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

26 Other provisions

	2020 £m	2019 £m
Decomm. and plant closure	95	82
Carbon emission allowances	253	254
Restructuring and other	24	31
Supplementary pension plan	5	5
	<u>377</u>	<u>372</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 2020	82	254	31	5	372
Additional provisions in the year	18	362	14	-	394
Reversal of provision	-	-	(7)	-	(7)
Utilisation of provision	(9)	(363)	(14)	-	(386)
Unwinding of discount	1	-	-	-	1
Adjustment for change in discount rate	3	-	-	-	3
	<u>95</u>	<u>253</u>	<u>24</u>	<u>5</u>	<u>377</u>
At 31 December 2020	<u>95</u>	<u>253</u>	<u>24</u>	<u>5</u>	<u>377</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 20 years. The provisions used in the year relate primarily to the closure of Aberthaw. Additional provisions were made in the year, relating primarily to Didcot A, King's Lynn and Aberthaw.

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 22.

27 Share-based payment transactions

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

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

RWE GENERATION UK PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

27 Share-based payment transactions

(Continued)

SPP

	2017 tranche	2018 tranche	2019 tranche	2020 tranche
Grant date	01/01/2017	01/01/2018	01/01/2019	01/01/2020
Number of conditionally granted performance shares	96,477	60,571	84,191	74,914
Term	4 years	4 years	4 years	4 years
Fair value per share (EUR)	€11.62	€18.80	€19.10	€26.41
Form of settlement	Cash settled	Cash settled	Cash settled	Cash settled
Payment date	2021	2022	2023	2024

Grant of performance shares

For the tranches 2018 to 2020, 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 2017, 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 sets ANI target values ("ANI target value") for the fiscal years 2018 to 2020 prior to January 1, 2018. 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 2017, 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 2018 to 20 is missed by more than €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 2020

27 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

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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27 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

Employees can join and leave the Share Incentive Plan ("SIP") 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, which 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 £5m (2019: £2.9m).

Total expenses of £3m related to cash settled share based payment transactions were recognised in the year (2019: £1m).

28 Share capital

	2020 Number	2019 Number	2020 £m	2019 £m
Ordinary share capital				
Authorised				
Ordinary shares of £1 each	50,000	50,000	-	-
Issued and fully paid				
Ordinary shares of £1 each	50,000	50,000	-	-

29 Revaluation reserve

	2020 £m	2019 £m
At the beginning of the year	10	9
Fair value adjustment - investments	1	1
At the end of the year	<u>11</u>	<u>10</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

30 Hedging reserve

	2020 £m	2019 £m
At the beginning of the year	(3)	-
Gains and losses on cash flow hedges	3	(3)
At the end of the year	<u>-</u>	<u>(3)</u>

31 Dividends

Amounts recognised as distributions:	2020 per share	2019 per share	2020 Total £m	2019 Total £m
Ordinary shares				
Interim dividend paid	3,398.00	3,200.00	170	160

32 Share premium account

	2020 £m	2019 £m
At the beginning of the year	-	2,072
Share capital reduction	-	(2,072)
At the end of the year	<u>-</u>	<u>-</u>

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 was recognised in retained earnings.

33 Contingent liabilities

HM Revenue and Customs hold a £2m (2019: £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 £18m (2019: £20m).

Bank issued guarantees of £4m (2019: £5m) 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 2020

34 Other leasing information

Lessee

	2020 £m	2019 £m
Expense relating to short-term leases	-	1

Information relating to lease liabilities is included in note 25. Information relating to finance lease receivables is included in note 18.

35 Capital commitments

	2020 £m	2019 * £m
At 31 December 2020 the Company had capital commitments as follows:		
Contracted for but not provided in the financial statements:		
Acquisition of tangible fixed assets	8	22
Maintenance contract commitments	24	14
	<u>32</u>	<u>36</u>

In the prior year all of the commitments were presented under acquisition of property, plant and equipment. These have been restated in the current year to represent the correct split.

RWE GENERATION UK PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

36 Legal proceedings against the Company

The following is a summary of forthcoming possible and/or potential legal and insurance risks impacting RWE Generation UK plc.

Didcot A investigation

RWE Generation UK plc and its contractors are being investigated by the authorities (Thames Valley Police and the Health and Safety Executive), for potential criminal and health and safety offences in respect of a tragic incident which happened on February 23rd 2016 involving the death of 4 people due to the catastrophic collapse of the boiler houses during the process of pre-demolition work by RWE's contractors Coleman. RWE continues to co-operate with the Health and Safety Executive and Thames Valley Police investigation into the incident. It also continues to offer ongoing support to any employees who have been affected by the incident. Thames Valley Police has indicated that it cannot yet give an idea when the investigation might be finalised and there have been delays in the investigation due to both the amount of evidence to review and the Covid epidemic. Currently no indications have been given as to what offences may be brought against the parties as it is too early to say. We do understand that the authorities do not anticipate any significant activity in terms of legal proceedings against the relevant parties until the latter part of 2022 at the earliest.

RWE's indemnification of International Power Ltd:

RWE previously (at the time of the CEGB restructure), agreed to indemnify International Power Ltd ("IPL") (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 pursued against IPL to the extent set out in the paragraphs below which details the nature of the agreement and indemnification.

Historically IPL and RWE entered into an indemnification agreement. This meant that any claims brought against IPL by or on behalf of its current and former employees, including former employees of the CEGB), and its contractors, relating to industrial illnesses and injuries that arose as a result of the claimants' employment with the CEGB, then RWE would indemnify IPL on an after-tax basis to the extent of 50% of any losses (direct or indirect) IPL incurs, provided such liability was not already insured by Electra Insurance Limited.

Should any claims be made by IPL, the directors are of the opinion that it is unlikely that this will have a material impact on RWE's financial results, operations or liquidity.

In assessing both these legal risks, due consideration has been given to legal and insurance advice received and will be continuously monitored going forward against RWE's insurance arrangements and where relevant reflected in RWE's provisions in its financial statement

37 Events after the reporting date

The sale of the Company's legacy site Blyth was completed on the 9th April 2021. Sales proceeds of £4m were realised, with a profit on disposal of £3.8m.

RWE GENERATION UK PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

38 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, RWE Platz 1, 45141 Essen, Germany. They can be accessed at www.rwe.com.

The ultimate controlling party is RWE AG.