RWE Npower plc

Annual Report and Financial Statements

for the Year Ended 31 December 2012

Registered number 03892782

RWE Npower plc
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RWE Npower plc
Directors' Report for the year ended 31 December 2012

The directors present their report and the financial statements for the year ended 31 December 2012

Principal activities
RWE Npower plc ("the Company") is a wholly owned subsidiary of RWE Npower Holdings plc, one of the UK's leading integrated energy businesses RWE Npower plc controls directly, or via its subsidiary companies, a vertically integrated series of business divisions focussing on

- Fossil fuel and Biomass generation
- Engineering and technical support
- Combined Heat and Power generation to industrial sites
- Retail sale of electricity, gas and related services to the domestic, commercial and industrial sectors
- Corporate (central corporate and administrative functions)

The Company directly manages a fleet of eleven fossil fuel and biomass fired power stations located across England & Wales with a capacity of around 13 2 GW, providing circa 10% of the electricity demand in England & Wales

The mix of fuel types (Gas 6 3GW, Coal/Biomass 4 3GW and Oil 2 6GW) ensures that the Company has flexibility in its ability to meet the changing demand requirements of the UK

It should be noted that the Company's fleet of Combined Heat and Power plants and its Retail business are owned and operated by subsidiary companies

Business review
The results for the Company show a profit for the financial year of £470m compared to a loss of £35m in 2011 The increase in the profit for the financial year of £505m has been driven by a number of factors, including the company's efficiency programmes, which are described below

- Spreads remain depressed as they did in the previous year, and this has driven lower power station earnings on a like-for-like basis
- However this year saw the successful completion and bringing online of the new Combine Cycle Gas Turbine ('CCGT') Station in Pembroke Dock, giving a positive impact to earnings in the year when compared to 2011
- In addition to this the converted Tilbury Biomass station's income was higher, despite the bunker house fire, which took units 8, 9 and 10 offline from 27 February until 21 June, 20 and 28 August respectively
- The Company sold its investment in Horizon Nuclear Power to Hitachi on 26 October for £346m (net of transaction costs), giving rise to a £76m profit on disposal This was following RWE's decision in the early part of 2012 to exit the UK new-build nuclear market
- As set out in note 13 to the Financial Statements the Company further rationalised its subsidiaries by eliminating a legal entity during the year Arising from this a dividend was received and a reduction in the underlying investment was recognised, resulting in a net profit from these two transactions of £413m

Business environment
As outlined above, 2012 was a challenging year and we continue to operate in a market where there is a large amount of capacity for power generation and reduced demand for energy leading to lower margins and fewer opportunities to generate profitably

Strategy and future outlook

The GB wholesale electricity market is facing declining capacity margins over the next decade as old nuclear and fossil fuel plant are decommissioned and the economy and demand for electricity are expected to return to growth The Company is required, under the EU's Large Combustion Plants Directive ('LCPD'), to decommission both of its oil fired stations and two of its three coal fired stations by 31 December 2015, the combined capacity of which is circa 5GW In compliance with LCPD, two of these stations, Didcot 'A' coal station and Fawley oil station, closed at the end of March 2013

In response to the challenges highlighted above, the Government have continued to progress the Electricity Market Reform ('EMR') agenda, which sets out a series of measures to encourage secure, affordable and low carbon electricity in the UK The key elements of the reform package include

- A Carbon Price Floor to reduce investor uncertainty and providing a stronger incentive to invest in low carbon generation
- The introduction of long term contracts (Feed-in Tariff with Contract for Difference) to provide stable financial incentives to invest in low carbon generation
- An Emissions Performance Standard to reinforce the requirement that no new coal fired stations are built without Carbon Capture and Storage capability
- A Capacity Mechanism to ensure future security of electricity supply

The Carbon Price Floor was introduced through the 2011 budget as a tax on fossil fuels used in the generation of electricity achieved through changes to the existing Climate Change Levy (CCL) regime The carbon price floor came into effect on 1 April 2013 at a level of £4 94/te carbon

The remaining 3 measures were introduced to Parliament within the Energy Bill in November 2012 Following consultation the Government aims to legislate for these key elements of the package in the next session of Parliament and for this to reach the statute book by the end of 2013 The ultimate shape of the proposals will have a defining impact on the Company's future investment programme and The Directors will continually assess this throughout the process

In addition to the EMR there continues to be an increasing regulatory and political burden on the company to support Government to deliver its energy objectives and carbon reduction targets through schemes such as the Community Energy Savings Programme (CESP) and the Carbon Emissions Reduction Target ('CERT') These are being replaced from 1 January 2013 by the Energy Company Obligation ('ECO) These political and regulatory factors have a significant influence on the Company's operations and strategy

The Company's strategy is to maintain a balanced, reliable and efficient portfolio of power stations in the UK against the background of a challenging European market outlook (for which a significant reduction has already been achieved compared to 1990 levels) To progress this strategy the Company has embarked on a significant capital programme the main elements of which are

CCGT new build

The second and largest of our modern and highly efficient CCGT plants entered into commercial operation at Pembroke Dock on 9 September 2012 and generates up to 2,188 MW from 5 combined cycle gas turbine modules The other 4 module 1,650 MW CCGT plant at Staythorpe in Nottinghamshire entered commercial operation in 2010

Strategy and future outlook (continued)

Conversion of Tilbury coal station to a dedicated Biomass plant
The conversion of our power station in Tilbury Docks to a dedicated biomass plant was completed in 2011, and the station entered into commercial operation in December 2011 The plant burns a diet of sustainably manufactured wood pellet fuel delivering additional revenue from Renewable Obligation Certificates ('ROC's')

The bunker house fire on Monday 27 February 2012 disabled fuel supplies to all three Units and resulted in significant damage to the North Bunker House for Units 9 and 10 There was no material damage to any other assets Unit 8 was returned to service later that evening to empty its' fuel bunkers until completed early afternoon the following day, Tuesday 28 February As a result of the fire and the comprehensive safety and plant integrity reviews that followed, the fuel system underwent major improvement works with Units 8, 9 and 10 being returned to service on the 21 June, 20 and 28 August respectively

Tilbury Power Station is expected to close on 31 October 2013 which is the latest forecast date for all units to have utilised the 20,000 operating hours as LCPD Opt Out Plant However, current expectations are that units will cease generation prior to the October date, due to running out of hours earlier, or due to it not being economic to carry out some additional works to fully utilise all the remaining hours There is also the possibility that a second phase of Biomass conversion will take place, which following further enhancement works and re-permitting, would allow the station to continue in operation until 2027 A decision on this is expected in summer 2013

Nuclear new build
In 2009 the Company formed a joint venture company Horizon Nuclear Power Limited (HNP) with E ON (UK) for new nuclear development in the UK The intention was to license, construct and operate a new generation of nuclear power stations with a capacity of up to 6 GW at Wylfa and Oldbury

On 29 March 2012 RWE Npower and E ON UK announced that they would not proceed with their joint venture to develop new nuclear power stations at Oldbury and Wylfa via Horizon Nuclear Power The decision was made following a strategic review performed by both companies and reflected fundamental changes in a number of factors since the formation of Horizon in 2009

RWE Npower and E ON successfully concluded the sales process on 26 October 2012, selling their investment in HNP to Hitachi Ltd for £346m each net of transactional fees As a result RWE Npower were able to recognise a profit on disposal of £76m RWE Npower have no continuing interest in HNP following the conclusion of this transaction

Post balance sheet events

RWE launched the 'RWE 2015' programme in 2012, which aims to achieve efficiencies for the whole RWE Group, making the organisation more effective as a response to the changing market environment, in particular for the Generation business

As part of this efficiency drive RWE have created the new 'RWE Generation' organisation which from 1 January 2013 has the responsibility for overseeing the entire power station fleet across Europe

The power stations operated by the Company will form part of this new RWE Generation organisation and therefore the activities of the RWE Npower group will be separately managed These events are described in greater detail on page 48 of RWE's Annual Report for 2012 or on page 12 of RWE's Report on the First Quarter of 2013 Both are available at www rwe com

In order to implement this separation of Retail from Generation, the legal entities forming the Retail business were sold by the Company to the newly formed RWE Npower Group Ltd in November 2012 in return for the issue of £33m of shares Subsequently, with effect from 1 January 2013, the Company sold RWE Npower Group Ltd to its immediate parent company RWE Npower Holdings plc As a result of this transfer, RWE Npower Holdings plc respectively owns the Retail business through RWE Npower Group Ltd and the Generation business through RWE Npower plc

Research and development

The Company's research and development capability is used to add value to its business activities, including the development of new technologies, optimisation of power station operation and fuel utilisation Expenditure on these programmes was £1m during the year (2011 £8m)

Principal risks and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks The Company continues to invest in a formal, regular risk assessment process to identify, monitor and mitigate as far as possible any relevant risks that should arise These are formally reviewed and assessed by the Board on a quarterly basis and actions taken as appropriate

The key business risks affecting the Company are the retention of existing customers and growth of its market share The level of volatility in electricity wholesale prices is the main uncertainty faced by the Company Detailed discussions of these risks and opportunities, in the context of the RWE AG Group as a whole, are provided on pages 88 through 96 of the RWE AG 2012 Annual Report

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 initiate mitigating action where necessary

Key performance indicators (KPIs)

The directors of RWE Npower plc do not primarily focus their management of the activities of the Company or wider group on a legal entity basis Instead business performance is monitored, assessed and managed across six Performance Units (PU s) covering all of the RWE Npower plc Group's commercial activities in the UK These PU's are supported by a number of central functions that provide a range of services including finance, tax, strategy and HR Each PU is managed in particular against a number of key performance indicators that cover a range of financial, service delivery, efficiency and operational measures The operations and activities of RWE Npower plc and the other entities within the Group are allocated across these PU's Therefore the Company s directors do not set KPIs at a legal entity level, and as a result such KPIs are not presented for RWE Npower plc

Results and dividends

The Company's profit for the year ended 31 December 2012 is £470m (2011 loss of £35m) The directors proposed and paid interim dividends to its immediate UK parent Company of £nil which equates to £nil per share (2011 £nil which equates to £nil per share) The directors do not recommend payment of a final dividend for the year ended 31 December 2012 (2011 £nil)

Directors of the company

The directors who held office during the year were as follows

Volker Beckers (resigned 31 December 2012)

Dr Frank Weigand

Kevin McCullough (resigned 31 December 2012)

Michael Wey (resigned 31 December 2012)

Simon Stacey (resigned 31 December 2012)

Guy Johnson (resigned 31 December 2012)

Paul Massara (resigned 31 December 2012)

Alan Robinson (appointed 31 December 2012)

Jens Madrian (appointed 1 November 2012 and resigned 31 December 2012)

Kevin Nix (appointed 31 December 2012)

Rebecca Wall (appointed 31 December 2012)

Roger Miesen (appointed 31 December 2012)

Thomas Glover (appointed 31 December 2012)

RWE Generation SE (appointed 31 December 2012)

Directors' indemnity

The directors have the benefit of the indemnity provision contained in the Company's Articles of Association This provision was in force throughout the last financial year and is currently in force This provision is a qualifying third party indemnity provision under section 234 of the Companies Act 2006 The Company also purchased and maintained throughout the financial year directors' and officers liability insurance in respect of itself and its directors

Charitable and political donations

During the year the Company made charitable donations of £394,577 (2011 £565,545) which comprised £175 307 (2011 £229,546) to National charities, including Macmillan Cancer Support, £38,130 (2011 £87 583) to Regional charities in which the Company operates, including Ty Hafan and £181 140 (2011 £248,416) to local charities serving the communities in which the Company operates RWE Npower plc does not make political donations (2011 nil)

Employees

The energy, innovation and creativity of our staff add value to our businesses During the financial year the Company maintained its existing policies in the following areas in respect of employee involvement

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

The major 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 We also utilise the latest technology to aid rapid communication with staff around the world through use of a comprehensive company intranet

Equal opportunities and diversity

The Company is committed to equal opportunity and diversity because of a sense of social responsibility and also because it makes sound business sense to tap into the wide-ranging knowledge and experience of individuals in all sectors of society Through its commitment to valuing the talents of its employees, the Company aims to ensure that it is able to compete in attracting and retaining high calibre employees with wide-ranging experience and is therefore able to respond positively and flexibly to change Decisions to appoint, reward, train, develop and promote are taken based on skills and abilities, or demonstrated potential, merit and the requirements of the job 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 retraining being given if necessary

The Company is a member of the Employers' Forum on Disability, Opportunity Now and the Employers' Forum on Age and is committed to the aims of these organisations

Employee share plans

RWE Npower plc operates a savings related share option plan for the benefit of employees in the UK Over 37% (2011 38%) of eligible staff participate in the scheme, saving between £5 and £125 per month with the option to purchase RWE AG shares at a 20% discount at the end of a three year savings period, as detailed in note 26

Prompt payment policy

For all trade creditors it is Company policy to
- Agree and confirm the terms of payment at the commencement of business with the supplier
- Pay suppliers in accordance with applicable terms, continually review the payment procedures and liaise with suppliers as a measure of eliminating difficulties and maintaining a good working relationship

The Company also subscribes to the CBI s Prompt Payment Code and has formally adopted the BS Standard 7890 Methods for Achieving Good Payment Performance in Commercial Transactions The trade creditors days of the Company as at 31 December 2012 were 12 days (2011 17 days) based on the ratio of Company trade creditors at the end of the year to the amounts recorded as expense during the year attributable to trade creditors

As part of the Company s commitment to corporate responsibility a number of initiatives have been launched that make social and environmental considerations an integral part of the Company's procurement process

Financial risk management

The Company uses financial instruments, such as forward foreign exchange contracts, for hedging purposes Details of the Company s risk management objectives and policies are included in note 24 of the financial statements

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 146 of the RWE AG 2012 Annual Report

Land and buildings

The Company has performed an informal existing use valuation on its most significant freehold land and building assets or, in the case of land which is not used operationally an informal 'open market valuation There is no significant difference between value in use and the net book value of land and buildings used operationally, but with regard to land and buildings not used operationally the informal valuation is £9m, which is £8m higher than the net book value of these assets The directors do not intend to incorporate this valuation into the financial statements but set out the valuation for information purposes only

Statement of Directors' Responsibilities

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

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

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

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

Statement of disclosure of information to the auditors

Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information The directors confirm that there is no relevant information that they know of and of which they know the auditors are unaware

Approved by the Board on 19/6/13 and signed on its behalf by.

Frank Weigand

Dr Frank Weigand
Director

Rebecca Wall
Director

RWE Npower plc
Independent Auditors' Report to the members of RWE Npower plc

We have audited the financial statements of RWE Npower plc for the year ended 31 December 2012 which comprise the profit and loss account, the balance sheet and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities (set out on page 8), the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board s (APB's) Ethical Standards for Auditors

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company s circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the Directors' Report for the year ended 31 December 2012 to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on the financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

RWE Npower plc
Independent Auditors' Report to the members of RWE Npower plc

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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

Richard French (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP,
Chartered Accountants and Statutory Auditors
London

Date 19/6/2013

RWE Npower plc
Profit and Loss Account for the year ended 31 December 2012

	Note	2012 £ m	2011 £ m
Turnover	3	665	687
Operating expenses	1	(724)	(657)
Other operating income	5	130	24
Operating profit		71	54
Profit on disposal of fixed assets		-	15
Income from shares in group undertakings	6	413	-
Profit on disposal of investments in joint ventures	13	76	-
Amounts written off investments	13	-	(16)
Profit on ordinary activities before interest and taxation		560	53
Net interest payable and similar charges	10	(120)	(91)
Profit/(loss) on ordinary activities before taxation	4	440	(38)
Tax on profit/(loss) on ordinary activities	11	30	3
Profit/(loss) for the financial year	22	470	(35)

All results relate to continuing operations

The Company has no recognised gains and losses other than the profit/(loss) shown above and therefore no separate statement of total recognised gains and losses has been presented

There are no material differences between the profit/(loss) on ordinary activities before taxation and the profit/(loss) for the financial years stated above and their historical cost equivalents

The notes on pages 13 to 41 form an integral part of these financial statements

RWE Npower plc
Balance Sheet as at 31 December 2012

	Note	31 December 2012 £ m	31 December 2011 £ m
Fixed assets			
Tangible assets	12	2,229	2,307
Investments	13	372	2,531
		2,601	4,838
Current assets			
Stock	14	119	40
Debtors	15	2,936	722
Investments	16	6	6
Cash at bank and in hand		180	51
		3,241	819
Creditors amounts falling due within one year	17	(2,360)	(3,223)
Net current assets/(liabilities)		881	(2,404)
Total assets less current liabilities		3,482	2,434
Creditors Amounts falling due after more than one year	18	(1,514)	(916)
Provisions for liabilities	20	(284)	(304)
Net assets		1,684	1,214
Capital and reserves			
Called up share capital	21	6	6
Share premium account	22	1,173	1,173
Profit and loss account	22	505	35
Total shareholders' funds	23	1,684	1,214

The financial statements on page 11 to 41 were approved by the Board of directors on 19/6/13 and were signed on its behalf by

Frank Weigand

Dr Frank Weigand
Director

Rebecca Wall

Rebecca Wall
Director

RWE Npower plc registered company number 03892782

The notes on pages 13 to 41 form an integral part of these financial statements

1 Accounting policies

These financial statements are prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom A summary of the principal accounting policies is set out below These policies have been applied consistently

Basis of preparation of financial statements

The financial statements contain information about RWE Npower plc as an individual company and so do not contain consolidated financial information as the parent of the group The Company has taken advantage of the exemption under section 400 of the Companies Act 2006 not to prepare consolidated financial statements The results of the Company and its subsidiaries are included in the consolidated financial statements of RWE AG (note 31)

The directors have considered the application of the going concern basis of accounting and believe that for the foreseeable future the Company will have available resources to meet its liabilities as they fall due, largely from group financing and cashflows from the Company's operations

Turnover

Turnover primarily represents the forward sale of an option to RWE Supply and Trading GmbH to call on our coal and gas fleet to generate electricity This is valued on a clean spread basis using the forward view of commodity prices and expected generation volumes at the time of sale and is net of expected failures The value from the sale of the option is recognised in revenue in the month of generation based on the phasing of the original trade

Operating expenses

Operating expenses include both cost of sales and administrative expenses Cost of sales include costs incurred directly in the operation of the Company's fleet of power stations, these include depreciation of power stations (note 12), employment costs for staff at the individual stations (note 8), insurance costs and repairs and maintenance Administrative expenses includes costs for the central corporate functions, including risk management, finance, human resources, taxation and IT including but not limited to, employment costs (note 8), professional fees and pension scheme deficit payments The comparative on the face of the Profit and Loss account has been renamed in order to show a consistent presentation

Renewables obligation certificates

Renewables obligation certificates granted to the Company are recognised within other operating income as eligible electricity is generated They are recognised as current intangible assets, grouped within other debtors They are held at the best estimate of the prevailing market value at the time they are acquired As the Company does not have a Renewables Obligation, there are contracts for the sale of these assets to a subsidiary undertaking at the end of the compliance period When the Certificates are sold, the income is recognised within turnover, along with an offsetting charge arising from the recognition of the reduction in assets held

Carbon emission allowances and obligations

As the Company has a Carbon emissions obligation, a provision is recognised for the net excess of carbon emissions over the emission allowances (carbon certificates) granted during the financial period This provision is recognised in operating expenses, initially at the price of any procured certificates Any additional emissions short position is recognised at market value at year end Any procured carbon certificates in the year are recognised at cost as a current intangible asset grouped within other debtors

1 Accounting policies (continued)

Pension costs

The Company's contributions to all of its pension schemes, the majority being to the Electricity Supply Pension Scheme (ESPS), a defined benefit scheme, are recognised as if it were a defined contribution scheme within operating expenses in the profit and loss account in the period to which it relates This is because the Company is unable to identify its share of the underlying assets and liabilities of the ESPS scheme on a reasonable and consistent basis and hence it is accounted for as a multi-employer scheme under FRS 17 'Retirement Benefits' The assets of these schemes are held separately from those of the Company in independently administered funds During 2009, the Company took the decision to close its defined benefit schemes to new entrants New entrants are now only able to participate in a defined contribution scheme

Research and development

Expenditure on tangible fixed assets used for research and development is capitalised and written off over the expected useful life of the relevant asset, all other research and development expenditure is charged to the profit and loss account as incurred

Operating leases

Rentals payable under operating leases are charged to the profit and loss account evenly over the term of the lease

Interest

Interest receivable and payable is credited or charged to the profit and loss account on an accruals basis

Foreign exchange

Transactions denominated in foreign currencies arising in the normal course of business are translated into sterling at the exchange rate ruling on the date payment takes place unless related or matching forward foreign exchange contracts have been entered into, when the rate specified in the contract is used Monetary assets and liabilities expressed in foreign currencies that are not covered by hedging arrangements are translated into sterling at the rates of exchange ruling at the balance sheet date and any difference arising on the retranslation of those amounts is taken to the profit and loss account.

Exceptional items

Exceptional items represent significant items of income and expense which due to their nature or the expected infrequency of the events giving rise to them, are presented separately in the notes to the financial statements to give a better understanding of financial performance in the year, so as to facilitate comparison with prior periods and to better assess trends in financial performance

Income from investments

Dividends receivable are recognised within income from investments in group undertakings when the right to receive payment is established The right to receive payment is established, for interim dividends, when they are paid, and for final dividends, when they are approved by shareholders at an Annual General Meeting Where a dividend is in substance a return of the capital investment in the company, the dividend is initially offset against the cost of the investment with any surplus taken through the Profit and Loss account

1 Accounting policies (continued)

Tangible fixed assets and depreciation

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 in accordance with FRS 15 'Tangible fixed assets' Assets in the course of construction are included in tangible fixed assets on the basis of expenditure incurred at the balance sheet date and are not depreciated until brought into use Interest costs are not capitalised

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, provision being made for any impairment in value

Asset class	Depreciation rate
Power stations	20-40 years
Non-operational buildings	40 years
Tools and equipment	4-5 years
Fixtures and fittings	4-7 years
Computer equipment and software	3-5 years
Hot gas path CCGT turbine blades	10 years
Motor vehicles	4 years
Mobile plant and machinery	5-10 years

Depreciation charges on non operational buildings are shown against Freehold land and buildings within note 12

Depreciation charges on power station buildings are shown against freehold land and buildings and charges on the remainder of power station assets are shown against Plant, machinery and equipment within note 12

Depreciation charges on all of the other asset classes are shown against plant, machinery and equipment within note 12

Plant spares

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 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 Accounting policies (continued)

Impairment reviews
In accordance with UK Generally Accepted Accounting Practice the Company's management reviews the carrying amounts of its tangible fixed 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, if any, of the impairment loss

If the recoverable amount of an asset or income generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or income generating unit is reduced to its recoverable amount An impairment loss is recognised immediately in the profit and loss account

The recoverable amount of an asset is based on its estimated value in use Value in use is the present value of the future cash flows expected to be derived from use of the asset The cash flow projections are based on future economic and market assumptions and forecast trading conditions drawn up by the Company's management as follows

- future market conditions and prices are based on detailed analysis and predictions prepared by RWE economists based on the specific circumstances of the UK generation market

- cash flow projections are based on management's approved long term business plan which incorporate the predictions of future market conditions above

- the cash flows obtained are discounted at a rate estimated to be appropriate for the electricity generation business in the UK The discount rate is assessed annually

Where an impairment loss subsequently reverses the carrying amount of the asset is increased to the revised estimate of its recoverable amount, not to exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years A reversal of an impairment loss is recognised in the profit and loss account

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

Current asset investments
Current asset investments are stated at the lower of cost and market value

Stock
Operating stocks of fuel and consumables are valued at the lower of cost and net realisable value 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 Provision is made for slow moving, obsolete or defective stock as necessary

1 **Accounting policies (continued)**

Provisions

Provisions are recognised when

- the Company has a present legal or constructive obligation as a result of a past event
- it is more likely than not that an outflow of resources will be required to settle the obligation, and
- the amount has been reliably estimated

Where appropriate, discounting will be applied to the cashflows of the provision, with the discounted amount being shown within net interest payable and similar charges

Dividends

Dividends are recognised in the period in which they are paid or when the Company has a constructive or legal commitment to pay the dividend

Taxation

Current taxation is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantively enacted by the balance sheet date

The charge for taxation is based on the profit for the financial year and takes into account deferred tax In accordance with Financial Reporting Standard (FRS) 19, 'Deferred taxation', deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or to pay less tax in the future have occurred at the balance sheet date Timing differences are differences between the company's taxable profits and its results as stated in the financial statements

Deferred tax assets are recognised to the extent that they are regarded recoverable and that there will be suitable taxable profits from which the future reversal can be deducted Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse Deferred tax is measured on a non-discounted basis

Financial instruments

Derivative instruments are used for hedging purposes in line with the Company's risk management policy and no trading in financial instruments is undertaken Loans and other borrowings are recorded using the contracted rates implicit in the financial instruments used to hedge the Company's exposure to fluctuations in currency rates Similarly, interest is charged to the profit and loss account based on the contracted interest rates Interest rate swaps are used to hedge the Company's exposure to movements in interest rates The interest payable or receivable on such swaps is accrued in the same way as interest arising on deposits or borrowings Interest rate swaps are not revalued to fair value prior to maturity Gains and losses on derivative instruments used for hedging are recognised on maturity of the underlying transactions Gains and losses arising on hedging instruments which are cancelled due to the termination of the underlying exposure are taken to the profit and loss account immediately The group has not adopted FRS 26 'Financial instruments recognition and measurement' and therefore the disclosure requirements of paragraphs 51 to 95 of FRS 25 Financial instruments disclosure and presentation' are not applicable The disclosure requirements of FRS 13 Derivatives and other financial instruments disclosure are included within note 24

1 Accounting policies (continued)

Shared-based payments

The Company operates both a cash-settled compensation plan and an equity, share-based plan In respect of the cash-settled plan, certain employees of the Company are awarded options over performance shares which are linked to the performance of the shares in the ultimate parent undertaking, RWE AG The fair value of the employee services received in exchange for these grants of options is recognised as a provision and expensed in the profit and loss account 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 balance sheet date, the Company revises its estimates and recognises the impact of the revision to original estimates, if any, in the profit and loss account, with a corresponding adjustment to its provision In respect of the equity, share-based plan, eligible employees of the Company are awarded options over the shares in the ultimate parent undertaking, RWE AG At the inception of a scheme, a hedge is put in place with a financial institution in order to purchase the required number of shares at the scheme option price on the date that employees are first able to exercise The hedge is recognised as an asset, at cost, until exercised The fair value of the obligation arising from the employee services received in exchange for these grants of options is recognised as a liability and expensed in the profit and loss account The total amount to be expensed over the scheme duration is determined by reference to the cost of the hedge Further details on both schemes are contained within note 26

2 Cash flow statement and related party disclosures

The Company is a wholly owned subsidiary of RWE AG and is included in the consolidated financial statements of RWE AG, which are publicly available Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 (revised 1996) Cashflow Statements The Company is also exempt under the terms of FRS 8 'Related Party Disclosures' from disclosing related party transactions with entities that are part of the RWE AG group or investees of the RWE AG group

3 Segmental analysis

An analysis of turnover by class of business is given below

2012	Generation £ m	Engineering & Technology £ m	Corporate £ m	Intra division £ m	Total £ m
Turnover	653	-	14	(2)	665

2011	Generation £ m	Engineering & Technology £ m	Corporate £ m	Intra division £ m	Total £ m
Turnover	636	47	28	(24)	687

An analysis of profit on ordinary activities before interest and taxation by class of business is given below

2012	Generation £ m	Engineering & Technology £ m	Corporate £ m	Total £ m
Profit or loss before taxation, minority interests and extraordinary items	154	-	406	560

2011	Generation £ m	Engineering & Technology £ m	Corporate £ m	Total £ m
Profit or loss before taxation, minority interests and extraordinary items	199	(17)	(129)	53

3 Segmental analysis (continued)

An analysis of net assets by class of business is given below

2012	Generation £ m	Engineering & Technology £ m	Corporate £ m	Total £ m
Net assets/(liabilities) by segment	1,853	-	(169)	1,684

2011	Generation £ m	Engineering & Technology £ m	Corporate £ m	Total £ m
Net assets/(liabilities) by segment	1,754	(51)	(489)	1,214

All the activities of the Company relate primarily to one geographical segment, the United Kingdom

During the year the Directors changed the way they review the performance of the Company, following this review the Engineering and Technology segment is now presented as part of the Generation segment

4 Profit/(loss) on ordinary activities before taxation

Profit/(loss) on ordinary activities before taxation is stated after charging/(crediting)

	Year ended 31 December 2012 £ m	Year ended 31 December 2011 £ m
Depreciation of owned assets (note 12)	198	145
Research and development	1	8
Operating leases - plant and machinery	4	4
Profit on disposal of fixed assets	-	(15)
Services provided by the company's auditors:		
Fees payable for the audit	0 5	0 5
Non audit services	0 2	-

5 Other operating income

	Year ended 31 December 2012 £ m	Year ended 31 December 2011 £ m
Renewable obligation certificates	130	24

6 Income from shares in group undertakings

	Year ended 31 December 2012 £ m	Year ended 31 December 2011 £ m
Dividend income	413	-

As set out in note 13 to the Financial Statements the Company further rationalised its subsidiaries by eliminating a legal entity during the year Arising from this a dividend was received and a reduction in the underlying investment was recognised, resulting in a net profit from these two transactions of £413m

7 Directors' remuneration

During the year aggregate emoluments of £3 5m were paid to the directors (2011 £3 3m) of which £315,196 (2011 £281,866) was then recharged to a subsidiary company Of the emoluments, £2 4m (2011 £2 3m) were paid for services as directors of RWE Npower plc and £1 1m (2011 £1 0m) for services as a director of a subsidiary company The highest paid director was paid £1,132,617 (2011 £1,115,922) by RWE Npower plc

Four (2011 five) of the directors had accrued pension entitlements under defined benefit schemes at 31 December 2012 The accrued pension entitlement at 31 December 2012 of these directors was £198,300 (2011 £178,000) The accrued pension entitlement at 31 December 2012 of the highest paid director was £99,800 (2011 £nil) by RWE Npower plc No directors had accrued pension entitlements under defined contribution schemes (2011 none)

The directors became entitled to receive aggregate cash payments of £nil (2011 £nil) under long-term incentive schemes in the financial year The highest paid director became entitled to receive £nil (2011 £nil) by RWE Npower plc None (2011 none) of the directors received or became entitled to receive shares in RWE AG under long-term incentive schemes in the financial year No (2011 no) directors exercised share options for shares in RWE AG in the financial year The highest paid director did not exercise share options for shares in RWE AG in the financial year (2011 did not exercise)

The highest paid Director received £805,000 (2011 £nil) in respect of loss of office

8 Particulars of employees

The aggregate payroll costs were as follows

	Year ended 31 December 2012 £ m	Year ended 31 December 2011 £ m
Wages and salaries	126	114
Social security costs	13	11
Pension costs	15	102
	154	227

Pension costs include both defined benefit and defined contribution pension schemes

The average monthly number of persons employed by the company (including directors) during the year, analysed by category was as follows

	2012 Number	2011 Number
Generation	1,913	1,341
Engineering and Technology	-	515
Corporate	439	553
	2,352	2,409

For detail of the costs relating to share based payments and long term incentive plans refer to note 26

Average number of employees of RWE Npower plc and its subsidiaries

The average monthly number of employees (including directors) employed by RWE Npower plc and its subsidiaries during the 12 month period to 31 December 2012 (analysed by business area) was

	2012 Number	2011 Number
Retail business	10,202	9,920
Generation business	2,031	2,134
Corporate	439	427
	12,672	12,481

The disclosure of the average monthly number of employees of RWE Npower plc and its subsidiaries is voluntary and is not a requirement of the Companies Act 2006 The directors consider that the disclosure of the number of employees of the Company and its subsidiaries is useful to individuals and businesses that may use the financial statements

9 Pension scheme funding

The majority of pensions are funded through the industry-wide, Electricity Supply Pension Scheme (ESPS), which is a defined benefit scheme with assets invested in separate trustee-administered funds The ESPS is divided into sections

RWE Npower plc, along with other employers in the RWE Npower Holdings plc Group, participates in the RWE Npower Group of the Electricity Supply Pension Scheme, a defined benefit pension scheme RWE Npower plc is unable to identify its share of the underlying assets and liabilities on a reasonable and consistent basis primarily due to the following reasons - the allocation of non-active members (retired and deferred) to any one employer is not possible on an accurate and practicable basis due to the privatisation and subsequent restructuring of the electricity industry Non active members made up approximately 85% of the scheme membership as at 31 March 2010 In addition, no one employer dominates the overall scheme in terms of payroll cost RWE Npower plc's share of scheme pensionable salary is approximately 50% These circumstances have meant that the last actuarial valuation in 2010 was not prepared on an individual entity basis and it will also not be possible to prepare the next one on an individual entity basis either Therefore the scheme is accounted for as a multi-employer scheme under FRS 17 Retirement Benefits' using the defined contribution exemption

The last formal valuation of the scheme was carried out as at 31 March 2010 At that date the deficit of the whole scheme was £732 million giving a funding level of 83% The triennial valuation as at 31 March 2013 is currently being undertaken Independent actuaries have assessed the FRS 17 position as at 31 December 2012 for the scheme as a whole by updating the last formal valuations using methods appropriate for FRS 17 As at 31 December 2012 there was a deficit of £957 million (2011 £533 million) The assumptions as at 31 December 2012 on which the deficit was calculated are as follows -

Discount rate (Yield curve based on iBoxx AA corporate bond index)	4 2%
Inflation rate (Bank of England market implied inflation curve less 0 2% pa)	2 9%
Rate of increase in pensions in payment (Main, 60ths and Executive sections)	2 8%
Rate of increase in pensions in payment (2005 section)	2 15%
Salary increases (Inflation rate plus 1 5% pa)	4 4%

The mortality assumptions are as follows -

Mortality before retirement

• Males Standard table AM92 unrated with 90% scaling factor

• Females Standard table AF92 unrated with 90% scaling factor

Mortality in retirement (future and current pensioners) -

• Males Standard SAPS table, S1PMA, year of use, with future improvements in line with CMI 2009 (subject to a long term rate of improvement of 1 0% pa) with scaling factors

• Females Standard SAPS table, S1PFA, year of use, with future improvements in line with CMI 2009 (subject to a long term rate of improvement of 1 0% pa) with scaling factors

9 Pension scheme funding (continued)

The RWE Npower plc cost of contributions during the year was £14 million (2011 £102 million) which includes additional contributions of £nil million to reduce the scheme deficit (2011 £87 million) RWE Npower plc's share of the scheme deficit payments agreed with the Trustees following the 2010 valuation is £816m Annual payments were scheduled to commence in 2011 (£69m) increasing each year through to 2020 (£95m) However, £52m of the payment originally scheduled in 2011 was brought forward and paid in 2010, with the balance of £16m being paid as scheduled in 2011 These two payments combined are £1m lower than the original payment schedule, as a result of bringing part of the payment forward into 2010 In addition all of the payment originally scheduled for 2012 (£72m) was brought forward and paid in 2011 Again this is lower than the original schedule, by £1m, as a result of bringing the payment forward into 2011 During the year ended 31 December 2012, RWE Npower plc contributed to the four defined benefit sections of the ESPS at a weighted average rate of 18% of members' pensionable earnings, inclusive of a 2 0% contribution for the administrative expenses of the scheme

An amount of £nil (2011 £nil) is included in creditors, being the RWE Npower plc share of outstanding contributions to the ESPS as at the balance sheet date

10 Net interest payable and similar charges

	Year ended 31 December 2012 £ m	Year ended 31 December 2011 £ m
Interest payable and similar charges		
Bank interest payable	(4)	(9)
Finance charges payable - provisions - unwinding of discount	(3)	(3)
Interest on loans from group undertakings	(111)	(83)
Other borrowings with group undertakings	(12)	(11)
Total interest payable and similar charges	(130)	(106)
Interest receivable and similar income		
Bank interest receivable	6	11
Interest receivable from group undertakings	4	4
Total interest receivable and similar income	10	15
Net interest payable and similar charges	(120)	(91)

11 Taxation

Tax on profit/(loss) on ordinary activities

	Year ended 31 December 2012 £ m	Year ended 31 December 2011 £ m
Current tax		
Group relief receivable	(42)	(52)
Adjustments in respect of previous years	4	3
UK Corporation tax	(38)	(49)
Deferred tax		
Origination and reversal of timing differences	37	63
Impact of change in UK tax rates	(10)	(9)
Adjustments in respect of prior years	(19)	(8)
Total deferred tax	8	46
Total tax on profit/(loss) on ordinary activities	(30)	(3)

The tax charge for the year is lower than the standard rate of corporation tax in the UK (2011 - higher than the standard rate of corporation tax in the UK) of 24 5% (2011 - 26 5%) The differences are explained below

	2012 £ m	2011 £ m
Profit/(loss) on ordinary activities before tax	440	(38)
Profit/(loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 24 5% (2011 26 5%)	108	(10)
Non-taxable income - net of intra-group dividend and related reduction in investment value (note 13)	(101)	-
Non-taxable income - profit on disposal of Nuclear joint venture	(19)	-
Non deductible expenses - other	6	24
Non taxable income - other	(1)	(8)
Depreciation in excess of IBAs	-	3
Depreciation on assets transferred	1	1
Capital allowances in excess of depreciation	(38)	(50)
Other timing differences	1	(13)
Impact of change in UK tax rate	1	1
Adjustment for prior periods	4	3
Total current tax	(38)	(49)

11 Taxation (continued)

Factors that may affect future tax charges

During the year, the main rate of UK corporation tax was reduced from 26% to 24% This was substantively enacted on 26 March 2012 and was effective from 1 April 2012

During the year, the relevant deferred tax balances have been re-measured as a result of the change in the main rate of UK corporation tax to 23%, which was substantively enacted on 3 July 2012 and is effective from 1 April 2013

Further reductions to the main rate of corporation tax are also proposed to reduce the rate to 21% from 1 April 2014 and to 20% from 1 April 2015 These proposed rate reductions have not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements

12 Tangible fixed assets

	Freehold land and buildings £ m	Plant, machinery and equipment £ m	Assets under construction £ m	Total £ m
Cost				
At 1 January 2012	153	1,833	1,190	3,176
Additions	-	13	107	120
Disposals	-	(9)	-	(9)
Transfers	58	1,069	(1,127)	-
At 31 December 2012	211	2,906	170	3,287
Depreciation				
At 1 January 2012	64	805	-	869
Charge for the year	7	191	-	198
Eliminated on disposals	-	(9)	-	(9)
At 31 December 2012	71	987	-	1,058
Net book value				
At 31 December 2012	140	1,919	170	2,229
At 31 December 2011	89	1,028	1,190	2,307

13 Fixed asset investments

Shares in group undertakings and participating interests

	Subsidiary undertakings £ m	Interests in joint ventures £ m	Total £ m
Cost			
At 1 January 2012	2,449	210	2,659
Reduction in value of shares	(1,950)	-	(1,950)
Additions	34	60	94
Disposals	(33)	(270)	(303)
At 31 December 2012	500	-	500
Provision for impairment			
At 1 January 2012	128	-	128
At 31 December 2012	128	-	128
Net book value			
At 31 December 2012	372	-	372
At 31 December 2011	2,321	210	2,531

The directors believe that the carrying value of the investments is supported by their underlying net assets

In line with separation of the management of the Retail and Generation activities referred to at note 29 the following reorganisation was implemented

On 5 October 2012 the Company acquired one ordinary share in RWE Npower Group Limited for £1 On 30 November 2012, the Company sold its investment in Npower Limited, Npower Direct Limited, Npower Northern Limited, Npower Yorkshire Limited and RWE Solutions Ireland Limited to RWE Npower Group Limited in return for 33,212,985 ordinary shares in RWE Npower Group Limited This created a Retail sub group On 1 January 2013 the Company sold its entire investment in the ordinary shares (33,212,986 shares) of RWE Npower Group Limited to its immediate parent RWE Npower Holdings plc for a total consideration of £33,212,986

Connected with the above reorganisation, the Company took the opportunity to further rationalise legal entities by eliminating a finance company, Uniti Limited Prior to its disposal, its capital was reduced by £2,016m which enabled an in specie dividend to be paid (£2,363m) and lead to a reduction in the value of the shares (£1,950m) The dividend was not taxable and the reduction in the value of the shares not tax deductible The net non-taxable profit of £413m accounts for the £101m item in the current tax reconciliation in note 11

The disposal of interests in joint ventures relates to a £270m investment in a 50% holding in Horizon Nuclear Power Limited RWE Npower and E ON successfully concluded the sales process on 26 October 2012, selling their investment in HNP to Hitachi Ltd for £346m each net of transactional fees

Investments in group undertakings are stated at cost less impairment The directors consider providing full particulars of all subsidiary undertakings would lead to a statement of excessive length A list of principal subsidiary undertakings is given below

13 Fixed asset investments (continued)

Undertaking	Country of incorporation	Holding	Proportion of voting rights and shares held	Principal activity
Subsidiary undertakings				
Electra Insurance Ltd	Bermuda	Ordinary shares	100%	Insurance
Npower Cogen Ltd	England and Wales	Ordinary shares	100%	Power generation
Npower Cogen (Hythe) Ltd	England and Wales	Ordinary shares	100%	Power generation
RWE Npower Group Ltd	England and Wales	Ordinary shares	100%	Holding company

Electra Insurance Ltd ceased writing insurance business in 2001 Its profits are subject to UK corporation tax as a controlled foreign company

14 Stocks

	31 December 2012 £ m	31 December 2011 £ m
Raw materials	116	36
Consumables	3	4
	119	40

With regard to both raw materials and consumables the replacement cost is not materially different to the value shown in the balance sheet above A £7m provision has been made for slow moving, obsolete or defective stock (2011 £6m)

15 Debtors

	31 December 2012 £ m	31 December 2011 £ m
Trade debtors	23	84
Loans owed by group undertakings	2,241	-
Amounts owed by group undertakings	358	530
Corporation tax recoverable	-	7
Group relief	29	51
Other debtors	285	50
	2,936	722

On 27 December 2012, the Company entered into a loan agreement with RWE Npower Group Limited for £2,239m The loan is unsecured, bears interest at a rate of 4 31255% and is repayable on 4 April 2013

Debtors includes £7m (2011 £6m) receivable after more than one year

	31 December 2012 £ m	31 December 2011 £ m
Other debtors	7	6

16 Current asset investments

	31 December 2012 £ m	31 December 2011 £ m
Listed gilts	6	6

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 2012 was £11m (2011 £13m)

17 Creditors· Amounts falling due within one year

	31 December 2012 £ m	31 December 2011 £ m
Loans and other borrowings with group entities	-	(1,420)
Bank overdraft	(168)	(26)
Trade creditors	(176)	(61)
Amounts owed to the ultimate parent company	(975)	(400)
Amounts owed to group undertakings	(953)	(1,117)
Amounts owed to joint ventures - all loans	-	(21)
Accruals and other creditors	(88)	(178)
	(2,360)	(3,223)

All of the above creditors are unsecured

Included in amounts owed to group undertakings is £611m of loans which bear interest at rates of between LIBOR minus 0 1% and LIBOR plus 0 78% (2011 LIBOR minus 0 1%) These are due to be repaid by December 2013 The interest rates due on the loans and other borrowings and bank overdraft are detailed in note 19

18 Creditors. Amounts falling due after more than one year

	31 December 2012 £ m	31 December 2011 £ m
Loans and other borrowings with group entities	(1,512)	(915)
Accruals and other creditors	(2)	(1)
	(1,514)	(916)

Included in the creditors are the following amounts due after more than five years

	31 December 2012 £ m	31 December 2011 £ m
After more than five years by instalments	-	-
After more than five years not by instalments	(1,512)	(915)
	(1,512)	(915)

19 Loans and other borrowings

	Due < 1 year	Due > 1 year	31 Dec 2012	Due < 1 year	Due > 1 year	31 Dec 2011
	£ m	£ m	**£ m**	£ m	£ m	**£ m**
Loans and other borrowings						
Discounted loan notes	-	-	-	(1,420)	-	**(1,420)**
Bank overdraft	(168)	-	**(168)**	(26)	-	**(26)**
Group short term loan	(975)	-	**(975)**	(400)	-	**(400)**
Loans with group entities	-	(1,512)	**(1,512)**	-	(915)	**(915)**
	(1,143)	(1,512)	**(2,655)**	(1,846)	(915)	**(2,761)**

The interest rate on the Bank overdraft at 31 December 2012 is BOE base rate plus 1% (2011 1%)

The group short term loans with RWE AG outstanding at 31 December 2012 have book values of £300m and £675m with associated principal amounts of £300,084,627 and £675,778,343 respectively They are repayable on 4 January and 4 April 2013 respectively The implied interest rates are 0 93688% and 1 01016% respectively

The loans with group entities comprise £600m and £315m with RWE AG, in Germany and £600m with RWE Finance BV in the Netherlands These loans are due for repayment in 2023, 2030 and 2034 respectively These loans have fixed coupons of 5 925%, 6 300% and 5 3737% respectively and are unsecured

In January 2012, RWE Finance BV raised further funds from the international markets by issuing a 2034 Sterling denominated Bond The proceeds of this issue were directly lent to the Company

On 25 September 2012 the loans with group entities of £600m and £315m were assigned from Scaris Ltd in Malta to RWE AG in Germany Their terms, including their repayment dates, were not changed

20 Provisions for liabilities

	Deferred tax £ m	Decommissioning and plant closure £ m	Carbon emission allowances £ m	Liability and damage claims £ m
At 1 January 2012	(109)	(81)	(16)	(47)
(Charged)/credited to the profit and loss account	(8)	(19)	40	(5)
Utilised during the period	-	-	11	42
Decrease from other transfers	-	-	(35)	-
At 31 December 2012	(117)	(100)	-	(10)

	Restructuring and other £ m	Total £ m
At 1 January 2012	(51)	(304)
(Charged)/credited to the profit and loss account	(18)	(10)
Utilised during the period	12	65
Decrease from other transfers	-	(35)
At 31 December 2012	(57)	(284)

Explanation of provisions

Provisions for decommissioning and plant closure are in relation to the expected site costs of closed plants consisting of demolition costs The provisions will be utilised over the period of closure, estimated to be within 1 to 5 years

The provision for carbon emission allowances reflects the excess cost of carbon emissions generated compared to the emission allowances granted to the Company during the financial year

Provisions for directors pension and share based payment schemes are included within restructuring and other in addition to ongoing restructuring

Provisions for liability and damage claims are primarily in relation to coal contracts that were terminated early but still need to be completed

Where applicable the unwinding of the discounted element of a provision is shown as a charge in the table above

Analysis of deferred tax

	31 December 2012 £ m	31 December 2011 £ m
Accelerated capital allowances	(123)	(115)
Other timing differences	6	6
	(117)	(109)

21 Called up share capital

Allotted, called up and fully paid shares

	2012 No.	2012 £	2011 No	2011 £
Ordinary shares of £1 each	5,960,847	5,960,847	5,960,847	5,960,847

22 Reserves

	Share premium account £ m	Profit and loss account £ m	Total £ m
At 1 January 2012	1,173	35	1,208
Profit for the year	-	470	470
At 31 December 2012	1,173	505	1,678

23 Reconciliation of movement in shareholders' funds

	31 December 2012 £ m	31 December 2011 £ m
Profit/(loss) attributable to the members of the company	470	(35)
Shareholders' funds at 1 January	1,214	1,249
Shareholders' funds at 31 December	1,684	1,214

24 Financial instruments

(a) Short-term debtors and creditors

Short-term debtors and creditors (other than bank and other borrowings) have been excluded from all the following disclosure tables because they meet the exemption criteria set out within Financial Reporting Standard 13 'Derivatives and other financial instruments' The fair value of short-term debtors and creditors approximates to the carrying value because of their short maturity

(b) Interest rate risk profile of financial liabilities

The interest rate profile of the financial liabilities of the Company as at 31 December was

	31 December 2012			31 December 2011		
	Total	Floating rate financial liabilities	Fixed rate financial liabilities	Total	Floating rate financial liabilities	Fixed rate financial liabilities
Currency	£ m	£ m	£ m	£ m	£ m	£ m
Sterling	2,655	168	2,487	2,761	26	2,735

The floating rate financial liabilities comprise short-term borrowings, bearing interest rates fixed in advance, for various time periods up to 1 month, by reference to LIBOR for that time period There are no material financial liabilities on which interest is not paid

	31 December 2012 Fixed rate financial liabilities		31 December 2011 Fixed rate financial liabilities	
	Weighted average interest rate	Weighted average period for which rate is fixed	Weighted average interest rate	Weighted average period for which rate is fixed
Currency	%	Years	%	Years
Sterling	3 91%	10	3 88%	6

(c) Interest rate risk profile of financial assets

The Company had the following financial assets as at 31 December

	31 December 2012			31 December 2011		
	Total	Floating rate financial assets	Fixed rate financial assets	Total	Floating rate financial assets	Fixed rate financial assets
Currency	£ m	£ m	£ m	£ m	£ m	£ m
Sterling	6	-	6	6	-	6

The fixed rate listed securities (note 16) due to mature in 2035 are placed with a bank and interest is earned bi-annually at a 2% index linked rate Equity investments are not interest-bearing

(d) Currency exposures

All of the Company's trading activities are located in the United Kingdom Accordingly the majority of the Company's transactions are denominated in sterling and do not give rise to a foreign currency exposure Some equipment and spares are purchased in non-sterling currencies, the Company has significant capital expenditure contracts in place for the construction of Pembroke which involve non-sterling payments Forward foreign currency contracts are used to hedge these exposures

24 Financial instruments (continued)

(e) Maturity of financial liabilities

The maturity profile of the Company s financial liabilities as at 31 December is detailed in note 19 to the financial statements

(f) Borrowing facilities

The Company had no committed borrowing facilities at 31 December 2012 (2011 none)

(g) Fair values of financial assets and liabilities

Set out below is a comparison by category of book values and fair values of all the Company's financial assets and liabilities as at 31 December

Primary financial instruments held or issued to finance the Company's operations	31 December 2012		31 December 2011	
	Book value	Fair value	Book value	Fair value
	£ m	£ m	£ m	£ m
Assets				
Investments	378	383	2,537	2,544
Liabilities				
Short-term borrowings	(1,143)	(1,143)	(1,846)	(1,855)
Long-term borrowings	(1,512)	(1,660)	(915)	(962)

The Company has a number of guarantees in place as set out in note 25 These liabilities are contingent and therefore have no book value It is not practical to estimate their fair value

Derivative financial instruments held to manage the currency exposure	31 December 2012		31 December 2011	
	Book value	Fair value	Book value	Fair value
	£ m	£ m	£ m	£ m
Forward foreign currency contracts	-	(3)	-	2

The methods and assumptions used to estimate fair values of financial instruments are as follows

(i) The book value of cash, short-term deposits and short-term borrowings approximates to their fair value because of their short maturity

(ii) The fair value of investments has been estimated using quoted market prices

(iii) The fair value of long-term borrowings has been calculated using market prices when available or the net present value of future cash flows arising

(iv) The fair value of the Company s foreign currency contracts has been calculated using the market rates in effect at the balance sheet date

24 Financial instruments (continued)

(h) Currency hedges

The Company s policy is to hedge currency risk using a mixture of derivative instruments including options and forward contracts Unrecognised gains and losses on instruments used for hedging are as follows

	Gains £ m	Losses £ m
Gains / (losses) not recognised in 2012		
Arising before 1 January 2012	4	-
Arising in 2012	-	(7)
Unrecognised gains and (losses) on hedges at 31 December 2012	-	(3)
Of which		
Gains / (losses) expected to be recognised in 2013	-	(1)
Gains / (losses) expected to be recognised in 2014 or later	-	(2)

(i) Trading and energy risk management

Commodity sales and services

Market risk is the risk that changes in commodity price will affect the Company's profits The use of derivative instruments in the Company's businesses may expose the Company to market risk resulting from adverse changes in commodity prices It is RWE Group policy that commodity price risks should be borne by RWE Supply and Trading GmbH (RWEST) to the extent that they can manage these positions and to the extent that the markets are sufficiently liquid The principles for the transfer of market price risk to RWEST are controlled by the Retail and Generation hedge policies and result in the transfer of all significant market risk associated with the use of financial instruments to RWEST

Credit risk

The credit risk associated with the use of financial instruments in connection with our energy trading activities was transferred as part of the disposal of the Trading business to RWE Supply and Trading GmbH at the beginning of 2004

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

Operational risk

Operational risk relates to the risk that processes, controls or competencies affect the Company's profits A Risk Committee, chaired by a member of the RWE AG Board, oversees those energy risk management activities now undertaken by RWE Supply and Trading GmbH on our behalf The Risk Committee must approve the types of financial instrument used for risk management purposes The Committee 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

25 Contingent liabilities

The Company has provided parent company guarantees, mainly in relation to distribution use of system agreements and other payment obligations, totalling £115 million (2011 £139 million)

HM Revenue and Customs hold a £2 million (2011 £2 million) guarantee from the Company in relation to value added tax

UK trading arrangements for Npower, our Retail business, and our Generation business are supported by indemnities and letters of credit totalling £129 million (2011 £106 million)

Bank issued guarantees of £7 million (2011 £7 million) 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 effected

26 Share-based payments

In the year under review the share-based payment systems for executives and employees of RWE Npower plc consisted of an equity-settled scheme - a SAYE sharesave scheme - where the employee receives options in the share capital of RWE AG There is also a cash-settled scheme, the long-term incentive plan 'BEAT'

BEAT

	2009 tranche	2010 tranche	2010 tranche	2011 tranche	2012 tranche
BEAT					
Grant date	01/01/09	01/01/10	01/01/10	01/01/11	01/01/12
Number of conditionally granted performance shares	258,246	64,336	71,401	181,715	569,824
Term	3 years	3 years	4 years	4 years	4 years

Pay-out conditions

Automatic pay-out if following a waiting period of three years (for 2009 and 2010 tranches) and four years (for 2010, 2011 and 2012 tranches) an out-performance of at least 25% compared to the Dow Jones STOXX Utilities Index peer group has been achieved, measured in terms of their index weighting as of the inception of the programme Measurement of out-performance is carried out using Total Shareholder Return (TSR), which takes into account both the development of the share price and reinvested dividends

26 Share-based payments (continued)

Determination of payment
Determination of the index weighting of the peer group companies which exhibit a lower TSR than RWE at the end of the term

Performance factor is calculated by squaring this percentage rate and multiplying it by 1 25

Total number of performance shares which can be paid out is calculated by multiplying the performance shares conditionally granted by the performance factor

Payment corresponds to the final number of performance shares valued at the average RWE share price during the last 20 trading days prior to expiration of the programme (with a ceiling of two times the value of the performance shares as of the grant date, for the 2009, 2010, 2011 and 2012 tranches)

Change in corporate control
If during the waiting period there is a change in corporate control, a compensation payment is made This is calculated by multiplying the price paid in the acquisition of the RWE shares by the final number of performance shares The latter shall be determined as per the regulations of the compensation plan with regard to the time when the bid for corporate control is submitted

In the event of merger with another company, compensation shall be calculated on the basis of the expected value of the performance shares at the time of the merger multiplied by the prorated number of performance shares corresponding to the ratio between the total waiting period and the waiting period until the merger takes place

Form of settlement
Cash settlement

The fair value of the performance shares conditionally granted in the BEAT programme amounted to €6 66 per share as of the grant date for the 2012 tranche, €17 09 per share for the 2011 tranche, €28 80 for the 3 year 2010 tranche, €25 96 per share for the 4 year 2010 tranche and €11 93 per share for the 2009 tranche These values were calculated externally using a standard multivariate Black-Scholes model via Monte Carlo simulations on the basis of one million scenarios each In the calculations, due consideration was taken of the maximum payment stipulated in the programme's conditions for each conditionally granted performance share, the discount rates for the remaining term, the volatilities and the expected dividends of peer companies as well as the expected dividends of RWE AG

The fair value of the provision in respect of BEAT included within the financial statements at 31 December 2012 is £2m (2011 £nil)

26 Share-based payments (continued)

Sharesave scheme

	2008 tranche	2009 tranche	2010 tranche	2011 tranche	2012 tranche
Grant date	15/07/08	28/07/09	15/07/10	14/07/11	13/07/2012
Max number of options granted	243,712	185,054	331,341	501,892	540,199
Term	3 years	3 years	3 years	3 years	3 years
Vesting conditions	Waiting period 3 years	Waiting period 3 years	Waiting period 3 years	Waiting period 3 years	Waiting period 3 years
Exercise price £ per share	50 07	38 52	37 94	26 11	19 28
Form of settlement	Existing shares	Existing shares	Existing shares	Existing shares	Existing shares

	2008 tranche	2009 tranche	2010 tranche	2011 tranche	2012 tranche
Bal at the start of the fiscal year	118,982	119,810	253,064	481,244	-
Granted during the period	-	-	-	-	540,199
Forfeited during the period	-	-	-	-	-
Exercised during the period	-	-	-	302	52
Expired during the period	118,982	16,072	87,204	89,377	26,133
Bal at the end of the fiscal year	-	103,738	165,860	391,565	514,014
Exercisable at the end of the fiscal year	-	103,699	1,901	4,777	557

The average weighted share price as of the exercise date amounted to €34 25 for the options from the Sharesave Scheme exercised in the previous fiscal year The exercise prices of the options from the Sharesave Scheme outstanding as of the balance sheet date ranged from €23 62 to €47 20 The weighted average remaining contractual term amounted to 1 67 years

The fair value of the liability arising from the employee services received in respect of Sharesave included within the financial statements at 31 December 2012 is £4m (2011 £3m)

In the year under review, the total expense for share-based payment systems amounted to £5m (2011 £2m) of which £2m (2011 £1m) was then recharged to (2011 from) subsidiary companies In respect of these recharges, £2m (2011 £1m) was cash-settled by the subsidiaries

27 Obligations under leases and hire purchase contracts

Operating lease commitments

As at 31 December 2012 the company had annual commitments under non-cancellable operating leases as follows

Operating leases which expire:

	31 December 2012 £ m	31 December 2011 £ m
Land and buildings		
Within one year	-	-
Within two to five years	3	4
Over five years	1	1
	4	5

28 Commitments

Capital commitments

Amounts contracted for but not provided in the financial statements amounted to £34,491,919 (2011 - £118,252,658)

29 Post balance sheet events

RWE launched the 'RWE 2015' programme in 2012, which aims to achieve efficiencies for the whole RWE Group, making the organisation more effective as a response to the changing market environment, in particular for the Generation business

As part of this efficiency drive RWE have created the new 'RWE Generation' organisation which from 1 January 2013 has the responsibility for overseeing the entire power station fleet across Europe

The power stations operated by the Company will form part of this new RWE Generation organisation and therefore the activities of the RWE Npower group will be separately managed These events are described in greater detail on page 48 of RWE's Annual Report for 2012 or on page 12 of RWE's Report on the First Quarter of 2013 Both are available at www rwe com

In order to implement this separation of Retail from Generation, the legal entities forming the Retail business were sold by the Company to the newly formed RWE Npower Group Ltd in November 2012 in return for the issue of £33m of shares Subsequently, with effect from 1 January 2013, the Company sold RWE Npower Group Ltd to its immediate parent company RWE Npower Holdings plc As a result of this transfer, RWE Npower Holdings plc respectively owns the Retail business through RWE Npower Group Ltd and the Generation business through RWE Npower plc

30 Legal proceedings against the Company

The Company is aware of the following claims and potential claims which involve or could involve legal proceedings against the Company or International Power plc (in 2000 National Power plc demerged to create Innogy plc and International Power plc, Innogy plc has been renamed to RWE Npower plc) The Company has agreed to indemnify International Power plc on an after-tax basis in respect of any liabilities or losses which they may incur in relation to the claims to the extent set out in the relevant paragraph below

International Power plc is subject to claims and potential claims by or on behalf of current and former employees, including former employees of the CEGB, and contractors in respect of industrial illness and injury The Company has agreed to indemnify International Power plc on an after-tax basis to the extent of 50% of any liability that International Power plc may incur whether directly or indirectly or as a consequence of those proceedings to the extent that such liability is not insured by Electra Insurance Limited

The directors are of the opinion, having regard to legal advice received, the Company's insurance arrangements and provisions carried in the balance sheet, that it is unlikely that the matters referred to above will, in aggregate, have a material effect on the Company's financial position, results of operations, and liquidity

31 Ultimate parent undertaking and controlling party

The company is controlled by RWE Npower Holdings plc (the immediate parent) a company incorporated in Great Britain and registered in England and Wales

The ultimate controlling party is RWE AG a company incorporated in Germany, which is the parent undertaking of the smallest and largest group to consolidate these financial statements Copies of RWE AG consolidated financial statements can be obtained from RWE AG, Opernplatz 1, 45128 Essen, Germany