

Registration number: 04445217

# **RWE Cogen UK (Hythe) Limited**

Annual Report and Financial Statements

for the Year Ended 31 December 2017

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**RWE Cogen UK (Hythe) Limited**  
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## **RWE Cogen UK (Hythe) Limited**

### **Strategic Report for the year ended 31 December 2017**

The directors present their Strategic Report on RWE Cogen UK (Hythe) Limited ("the Company") for the year ended 31 December 2017.

#### **Principal activity**

The principal activity of the Company is the generation and sale of electricity and steam. The Company operates a Combined Heat and Power ('CHP') plant in the UK.

#### **Business review and future developments**

Revenue has decreased at the Hythe CHP site in 2017 compared to 2016 by £260k. The Company made an operating profit for the year of £1,368k (2016: £1,609k) and an overall profit for the financial year of £1,067k (2016: £1,252k). The main reason for the decrease in revenue is because in 2016 there was a significant nuclear down time and Hythe was able to maximise their power during September and October 2016.

The Company's net asset position at 31 December 2017 is £10,871k (2016: £9,804k).

Hythe continues to operate flexibly delivering in Winter Peaks, Short Term Operating Reserve (STOR) and TRIAD to maximise earnings. The Embedded Suppliers Capacity Market Levy also delivered benefits for Q4 2017 by exporting power during the peak periods through an agreement with Npower Limited.

Hythe was successful in the fourth Electricity Market Reform Capacity Market Auction for the 2021/22 delivery year in February 2018. Planning permission to install 6MW of gas engines was secured, future development will be dependent on securing Capacity Market agreements.

OFGEM confirmed their decision to reduce TRIAD payment levels over a three year period starting in Winter 2018/2019. It was confirmed in June 2018 that there would be no judicial review of this decision.

In order to streamline the business, a decision was made to 'hive up' RWE Cogen (Hythe) UK Limited into the intermediate parent company RWE Generation UK plc which took place on 1 July 2018. The entity has ceased trading and will be liquidated at the earliest opportunity.

#### **Principal risks and uncertainties**

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

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

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

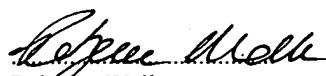
The management of the business and the execution of the Company's strategy are subject to a number of risks. Detailed discussions of these risks and opportunities, in the context of the RWE AG Group as a whole, are provided on pages 74 to 82 of the RWE AG 2017 Annual Report.

**RWE Cogen UK (Hythe) Limited**  
**Strategic Report for the year ended 31 December 2017 (continued)**

**Key performance indicators (KPIs)**

The directors of the Company 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 on a divisional basis which covers all of the activities of the Company as well as other entities in the group that own and operate CHP sites. Therefore the Company's directors do not set KPIs at a legal entity level, and as a result such KPIs are not presented for the Company.

Approved by the Board on 13/9/18.... and signed on its behalf by:



Rebecca Wall

Director

## **RWE Cogen UK (Hythe) Limited**

### **Directors' Report for the year ended 31 December 2017**

The directors present their report on the Company and the audited financial statements for the year ended 31 December 2017.

#### **Directors of the Company**

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

Rebecca Wall

Kevin Lindley

Martin O'Connor

#### **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.

#### **Future developments**

Further details of significant changes in the future developments of the Company are provided in the Strategic Report on page 1.

#### **Going concern**

These financial statements have been prepared on a basis other than going concern in accordance with IAS 1 'Presentation of Financial Statements', as the trade and assets of the Company were transferred to its intermediate parent company RWE Generation UK plc on 1 July 2018 and the company is expected to be liquidated in the near future. Adjustments have been made in these financial statements to reclassify fixed assets and long-term liabilities as current assets and liabilities. No adjustments to the carrying value of assets and liabilities were necessary. The comparative financial statements continue to be prepared on a going concern basis.

#### **Results and dividends**

Details of results are provided in the Strategic Report on page 1.

The directors did not propose or pay interim dividends (2016: £nil), nor do they recommend payment of a final dividend for the year ended 31 December 2017 (2016: £nil).

#### **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 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.

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.

## **RWE Cogen UK (Hythe) Limited**

### **Directors' Report for the year ended 31 December 2017 (continued)**

#### **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.

#### **Financial risk management**

##### ***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 102 of the RWE AG 2017 Annual Report.

##### ***Credit risk***

The Company has a policy of requiring appropriate credit checks on customers prior to establishing credit terms and payment method. Credit insurance and security deposits are arranged depending upon a combination of the credit rating and projected annual spend. For all new customers with an annual spend in excess of predetermined limits, commodity risk control are required to sign off the account prior to acceptance. Cash at bank and in hand comprise cash in hand and deposits which are readily convertible to cash and are subject to insignificant risk of change in value or credit risk.

##### ***Liquidity risk***

The Company forms part of the RWE Generation UK plc group treasury arrangements, which actively manage a mixture of finance to ensure that the group has sufficient liquid resources to manage its current and future operational requirements.

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

The Company is exposed to commodity price risk as a result of its operations. Commodity risks exist in electricity, gas, and CO2 emission certificates. Exposure to index price risk arises from within the Company's Energy Supply Contracts with its customers. Typically, these indices are UK Government Office for National Statistics Energy Trends indices or closing spot market price indices. RWE AG follows the business model of group wide pooling of liquid commodity risks inherent in its business activities. RWEST serves as the group's central commodity market risk manager. The Company's portfolio commodity positions are transferred at market price to the relevant RWEST trading desks. The timing of the transfer depends on market liquidity and certain contractual and physical constraints. These result from commitments that the Company holds with site specific Energy Supply Contracts. RWE AG, the Company's ultimate parent, and RWE Generation UK plc, the intermediate parent company, define their Governance framework and risk management systems in a series of directives, policies and procedures.

##### ***Securities price risk***

The Company has no exposure to equity securities price risk as it holds no listed or other equity investments.

## **RWE Cogen UK (Hythe) Limited**

### **Directors' Report for the year ended 31 December 2017 (continued)**

#### **Financial risk management (continued)**

##### ***Market risk***

The Company is responsible for forecasting customer demand and plant outage requirements (planned and unplanned), and for assessing the associated physical and financial positions for each commodity and Energy Supply Contract. These positions are aggregated to form a portfolio position. The consolidated indexation and commodity positions are reviewed and monitored on an ongoing basis by management.

##### ***General risk management***

As a subsidiary of RWE AG, the Company complies with the Risk Management Directive of RWE AG, which embodies the relevant provisions of the German Law on Corporate Control and Transparency (Gesetz zur Kontrolle und Transparenz im Unternehmensbereich), together with the German Stock Corporation Act (Aktiengesetz) and the German Commercial Code (Handelsgesetzbuch). Compliance is achieved within the Company through the application of a tri-partite system of three separate but supportive elements, namely a risk controlling/early warning system, an internal control system and an internal audit process.

##### **Post balance sheet event**

Since the balance sheet date, the directors have agreed to sell the trade and assets of the Company to its intermediate parent RWE Generation UK plc at book value. The transfer took place on 1 July 2018 at which point RWE Cogen UK (Hythe) Limited ceased trading. The Company will be liquidated at the earliest opportunity.

##### **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 the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- 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 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.

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.

In the case of each director in office at the date the Directors' Report is approved:

- so far as they are aware, there is no relevant audit information that they know of and of which they know the auditors are unaware; and
- they have taken all the 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.

**RWE Cogen UK (Hythe) Limited**

**Directors' Report for the year ended 31 December 2017 (continued)**

**Independent auditors**

The independent auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Annual General Meeting.

Approved by the Board on 13/9/18 and signed on its behalf by:



Rebecca Wall  
**Director**



## **RWE Cogen UK (Hythe) Limited**

### **Independent Auditors' Report to the members of RWE Cogen UK (Hythe) Limited**

#### **Report on the audit of the financial statements**

##### **Opinion**

In our opinion, RWE Cogen UK (Hythe) Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2017; the income statement, 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.

##### **Emphasis of matter - Basis of preparation**

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 2 to the financial statements concerning the basis of preparation. Following the year end the trade and assets of the Company have been transferred to the intermediate parent company, RWE Generation UK plc, and the company is expected to be liquidated in the near future. Accordingly, the going concern basis of preparation is no longer appropriate and the financial statements have been prepared on a basis other than going concern as described in note 2 to the financial statements. Adjustments have been made in these financial statements to reclassify fixed assets and long-term liabilities as current assets and liabilities. No adjustments to the carrying value of assets and liabilities were necessary.

##### **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 on, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

## **RWE Cogen UK (Hythe) Limited**

### **Independent Auditors' Report to the members of RWE Cogen UK (Hythe) Limited (continued)**

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

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

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

#### ***Strategic Report and Directors' Report***

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

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

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

As explained more fully in the Statement of Directors' Responsibilities in respect of the financial statements set out on page 5, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

**RWE Cogen UK (Hythe) Limited**  
**Independent Auditors' Report to the members of RWE Cogen UK (Hythe) Limited**  
**(continued)**

*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.

**Other required reporting**

**Companies Act 2006 exception reporting**

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

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

We have no exceptions to report arising from this responsibility.



Fiona Hornsby (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Reading

**19** September 2018

**RWE Cogen UK (Hythe) Limited**  
**Income Statement for the year ended 31 December 2017**

	Note	2017 £ 000	2016 £ 000
Revenue		4,439	4,699
Cost of sales		<u>(2,800)</u>	<u>(2,936)</u>
Gross profit		1,639	1,763
Administrative expenses		(353)	(72)
Other income/(expense)	4	<u>82</u>	<u>(82)</u>
Operating profit	5	1,368	1,609
Finance income	6	12	50
Finance costs	7	<u>(21)</u>	<u>(7)</u>
Finance (costs)/income - net		<u>(9)</u>	<u>43</u>
Profit before income tax		1,359	1,652
Income tax expense	9	<u>(292)</u>	<u>(400)</u>
Profit for the financial year		<u><u>1,067</u></u>	<u><u>1,252</u></u>

The above results were derived from continuing operations.

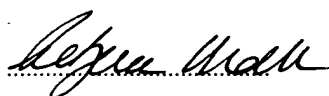
There are no further items which would be included in other comprehensive income so no separate Statement of Other Comprehensive Income has been prepared.

The notes on pages 13 to 29 form an integral part of these financial statements.

**RWE Cogen UK (Hythe) Limited**  
**Statement of Financial Position as at 31 December 2017**

	Note	2017 £ 000	2016 £ 000
<b>Fixed assets</b>			
Property, plant and equipment	10	-	4,366
<b>Current assets</b>			
Property, plant and equipment	10	4,141	-
Inventories	11	117	117
Trade and other receivables	12	8,542	6,760
Deferred tax assets: realisable within one year	9	959	1
Deferred tax assets: realisable after more than one year	9	-	798
		<u>13,759</u>	<u>7,676</u>
<b>Creditors: Amounts falling due within one year</b>			
Trade and other payables	13	(1,175)	(1,298)
Provisions for liabilities	14	(1,713)	-
		<u>(2,888)</u>	<u>(1,298)</u>
Net current assets		<u>10,871</u>	<u>6,378</u>
Total assets less current liabilities		10,871	10,744
<b>Creditors: Amounts falling due after one year</b>			
Provisions for liabilities	14	-	(940)
Net assets		<u>10,871</u>	<u>9,804</u>
<b>Equity</b>			
Ordinary shares	17	37,462	37,462
Accumulated losses		<u>(26,591)</u>	<u>(27,658)</u>
Total shareholders' funds		<u>10,871</u>	<u>9,804</u>

The financial statements on pages 10 to 29 were approved by the Board on 13/9/18 and signed on its behalf by:



Rebecca Wall

Director

RWE Cogen UK (Hythe) Limited registered company number: 04445217

The notes on pages 13 to 29 form an integral part of these financial statements.

**RWE Cogen UK (Hythe) Limited**  
**Statement of Changes in Equity for the year ended 31 December 2017**

	Ordinary shares £ 000	Accumulated losses £ 000	Total shareholders' funds £ 000
At 1 January 2016	37,462	(28,910)	8,552
Profit for the financial year	-	1,252	1,252
Total comprehensive income	-	1,252	1,252
At 31 December 2016	37,462	(27,658)	9,804

	Ordinary shares £ 000	Accumulated losses £ 000	Total shareholders' funds £ 000
At 1 January 2017	37,462	(27,658)	9,804
Profit for the financial year	-	1,067	1,067
Total comprehensive income	-	1,067	1,067
At 31 December 2017	37,462	(26,591)	10,871

The notes on pages 13 to 29 form an integral part of these financial statements.

## **RWE Cogen UK (Hythe) Limited**

### **Notes to the Financial Statements for the year ended 31 December 2017**

#### **1 General information**

The Company is a private company limited by share capital incorporated and domiciled in the United Kingdom.

The address of its registered office is:

Windmill Hill Business Park

Whitehill Way

Swindon

Wiltshire

SN5 6PB

United Kingdom

#### **2 Accounting policies**

##### **Summary of significant accounting policies**

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.

##### **Basis of preparation**

These financial statements were prepared on a basis other than going concern in accordance with IAS 1 'Presentation of Financial Statements', as the trade and assets of the Company were transferred to its intermediate parent company RWE Generation UK plc on 1 July 2018. Subsequent to the transfer a decision has been made to liquidate the Company. In all other respects, the financial statements have been prepared under the historic cost convention, modified by financial assets and financial liabilities held at fair value through profit and loss, and in accordance with the Companies Act 2006 and Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

##### **Summary of disclosure exemptions**

As permitted by FRS 101, the company has taken advantage of the disclosure exemptions available under that standard as follows:

- Paragraph 38 of IAS 1 (Presentation of Financial Statements) to present comparative information in respect of:

- (i) paragraph 79(a)(iv) of IAS 1 (Presentation of Financial Statements)
- (ii) paragraph 73(e) of IAS 16 (Property, Plant and Equipment)
- (iii) paragraph 118(e) of IAS 38 Intangible Assets)

- The following paragraphs of IAS 1 (Presentation of Financial Statements):

- (i) 10(d)
- (ii) 10(f)
- (iii) 16
- (iv) 38A
- (v) 38B-D
- (vi) 40A-D
- (vii) 111
- (viii) 134-136

## **RWE Cogen UK (Hythe) Limited**

### **Notes to the Financial Statements for the year ended 31 December 2017 (continued)**

#### **2 Accounting policies (continued)**

- IAS 7 (Statement of Cash Flows)
- Paragraphs 30 and 31 of IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors)
- 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.

#### **Going concern**

These financial statements have been prepared on a basis other than going concern in accordance with IAS 1 'Presentation of Financial Statements', as the trade and assets of the Company were transferred to its intermediate parent company RWE Generation UK plc on 1 July 2018 and the company is expected to be liquidated in the near future. Adjustments have been made in these financial statements to reclassify fixed assets and long-term liabilities as current assets and liabilities. No adjustments to the carrying value of assets and liabilities were necessary. The comparative financial statements continue to be prepared on a going concern basis.

#### **Revenue**

Revenue represents income from the sales of electricity and steam generated by the Company to large industrial users in the UK under long term contracts, and the production of power for the national grid. Turnover is recognised at the point of providing the goods and services to the customer. A significant amount of revenue is related to TRIAD capture during the winter periods. Suppliers are charged system charges (TNUOS) based on their average demand and if the Company's asset is generating during the peak periods this reduces the supplier's fees and a substantial part of this reduction is passed back to the embedded generators (including the Company). These credits are received based on the 3 highest peak demands (TRIADS), during the winter period and are not guaranteed. TRIAD income is recognised on an accruals basis as incurred.

TRIAD earnings are paid to the Company by the holder of the meter, Elexon, so monies relating to TRIAD capture are paid directly by National Grid.

The Company operates the delivery of Short Term Operating Reserve (STOR). STOR income is recognised on an accruals basis as incurred.

From October 2017, the Company receives revenue from the Embedded Capacity Market Levy by exporting power during peak periods.

Revenue comprises the value of sales of electricity and steam, excluding VAT and other indirect taxes, in the normal course of business. The Company operates in one class of business, marketing and supply of electricity and steam, and in one geographical segment, the United Kingdom.

#### **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 year. 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.

#### **Finance income and costs**

Finance income and costs are credited or charged to the Income Statement on an accruals basis.



## **RWE Cogen UK (Hythe) Limited**

### **Notes to the Financial Statements for the year ended 31 December 2017 (continued)**

#### **2 Accounting policies (continued)**

##### **Foreign currency translation**

###### **Functional and presentation currency**

The financial statements are presented in 'Pounds Sterling' (£) which is also the Company's functional currency.

###### **Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Income Statement.

##### **Taxation**

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company operates and generates taxable income.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and on unused tax losses or tax credits in the company. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

The carrying amount of deferred tax assets are reviewed at each reporting date and a valuation allowance is set up against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profit.

##### **Property, plant and equipment**

Property, plant and equipment are stated at historic purchase cost less accumulated depreciation and any provision for impairment in value. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. In the case of decommissioning assets the cost is the present value of the expected future cash flows that will be required to perform the decommissioning. 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 balance sheet 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.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other income/expenses in the Income Statement.

##### **Depreciation**

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.

###### **Asset class**

Plant, machinery and equipment

###### **Depreciation method and rate**

6-15 years

## **RWE Cogen UK (Hythe) Limited**

### **Notes to the Financial Statements for the year ended 31 December 2017 (continued)**

#### **2 Accounting policies (continued)**

##### **Impairment of non-financial assets**

In accordance with IAS 36 (Impairment of assets) the Company's management reviews the carrying amounts of its 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 Income Statement.

The recoverable amount of an asset is based on the higher of its estimated fair value less costs to sell and 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; and
- 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 exceeding 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 Income Statement.

##### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis.

At each reporting date, inventories are assessed for impairment. If inventory is impaired, the carrying amount is reduced to its selling price less costs to complete and sell; the impairment loss is recognised immediately in the Income Statement.

##### **Trade receivables**

Trade receivables are amounts due from customers in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for the impairment of trade receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables.

## **RWE Cogen UK (Hythe) Limited**

### **Notes to the Financial Statements for the year ended 31 December 2017 (continued)**

#### **2 Accounting policies (continued)**

##### **Trade payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

##### **Provisions**

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

Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

##### **Share capital**

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments.

##### **Defined contribution pension obligation**

A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee services in the current and prior periods.

For defined contribution plans, the Company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

##### **Defined benefit pension obligation**

Certain employees participate in a multi-employer defined benefit pension scheme, the Electricity Supply Pension Scheme, an industry-wide scheme. In the judgement of the directors, the company does not have sufficient information on the plan assets and liabilities to be able to reliably account for its share of the defined benefit obligation and plan assets. Therefore the scheme is accounted for as a defined contribution scheme, see note 16 for further details.

##### **Operating leases**

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the Income Statement on a straight-line basis over the period of the lease.

## **RWE Cogen UK (Hythe) Limited**

### **Notes to the Financial Statements for the year ended 31 December 2017 (continued)**

#### **2 Accounting policies (continued)**

##### **Derivative financial instruments**

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 with an effect on the Income Statement.

Financial assets and liabilities relating to commodity contracts and derivatives are offset and the net amount reported in the balance sheet 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. In line with IAS39 all unrealised trading positions at balance sheet date are recognised at fair value and held on balance sheet as a liability or asset with year on year movement through the Income Statement.

#### **3 Critical accounting judgements and key sources of estimation uncertainty**

The preparation of financial statements requires the use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are detailed below.

##### **Impairment of fixed assets**

The Company's management makes an estimate annually of the recoverable amounts of its assets based on the present value of future cash flows 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 on page 15.

##### **Decommissioning costs and plant closure**

The estimated cost of decommissioning and plant closure at the end of life of the site is provided for at the balance sheet date. Provision is made based on estimates of both the future life of the site and the cost of decommissioning.

##### **Multi-employer defined benefit pension scheme**

Certain employees participate in a multi-employer defined benefit pension scheme, the Electricity Supply Pension Scheme, an industry-wide scheme. In the judgement of the directors, the company does not have sufficient information on the plan assets and liabilities to be able to reliably account for its share of the defined benefit obligation and plan assets. Therefore the scheme is accounted for as a defined contribution scheme, see note 16 for further details.

**RWE Cogen UK (Hythe) Limited****Notes to the Financial Statements for the year ended 31 December 2017 (continued)****4 Other income/(expense)**

The analysis of the Company's other income/(expense) for the year is as follows:

	2017 £ 000	2016 £ 000
Movement in unrealised valuation of financial derivatives (note 18)	82	(82)

**5 Operating profit**

Operating profit is arrived at after charging:

	2017 £ 000	2016 £ 000
Wages and salaries	198	199
Social security costs	24	23
Other pension costs	15	14
Staff costs	237	236
Operating lease charges	108	-
Depreciation of property, plant and equipment (note 10)	977	928

The audit fee in 2017 and 2016 was borne by RWE Generation UK plc, the intermediate parent, and no recharge was made.

**6 Finance income**

	2017 £ 000	2016 £ 000
Interest income on bank deposits	-	1
Other finance income	-	8
Interest receivable from group undertakings	12	41
	12	50

**7 Finance costs**

	2017 £ 000	2016 £ 000
Interest on bank overdrafts and borrowings	-	7
Unwinding of discount on decommissioning provision (note 14)	21	-
	21	7

## **RWE Cogen UK (Hythe) Limited**

### **Notes to the Financial Statements for the year ended 31 December 2017 (continued)**

#### **8 Employees and directors**

##### **Employees**

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

	<b>2017</b>	<b>2016</b>
	<b>No.</b>	<b>No.</b>
Generation	4	4

All employees are employed by RWE Generation UK plc, the intermediate parent. Employee costs of £237k (2016: £236k) have been recharged to RWE Cogen UK (Hythe) Limited via a group management charge.

##### **Directors**

The directors provide the majority of their services to other group companies and therefore received no remuneration (2016: £nil) from RWE Cogen UK (Hythe) Limited during the year.

#### **9 Income tax**

Tax charged in the Income Statement

	<b>2017</b>	<b>2016</b>
	<b>£ 000</b>	<b>£ 000</b>
<b>Current tax</b>		
Group relief	452	514
<b>Deferred tax</b>		
Arising from origination and reversal of temporary differences	(160)	(161)
Arising from changes in tax rates and laws	-	47
Total deferred tax credit	(160)	(114)
Total tax charge to Income Statement	292	400

The tax on profit before income tax for the year is higher than the standard rate of corporation tax in the UK (2016 - higher than the standard rate of corporation tax in the UK) of 19.25% (2016: 20%).

The differences are reconciled on the next page:

# **RWE Cogen UK (Hythe) Limited**

## **Notes to the Financial Statements for the year ended 31 December 2017 (continued)**

### **9 Income tax (continued)**

	<b>2017</b> <b>£ 000</b>	<b>2016</b> <b>£ 000</b>
Profit before income tax	<u>1,359</u>	<u>1,652</u>
Profit before income tax multiplied by the standard rate of corporation tax in the UK of 19.25% (2016: 20%)	262	330
Increase from change in UK tax rate	21	18
Expenses not deductible for tax purposes	9	5
Difference between current and deferred tax rates	<u>-</u>	<u>47</u>
Total tax charge	<u>292</u>	<u>400</u>

The tax rate for the current year is lower than the prior year due to changes in the UK corporation tax rate which decreased from 20% to 19% from 1 April 2017.

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

### **Deferred tax**

<b>Analysis of deferred tax</b>	<b>Accelerated capital allowances £ 000</b>	<b>Other £ 000</b>	<b>Total £ 000</b>
At 1 January 2016	675	10	685
Credited/(Charged) to the Income Statement	162	(1)	161
Charge to Income Statement arising from rate change	(47)	-	(47)
At 31 December 2016	<u>790</u>	<u>9</u>	<u>799</u>
Credited/(Charged) to the Income Statement	161	(1)	160
At 31 December 2017	<u>951</u>	<u>8</u>	<u>959</u>

	<b>2017</b> <b>£ 000</b>	<b>2016</b> <b>£ 000</b>
The amounts of the deferred tax assets to be recovered/settled are as follows:		
Within 12 months:		
Deferred tax asset	<u>959</u>	<u>1</u>
	959	1
After 12 months:		
Deferred tax asset	<u>-</u>	<u>798</u>
Total	<u>959</u>	<u>799</u>

**RWE Cogen UK (Hythe) Limited****Notes to the Financial Statements for the year ended 31 December 2017 (continued)****9 Income tax (continued)**

The deferred tax asset is expected to be recoverable on the basis it can be used against expected future taxable profits within the UK tax group of RWE. The balance of deferred tax is classified as current due to the transfer of the Company's trade and assets to RWE Generation UK plc (see note 20).

**10 Property, plant and equipment**

	<b>Plant, machinery and equipment £ 000</b>
<b>Cost or valuation</b>	
At 1 January 2017	52,589
Additions	<u>752</u>
At 31 December 2017	<u>53,341</u>
<b>Accumulated depreciation</b>	
At 1 January 2017	48,223
Charge for the year	<u>977</u>
At 31 December 2017	<u>49,200</u>
<b>Carrying amount</b>	
At 31 December 2017	<u>4,141</u>
At 31 December 2016	<u>4,366</u>

Property, plant and equipment has been reclassified to current assets in 2017 as the Company's trade and assets were transferred to its intermediate parent company RWE Generation UK plc on 1 July 2018.

**Impairment**

During the year the Company reviewed the carrying value of its plant. This review indicated that the recoverable value of the Company's generating assets was greater than the carrying amount and consequently no further impairment was required. In assessing the value the following significant assumptions were made:

- Post tax (real) discount rate of 4.25% was applied; and
- Future cashflows were estimated to the end of the generating asset's estimated useful life being 31 December 2030.

Further information on how the recoverable value is calculated is described in the accounting policy on page 15.

The property, plant and equipment assets were transferred to the Company's intermediate parent company RWE Generation UK plc on 1 July 2018. No impairment was required and the transfer took place at book value.



**RWE Cogen UK (Hythe) Limited****Notes to the Financial Statements for the year ended 31 December 2017 (continued)****11 Inventories**

	2017	2016
	£ 000	£ 000
Raw materials and consumables	117	117

With regard to both raw materials and consumables the replacement cost is not materially different to the value shown in the balance sheet above. No provision (2016: £nil) has been made for slow moving, obsolete or defective stock.

No amount has been recognised as an expense during the year (2016: £nil).

**12 Trade and other receivables**

	2017	2016
	£ 000	£ 000
Trade receivables	150	102
Amounts owed by group undertakings	629	813
Loans owed by group undertakings	7,761	5,837
Prepayments	2	8
Total current trade and other receivables	8,542	6,760

Amounts owed by group undertakings are unsecured, interest free and have no fixed date of repayment.

The loan owed by group undertakings is unsecured, bears interest at overnight LIBOR monthly average less 0.1% (2016: 12 month LIBOR less 0.1%) and is repayable within one year.

**13 Trade and other payables**

	2017	2016
	£ 000	£ 000
Trade payables	164	100
Accrued expenses	280	31
Amounts owed to group undertakings	635	716
Social security and other taxes	96	369
Other payables	-	82
	1,175	1,298

Amounts owed to group undertakings are unsecured, interest free and have no fixed date of repayment.

Amounts owed to group undertakings include £452k (2016: £514k) of group relief payable.

Other payables includes a commodity derivatives liability of £nil (2016: £82k).

## **RWE Cogen UK (Hythe) Limited**

### **Notes to the Financial Statements for the year ended 31 December 2017 (continued)**

#### **14 Provisions for liabilities**

	<b>Decommissioning and plant closure £ 000</b>
At 1 January 2017	940
Additional provision	640
Increase due to unwinding of discount	21
Increase due to change in discount rate	112
At 31 December 2017	<u>1,713</u>

Provisions for decommissioning and plant closure are in relation to the expected site costs consisting of decommissioning and demolition costs. The provisions will be utilised over the period of closure, estimated to be within 13 years. Additional provisions were made in the year relating to Hythe.

Provisions have been reclassified as current liabilities as all of the assets and liabilities of the Company were transferred to its intermediate parent company RWE Generation UK plc on 1 July 2018.

#### **15 Commitments under operating leases**

The company had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

	<b>2017 £ 000</b>	<b>2016 £ 000</b>
Within one year	<u>81</u>	<u>-</u>
	<u>81</u>	<u>-</u>

The amount of non-cancellable operating lease payments recognised as an expense during the year was £108,000 (2016: £nil).

#### **16 Post-employment benefits**

##### **Pension and other schemes**

Throughout the whole of 2017, the majority of pensions were funded through the defined benefit scheme within the RWE Npower (No2) 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. In addition to the defined benefit scheme, there was also a defined contribution scheme within the RWE Npower Group of the Electricity Supply Pension Scheme; the Defined Contribution Section of the RWE Npower group of the ESPS. 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 Npower Group of the ESPS throughout 2017.

## **RWE Cogen UK (Hythe) Limited**

### **Notes to the Financial Statements for the year ended 31 December 2017 (continued)**

#### **16 Post-employment benefits (continued)**

##### **Pension scheme restructuring**

In November 2015, RWE AG announced that the group would split into two separate divisions; the RWE Generation division comprising the following legal entities:- RWE Generation UK Holdings plc and its subsidiaries, RWE Supply & Trading GmbH and RWE Technology UK Limited and Innogy division comprising of the following legal entities:- Innogy Renewables UK Holdings Limited and its subsidiaries, Innogy Business Services UK Limited and Npower Limited and its subsidiaries.

One of the key elements of the separation for RWE in the UK was to split the UK pension scheme (its associated liabilities and assets) into the RWE Generation and Innogy divisions. Following discussions with the pension trustees, legal, pension and accounting advisors, it was decided that the pension scheme should be split into two new sections to reflect the new legal structure. On 29 July 2016, the respective legal entities in the UK signed a Memorandum of Understanding (MoU) and, at the same time, created two new schemes for RWE Generation and Innogy.

The MoU sets out the terms and conditions in respect of the creation of the two new pension scheme sections for the RWE Generation and Innogy divisions, how the assets and liabilities were to be apportioned and how the existing arrangements were to be wound up. The MoU also contains the Sectionalisation Deed signed 29 July 2016, effective from 31 July 2016. The Sectionalisation Deed sets out the terms of the creation of the two new sections.

The sectionalisation took place on 31 July 2016 and the asset and liability balances were transferred to the respective sections relating to RWE Generation UK plc and Innogy Renewables UK Limited.

The restructuring of the RWE AG group was completed on 1 September 2016 and the new company structure became operational on this date.

##### **Defined contribution pension scheme**

The defined contribution scheme; the Defined Contributions Section of the RWE Npower Group of the ESPS was impacted in exactly the same way as the defined benefit scheme, as described above by the terms within the Sectionalisation Deed on 31 July 2016.

Contributions totalling £15k (2016: £14k) were paid into defined contribution sections of the scheme by the Company.

**RWE Cogen UK (Hythe) Limited**  
**Notes to the Financial Statements for the year ended 31 December 2017 (continued)**

**17 Share capital**

**Allotted, called up and fully paid shares**

	No.	2017 £	No.	2016 £
Ordinary shares of £1 each	37,462,007	37,462,007	37,462,007	37,462,007

**18 Financial instruments**

**Financial instruments by category**

2017 Assets as per balance sheet	Loans & receivables £ 000	Total £ 000
Trade and other receivables excluding prepayments	8,540	8,540
Total	8,540	8,540

2017 Liabilities as per balance sheet	Other financial liabilities at amortised cost £ 000	Total £ 000
Trade and other payables excluding non-financial liabilities	895	895
Total	895	895

2016 Assets as per balance sheet	Loans & receivables £ 000	Total £ 000
Trade and other receivables excluding prepayments	6,752	6,752
Total	6,752	6,752

2016 Liabilities as per balance sheet	Other financial liabilities at amortised cost £ 000	Liabilities at fair value through profit and loss £000	Total £ 000
Derivative financial instruments	-	82	82
Trade and other payables excluding non-financial liabilities	1,267	-	1,267
Total	1,267	82	1,349

**RWE Cogen UK (Hythe) Limited**  
**Notes to the Financial Statements for the year ended 31 December 2017 (continued)**

**18 Financial instruments (continued)**

**Valuation methods and assumptions**

**Commodity derivatives:**

The following overview presents the main parameters for the measurement of financial instruments recognised at fair value. In accordance with IFRS 7, 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.

There were no commodity derivatives held as at 31 December 2017.

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>2016</b>	<b>2016</b>	<b>2016</b>	<b>2016</b>
	<b>£ 000</b>	<b>£ 000</b>	<b>£ 000</b>	<b>£ 000</b>
Commodity derivatives	-	82	-	82
Total	-	82	-	82

There were no derivative financial liabilities as at 31 December 2017. The maturity profile of the financial liabilities as at 31 December 2016 is as follows:

	<b>Liabilities at fair value through profit and loss £ 000</b>
Due within one year	(82)
Total	(82)

## RWE Cogen UK (Hythe) Limited

### Notes to the Financial Statements for the year ended 31 December 2017 (continued)

#### 18 Financial instruments (continued)

##### Financial risk management

###### a) Market risk

Market price risk is the risk that changes in commodity prices will affect the Company's profits. The use of derivative instruments in the Company's business 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 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.

###### b) 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 Cogen UK (Hythe) Limited, 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.

None of the financial assets are past due or impaired as at 31 December 2017.

###### c) Liquidity risk

A maturity analysis of financial assets relating to the commodity derivatives is included on page 26. 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

###### (a) Financial assets

There were no financial assets as at 31 December 2017 (2016: £nil).

###### (b) Financial liabilities

The following financial liabilities are subject to offsetting, enforceable master netting arrangements and similar arrangements. There were none outstanding as at 31 December 2017.

As at 31 December 2016	Gross amounts of recognised financial liabilities £ 000	Gross amounts of financial assets set off in the balance sheet £ 000	Net amounts of financial liabilities presented in the balance sheet £ 000
Commodity	82	-	82
Total	82	-	82

## **RWE Cogen UK (Hythe) Limited**

### **Notes to the Financial Statements for the year ended 31 December 2017 (continued)**

#### **19 Controlling parties**

The Company's immediate parent is RWE Cogen UK Limited a company incorporated in United Kingdom.

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, Altenessener Straße 35, 45141 Essen, Germany. They can also be accessed at [www.rwe.com](http://www.rwe.com).

The ultimate controlling party is RWE AG.

#### **20 Post balance sheet event**

Since the balance sheet date, the directors have agreed to sell the trade and assets of the Company to its intermediate parent RWE Generation UK plc at book value. The transfer took place on 1 July 2018 at which point RWE Cogen UK (Hythe) Limited ceased trading. The Company will be liquidated at the earliest opportunity.