

Registration number: 03892782

RWE Generation UK plc

Annual Report and Financial Statements

for the Year Ended 31 December 2018

RWE Generation UK plc

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RWE Generation UK plc

Strategic report for the year ended 31 December 2018

The directors present their strategic report on RWE Generation UK plc ("the Company" and "RWE") for the year ended 31 December 2018.

Principal activities

The Company is a wholly owned subsidiary of RWE Generation UK Holdings Limited (formerly RWE Generation UK Holdings plc). RWE Generation UK plc controls directly, or via its subsidiary companies, a series of business divisions focusing on:

- Fossil fuel and biomass power generation
- Engineering and technical support
- Combined heat and power generation to industrial sites
- Power purchase agreements

On 1 July 2018, the Company completed the acquisition of the trade and assets of its subsidiary companies RWE Cogen UK Limited and RWE Cogen UK (Hythe) Limited. This included the power stations based at Bridgewater, Grimsby, Seal Sands and Hythe. As a result, the Company now directly manages a fleet of twelve (2017: eight) fossil fuel fired power stations located across England and Wales with an installed capacity of 8.5 GW, producing approximately 34 TWh of electricity.

The trade and assets acquired through the hive up increased net assets in the Company by £160m. This consisted of cash of £150m; property, plant and equipment of £7m; investments of £9m; decommissioning provisions of £5m and current liabilities of £1m. On payment of a final dividend from the hived up subsidiaries, the investments held were impaired giving a net gain of £46m to the net assets of the Company.

Business review and future developments

The financial statements for the year ended 31st December 2018 are set out on pages 11 to 52.

The Company reports a loss before tax of £120m compared to a £169m profit before tax in 2017. Net assets decreased to £1,514m (2017: £1,626m). During the year no dividend was paid by the Company (2017: £nil).

The suspension of the Capacity Market 2018/2019 has had a significant impact on the Company's results in 2018. The Company will not recognise any revenue associated with the 2018/2019 capacity year whilst the standstill is in place. This has reduced revenue and the operating result by £45m in 2018. A contingent asset has been recognised and disclosed in note 29 regarding the revenue not recognised in 2018.

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

- During the year the Company reviewed the carrying amount of its power stations. This review indicated that the recoverable amount of two of the Company's power stations was lower than the carrying amount and an impairment charge of £99m was recognised (2017: £nil).
- As a result of the hive-up of RWE Cogen UK Limited and RWE Cogen UK (Hythe) Limited, the Company has recognised £46m in the income statement relating to the net surplus resulting from the impairment of the investment in these companies and the dividend income.
- The Company received an interim dividend from Transpower Limited, a subsidiary incorporated in the Republic of Ireland of £3m (2017: £nil), following which an impairment of £1m (2017: £nil) was recognised. Transpower Limited will be liquidated during 2019.
- Fair value movements of derivatives resulted in a loss of £18m in 2018 against a £125m gain in 2017. This is due to significant changes in the market prices and timing of hedges.
- In 2018 the Company had lower land sales making a gain of £2m (2017: £98m).

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Strategic report for the year ended 31 December 2018 (continued)

Business review and future developments (continued)

- The remaining variance is due to materially lower clean taxed gas spreads in 2018 compared to 2017 and changes in provisions. This is offset by better short-term performance and higher Capacity Market revenues for the 2017/2018 Capacity Market year, prior to the suspension of the Capacity Market mechanism for 2018/2019 onwards.

The Company is committed to optimising its operational power stations, ensuring they remain best in class. During the year, the Company planned, organised and delivered the outage maintenance at Staythorpe power station using in-house capability, delivering the Staythorpe units back to production on time. At Great Yarmouth power station, the Advanced Gas Path upgrade was completed. This was a significant investment which delivered above expectations and overcame unexpected challenges.

Aberthaw completed its conversion to enable the 3 units to burn high-volatile coal with commissioning completed in Q1 2018 and has been successfully operating to meet the demands of the market. The station played a key part in meeting demand during the period of adverse weather referred to as 'the Beast from the East'. This was particularly important as our Pembroke power station was offline due to a breakdown. This demonstrated RWE's commitment to delivering security of supply.

Business environment

The recent ruling of General Court of the Court of Justice of the European Union "ECJ", which found that the UK Capacity Market "GB CM" did not comply with state aid rules, has meant that the current and prospective situation in regard to UK Capacity Market is uncertain and is currently in a standstill period. This ruling inhibits new capacity auctions and suspends capacity payments for the 2018/2019 Capacity Market year onwards until further notice.

As a result of the ECJ ruling, the European Commission "EC" has launched a second stage investigation in to the Capacity Market. BEIS "Department for Business, Energy and Industrial Strategy" have indicated that they are working with the EC and are hopeful of a positive decision. The Company will not recognise any revenue in 2019 associated with the 2018/ 2019 capacity year pending results from the second stage investigation. The situation regarding the capacity market remains fluid and management have set up a working group to monitor the situation closely and react to any changes in circumstances.

The Company is mindful of the risks surrounding Brexit and has convened a Brexit Working Group of experts from all areas of the business. The Company is working to ensure it is ready for all eventualities, including leaving with no deal. We do not foresee any significant negative impacts on the business, even in the case of 'no deal'. Fluctuations in currency exchange rates and an economic downturn in the event of a 'hard Brexit' could expose us to some risks but ultimately we believe the risks to the business are moderate and manageable. The key areas of work in this group includes data protection, HR/labour mobility, procurement, supply chain, EU ETS, Internal Energy Market, financial regulation, tax, legal and IT.

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

Following the tragic incident on February 23 2016 at the Company's decommissioned Didcot A power station, which resulted in the death of 4 people following the collapse of the boiler house during demolition by its contractors, the Didcot A power station site has now been returned to RWE control. RWE continues to give full co-operation to the Police and HSE during their criminal investigations as well as support to any of its employees affected by the incident.

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Strategic report for the year ended 31 December 2018 (continued)

Strategy and future outlook

The Company looks forward to a resolution of the Capacity Market suspension and awaits the results of the second stage investigation by the EC. Overall the level of uncertainty regarding the future situation remains high and will have a negative impact on the future earnings of the Company unless the Capacity Market is reinstated. Given the serious financial implications for capacity providers, this issue needs to be resolved as soon as possible.

Management attention continues to focus on driving value through cost efficiency and maximising value from the existing asset portfolio.

The expectation remains that the market will continue to be challenging over the next few years, with over-supply of capacity suppressing wholesale prices in the short term. However, some of the CCGT and coal units that have been unsuccessful in previous capacity auctions could close over the next few years, bringing capacity margins back to historic levels by the early 2020s. The longer term future for UK coal plants is clear, with government statements confirming unabated coal closures by 2025. RWE will review the planned closure dates of its stations following further information regarding the Capacity Market future.

Looking ahead the Company is embarking on outages at Staythorpe and Pembroke power stations in 2019. The outages will be delivered using our in-house expertise and dedicated workforce. The additional investment in our stations demonstrates the Company's commitment to providing security of supply to the UK energy market.

The Company is seeking to pay a dividend in 2019 and will need to perform a capital reduction in order to create distributable reserves.

Key performance indicators (KPIs)

The directors of RWE Generation UK 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 on a divisional basis covering all of RWE Generation UK plc's activities in the United Kingdom. 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 Generation UK plc.

Principal risks and uncertainties

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

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


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

The management of the business and execution of the Company's strategy are subject to a number of risks. Detailed discussions of these risks and opportunities, in the context of the RWE AG Group as a whole, are provided on pages 73 through 82 of the RWE AG 2018 Annual Report.

RWE Generation UK plc

Strategic report for the year ended 31 December 2018 (continued)

Approved by the Board on 28/5/19 and signed on its behalf by:



Mrs R Wall
Director

RWE Generation UK plc

Directors' report for the year ended 31 December 2018

The directors present their report on the Company and the audited financial statements for the year ended 31 December 2018.

Directors of the Company

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

Rebecca Wall
Mohamed Suleman
Stephen Glover

Directors' liabilities

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

Details of likely future developments of the Company are provided in the Strategic Report on page 3.

Going concern

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.

Results and dividends

Details of results for the year and financial position are provided in the strategic report on page 1.

The directors did not propose or pay interim dividends to its immediate United Kingdom parent company (2017: £nil), nor do they recommend payment of a final dividend for the year ended 31 December 2018 (2017: £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 ongoing changes within the Company mean that effective communications with staff are vital. The Company provides employees with information on matters of concern to them, consulting them or their representatives regularly, so that their views can be taken into account when making decisions that are likely to affect their interests. Corporate publications and other media, including distribution of key development messages and team briefings, are used to promote wide understanding of policies and strategy.

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

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Directors' report for the year ended 31 December 2018 (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 instruments

Capital management

The Company's objectives, policies and processes for managing capital are consistent with those of the RWE AG group. Detailed discussions of these, in the context of the RWE AG group as a whole, are provided on page 102 of the RWE AG 2018 Annual Report.

Credit risk

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

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

Commodity price risk

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

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 foreign currency exposure. Some equipment and spares are purchased in non-sterling currencies; the Company has contracts in place for the ongoing maintenance at Pembroke, Staythorpe, Didcot and Great Yarmouth power stations which involve non-sterling payments. Forward foreign currency contracts are used to hedge these exposures.

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Directors' report for the year ended 31 December 2018 (continued)

Financial instruments (continued)

General risk management

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

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 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, comprising FRS101 "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; and
- 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 responsible for safeguarding the assets of the Company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

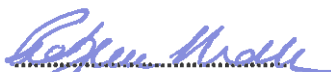
In the case of each director in office at the date the Directors' Report is approved:

- so far as they are aware, there is no relevant audit information that of which the Company's 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.

Independent auditors

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

Approved by the Board on 28/5/19 and signed on its behalf by:



Mrs R Wall
Director

RWE Generation UK plc

Independent auditors' report to the members of RWE Generation UK plc

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its loss 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 2018; the income statement, the statement of comprehensive income, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and, in common with other companies, it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

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

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Independent auditors' report to the members of RWE Generation UK plc (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 2018 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 7, 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. This description forms part of our auditors' report.

Use of this report

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

RWE Generation UK plc

Independent auditors' report to the members of RWE Generation UK plc (continued)

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



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

Date: 28/5/2017.....

RWE Generation UK plc**Income statement for the year ended 31 December 2018**

	Note	2018 £ m	2017 £ m
Revenue	4	1,880	1,780
Cost of sales excluding exceptional items		(1,888)	(1,764)
Cost of sales: exceptional items	5	<u>(99)</u>	<u>-</u>
Gross (loss)/profit		(107)	16
Administrative expenses		(52)	(72)
Other income	6	4	224
Other costs	7	<u>(18)</u>	<u>-</u>
Operating (loss)/profit	8	(173)	168
Finance income	9	11	7
Finance costs	10	(6)	(6)
Exceptional items	5	<u>48</u>	<u>-</u>
Finance income - net		<u>53</u>	<u>1</u>
(Loss)/profit before income tax		(120)	169
Income tax credit/(expense)	11	<u>25</u>	<u>(7)</u>
(Loss)/profit for the year		<u><u>(95)</u></u>	<u><u>162</u></u>

The notes on pages 15 to 52 form an integral part of these financial statements.

RWE Generation UK plc

Statement of comprehensive income for the year ended 31 December 2018

	2018 £ m	2017 £ m
(Loss)/profit for the year	<u>(95)</u>	<u>162</u>
Other comprehensive (expense)/income: items that will not be reclassified subsequently to the income statement		
Loss on cash flow hedges (net)	(11)	(3)
Actuarial (loss)/gain on defined benefit pension schemes net of deferred tax	<u>(10)</u>	<u>55</u>
Total other comprehensive (expense)/income for the year net of tax	<u>(21)</u>	<u>52</u>
Total comprehensive (expense)/income for the year	<u><u>(116)</u></u>	<u><u>214</u></u>

The notes on pages 15 to 52 form an integral part of these financial statements.

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Statement of financial position as at 31 December 2018

	Note	2018 £ m	2017 £ m
Fixed assets			
Property, plant and equipment	13	1,048	1,176
Investments	14	22	127
		<u>1,070</u>	<u>1,303</u>
Current assets			
Inventories	15	37	49
Trade and other receivables	16	1,439	1,440
Deferred tax assets: realisable after more than one year	11	117	64
Derivative financial assets	17	94	39
Financial assets at FVOCI	18	15	15
Cash and cash equivalents		20	2
		<u>1,722</u>	<u>1,609</u>
Creditors: amounts falling due within one year			
Trade and other payables	19	(808)	(918)
Derivative financial liabilities	17	(115)	(29)
		<u>(923)</u>	<u>(947)</u>
Creditors: amounts falling due within one year			
Net current assets		<u>799</u>	<u>662</u>
Total assets less current liabilities		1,869	1,965
Creditors: amounts falling due after more than one year			
Trade and other payables	20	(14)	(2)
Provisions for liabilities	21	(341)	(337)
		<u>(355)</u>	<u>(339)</u>
Net assets		1,514	1,626
Equity			
Ordinary shares	24	6	6
Share premium		2,072	2,072
Financial instruments at FVOCI reserve		9	9
Cash flow hedge reserve		-	11
Retained earnings		(573)	(472)
		<u>1,514</u>	<u>1,626</u>
Total shareholders' funds		1,514	1,626

RWE Generation UK plc registered company number: 03892782

The financial statements on pages 11 to 52 were approved by the Board on 28/5/19 and signed on its behalf by:


 Mrs R Wall
 Director

The notes on pages 15 to 52 form an integral part of these financial statements.

RWE Generation UK plc

Statement of changes in equity for the year ended 31 December 2018

	Called-up share capital £ m	Share premium £ m	Available for sale reserve £ m	Cash flow hedge reserve £ m	Retained earnings £ m	Total £ m
At 1 January 2017	6	2,072	9	14	(689)	1,412
Profit for the year	-	-	-	-	162	162
Other comprehensive income	-	-	-	(3)	55	52
Total comprehensive income	-	-	-	(3)	217	214
At 31 December 2017	6	2,072	9	11	(472)	1,626

	Called-up share capital £ m	Share premium £ m	Financial instruments at FVOCI reserve £ m	Cash flow hedge reserve £ m	Retained earnings £ m	Total £ m
At 1 January 2018	6	2,072	9	11	(472)	1,626
Loss for the year	-	-	-	-	(95)	(95)
Other comprehensive expense	-	-	-	(11)	(10)	(21)
Total comprehensive expense for the year	-	-	-	(11)	(105)	(116)
Other movements through reserves	-	-	-	-	4	4
At 31 December 2018	6	2,072	9	-	(573)	1,514

The financial instruments at FVOCI reserve comprises the accumulated gain made from movements in market value against historic cost. In the prior year, this reserve was called 'available for sale reserve' in line with IAS 39.

The cash flow hedge reserve comprises accumulated unrealised gains and losses on cash flow foreign exchange hedges accounted for under hedge accounting rules.

The notes on pages 15 to 52 form an integral part of these financial statements.

RWE Generation UK plc

Notes to the financial statements for the year ended 31 December 2018

1 General information

The Company is a public 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 and key accounting estimates

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 the going concern basis, under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities held at fair value, 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

- 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

- 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.

RWE Generation UK plc

Notes to the financial statements for the year ended 31 December 2018 (continued)

2 Accounting policies (continued)

Going concern

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.

Consolidation

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

The Company has taken advantage of the exemption under section 400 of the Companies Act 2006 not to prepare consolidated financial statements. The results of the Company and its subsidiaries are included in the consolidated financial statements of RWE AG.

Changes in accounting policy

IFRS 9 and IFRS 15 are new accounting standards that are effective for the year ended 31 December 2018 and they have not had a material impact on the Company. There are no other amendments to accounting standards or IFRIC interpretations that are effective for the year ended 31 December 2018 that have had a material impact on the Company.

Revenue and cost of sales

Revenue is measured at the fair value of the consideration received or receivable. The Company recognises revenue when performance obligations have been satisfied and this is when power generated has been transferred to RWEST. The Company also recognises income from power sold to National Grid and large industrial customers following the hive up of the trade and assets of RWE Cogen UK Limited and RWE Cogen UK (Hythe) Limited. The Company's activities are described in detail below.

Power Generation and other Services

Revenue mostly represents the value of power generated and sold through RWEST onwards to the market. The value of the electricity generated is supplemented by sales of ancillary services, Renewables Obligation Certificates (ROCs), Capacity Market income for the capacity year 2017/2018 and other income. As noted in the strategic report, no Capacity Market revenue for the 2018/2019 capacity year has been recognised following the suspension of the Capacity Market.

Power generation and supplementary revenue is recognised in the period in which it is earned with payment typically occurring one month after the satisfaction of the Company's performance obligations. A receivable is recognised when the services are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

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

Following the hive up of the trade and assets of RWE Cogen UK Limited and RWE Cogen UK (Hythe) Limited, revenue now includes income from the sale of electricity to large industrial customers. Revenue is recognised at the point when power generated is transferred to the customer.

RWE Generation UK plc

Notes to the financial statements for the year ended 31 December 2018 (continued)

2 Accounting policies (continued)

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

The Capacity Market is designed to ensure sufficient reliable capacity is available so that consumers benefit from reliable electricity supplies. The Company has Capacity Market agreements and recognises revenue from the start and throughout the Capacity Market contract on an accruals basis. Included within revenue for 2018 is Capacity Market income relating to the 2017/2018 capacity year. As noted in the strategic report, the Capacity Market year for 2018/2019 has been suspended and no revenue is recognised for the 2018/2019 capacity year. A contingent asset has been disclosed in note 29.

Cost of sales is shown separately in the income statement and includes fuel costs, environmental and social obligation costs and costs directly attributable to the generation units. This includes items such as maintenance, station staff, grid system costs, business rates and depreciation.

A provision is recognised for emission certificates required to be purchased to meet the Company's carbon emissions obligations. The provision is recognised in cost of sales at the price of any procured certificates. Any additional short position is recognised at market value at year-end. Any procured carbon certificates in the year are recognised at cost as a current asset grouped within other receivables.

Costs to obtain a contract

The Company has not incurred any costs to obtain a contract, therefore, no transition restatement is required. The Company chooses to apply the practical expedient of IFRS 15.94 which allows the Company not to capitalise contract costs if the amortisation period of the asset would be 12 months or less.

Unsatisfied Performance Obligations

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

Transition

The Company has applied the modified retrospective transition method for IFRS 15, implementation with effect from 1 January 2018. In previous financial statements, the Company applies IAS 18 and IAS 11 when recognising revenue.

There has been no effect on the statement of financial position or income statement of applying the new standard compared to former principles.

Finance income and costs policy

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

RWE Generation UK plc

Notes to the financial statements for the year ended 31 December 2018 (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, except when deferred in other comprehensive income as qualifying cash flow hedges. All other foreign exchange gains and losses are presented in the income statement within other income.

Tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except that a charge 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 assets constructed by the Company, cost includes related works and administrative overheads and commissioning costs. Assets in the course of construction are included in tangible fixed assets on the basis of expenditure incurred at the statement of financial position date and are not depreciated until brought into use. Interest costs are capitalised for qualifying assets according to IAS 23 (Borrowing costs).

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement within other income in the case of gains or administrative expenses for losses.

RWE Generation UK plc

Notes to the financial statements for the year ended 31 December 2018 (continued)

2 Accounting policies (continued)

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.

Depreciation charges on non-operational buildings are shown against land and buildings within note 13.

Depreciation charges on power station buildings are shown against land and buildings and charges on the remainder of power station assets are shown against plant, machinery and equipment within note 13.

Depreciation charges on all of the other asset classes are shown against plant, machinery and equipment within note 13.

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

Plant spares

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

Investments in subsidiaries

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.

RWE Generation UK plc

Notes to the financial statements for the year ended 31 December 2018 (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 or income generating unit is based on the higher of its estimated fair value less costs to sell and its estimated value in use. To derive fair value less costs to sell, 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 annual business plan updated for any significant movements since the date the business plan was approved;
- 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.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less and are subject to an insignificant risk of changes in value.

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.

Inventories

Inventories are stated 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. 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.

RWE Generation UK plc

Notes to the financial statements for the year ended 31 December 2018 (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.

Borrowings

All borrowings are initially recorded at the amount of proceeds received, net of transaction costs. Borrowings are subsequently carried at amortised cost, with the difference between the proceeds, net of transaction costs, and the amount due on redemption being recognised as a charge to the income statement over the period of the relevant borrowing.

Interest expense is recognised on the basis of the effective interest method and is included in finance costs.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Capitalised borrowing costs are then depreciated over the life of the asset.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

Provisions

Provisions for decommissioning and plant closure, carbon emission allowances, liability and damage claims and restructuring 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.

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.

RWE Generation UK plc

Notes to the financial statements for the year ended 31 December 2018 (continued)

2 Accounting policies (continued)

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.

Financial instruments

Initial recognition

Financial assets and financial liabilities comprise all assets and liabilities reflected in the statement of financial position, excluding property, plant and equipment, deferred tax assets, prepayments, deferred tax liabilities and employee benefits plan.

The Company recognises financial assets and financial liabilities in the statement of financial position when, and only when, the Company becomes party to the contractual provisions of the financial instrument.

Financial assets are initially recognised at fair value. Financial liabilities are initially recognised at fair value, representing the proceeds received net of premiums, discounts and transaction costs that are directly attributable to the financial liability.

Subsequent to initial measurement, financial assets and financial liabilities are measured at either amortised cost or fair value.

Classification and measurement

Financial instruments are classified at inception into one of the following categories, which then determine the subsequent measurement methodology:

Financial assets are classified into one of the following three categories:-

- financial assets at amortised cost;
- financial assets at fair value through other comprehensive income (FVOCI); or
- financial assets at fair value through the profit or loss (FVTPL).

Financial liabilities are classified into one of two categories:

- financial liabilities at amortised cost
- financial liabilities at fair value through the profit or loss (FVTPL).

The classification and the basis for measurement are subject to the Company's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets, as detailed on the next page.

RWE Generation UK plc

Notes to the financial statements for the year ended 31 December 2018 (continued)

2 Accounting policies (continued)

Financial assets at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

If either of the above two criteria is not met, the financial assets are classified and measured at fair value through the profit or loss (FVTPL).

If a financial asset meets the amortised cost criteria, the Company may choose to designate the financial asset at FVTPL. Such an election is irrevocable and applicable only if the FVTPL classification significantly reduces a measurement or recognition inconsistency.

Financial assets at fair value through other comprehensive income (FVOCI)

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

If an equity investment is designated as FVOCI, all gains and losses, except for dividend income, are recognised in other comprehensive income and are not subsequently included in the statement of income.

Financial assets at fair value through the profit or loss (FVTPL)

Financial assets not otherwise classified above are classified and measured as FVTPL.

Financial liabilities at amortised cost

All financial liabilities, other than those classified as financial liabilities at FVTPL, are measured at amortised cost using the effective interest rate method.

Financial liabilities at fair value through the profit or loss

Financial liabilities not measured at amortised cost are classified and measured at FVTPL. This classification includes derivative liabilities.

Impairment of financial assets

For trade receivables, the Company applies the simplified approach, which requires expected lifetime losses to be recognised from initial recognition of the receivables. The Company also provides for incurred losses when trade receivables fall more than 90 days past their due date.

RWE Generation UK plc

Notes to the financial statements for the year ended 31 December 2018 (continued)

2 Accounting policies (continued)

Impairment of financial assets (continued)

Evidence that the financial asset is credit-impaired include the following;

- Significant financial difficulties of the borrower or issuer;
- A breach of contract such as default or past due event;
- The restructuring of the loan or advance by the Company on terms that the Company would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for the security because of financial difficulties; or
- There is other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the Company, or economic conditions that correlate with defaults in the Company.

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 as gains or losses with an effect on the income statement, unless they are designated as a cash flow hedge. Gains are recognised within other income and losses within other costs.

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

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

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

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

Defined benefit pension obligation

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date minus the fair value of plan assets. The defined benefit obligation is measured using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future payments by reference to the market yields at the reporting date on high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to shareholders' funds in other comprehensive income in the period in which they arise.

The amount charged or credited to finance costs is a net interest amount calculated by applying the liability discount rate to the net defined benefit liability or asset.

Past service costs are recognised immediately in the income statement.

RWE Generation UK plc

Notes to the financial statements for the year ended 31 December 2018 (continued)

2 Accounting policies (continued)

Defined benefit pension obligation (continued)

Certain former employees and directors of the Company are also members of a Supplementary Pension Plan (SPP). The SPP is accounted for as a defined benefit scheme under IAS 19R in accordance with the accounting policy described above. For further information see note 22.

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.

Share based payments

The Company operates both a cash-settled compensation plan and an equity share-based plan. In respect of the cash-settled plans, whereby RWE AG introduced a new cash-settled plan in 2016, the Share Performance Plan ("SPP"), to replace the previous BEAT plan, certain employees of the Company are awarded options over performance shares which are linked to the performance of the shares in the ultimate parent undertaking, RWE AG, for the scheme in operation up to and including 2015 and the financial performance of RWE AG for the scheme commencing in 2016. The fair value of the employee services received in exchange for these grants of options is recognised as a provision and expensed in the income statement. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each statement of financial position date, the Company revises its estimates and recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to its provision.

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. Up to and including 2013, at the inception of a scheme, a hedge was 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. No hedge was put in place for the 2014 and 2015 schemes. The Company did not operate a scheme in 2016. 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 income statement. The total amount over the scheme duration is determined by reference to the cost of the hedge for the schemes up to and including the 2013 scheme. The total amount to be expensed over the scheme duration for the 2014 and 2015 scheme is determined by reference to the market price of a RWE AG share less the initial option price per share of the scheme. Further details on both schemes are contained within note 23.

3 Critical accounting judgements, key sources of estimation uncertainty

Impairment of assets

The Company's management makes an estimate annually of the recoverable amounts of its assets based on the present value of future cashflows expected to be derived from use of the asset. If the recoverable amount is estimated to be less than its carrying amount, an impairment loss is recognised immediately in the income statement. Further information on how the recoverable amount is calculated is described in the accounting policy on page 20 and in note 5.

Supplementary pension plan

The Company has an obligation to pay benefits to certain former employees and directors of the Company. The cost of these benefits and the present value of the obligation depend on a number of factors, including life expectancy, discount rates and pension growth rates. Management uses a third party to estimate these factors in determining the net pension obligation in the statement of financial position. See note 22 for further details.

RWE Generation UK plc

Notes to the financial statements for the year ended 31 December 2018 (continued)

3 Critical accounting judgements, key sources of estimation uncertainty (continued)

Defined benefit pension scheme

The Company has an obligation to pay pension benefits to certain employees. The cost of these and the present value of the obligation depend on a number of factors, including: life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management uses a third party to estimate these factors in determining the net pension obligation in the statement of financial position. The assumptions reflect historical experiences and current trends. See note 22 for the disclosures of the defined benefit pension scheme.

4 Revenue

The analysis of the Company's revenue for the year from continuing operations is as follows:

	2018	2017
	£ m	£ m
Sale of goods	1,880	1,780

The analysis of the Company's revenue for the year by class of business is as follows:

	2018	2017
	£ m	£ m
Electricity	1,813	1,714
Gas	9	-
Other	58	66
	1,880	1,780

5 Exceptional items

	2018	2017
	£ m	£ m
Impairment of property, plant and equipment	(99)	-
Net dividend income	48	-

During the year the Company reviewed the carrying amount of its power stations following an indication of impairment. An impairment of £99m was recorded against property, plant and equipment against the power stations at Pembroke and Staythorpe. In assessing the value, the following significant assumptions were made:

- Post tax (real) discount rate of 6.5% was applied.
- Future cash flows were estimated to the end of the generating assets' useful lives.
- The 2019/2020 Capacity Market mechanism would be reinstated with similar expected revenue profiles to before the suspension.
- The cash flows for Capacity Market payments for 2019 and 2020 were included in the fair value model. If these were removed, the impairment would increase by £133m impacting the power stations at Pembroke, Staythorpe, Great Yarmouth and Aberthaw.

Further information on how the recoverable amount is calculated is provided in the accounting policy on page 20.

Within exceptional items is a net dividend comprising £46m relating to the hive up of RWE Cogen UK Limited and RWE Cogen UK (Hythe) Limited and a net dividend of £2m from Transpower Limited.

Net dividend income of £48m is made up as follows: £160m final dividend from RWE Cogen UK Limited and RWE Cogen UK (Hythe) Limited; £114m impairment in the investments of RWE Cogen UK Limited and RWE Cogen UK (Hythe) Limited; £3m interim dividend received from Transpower Limited; £1m impairment in the investment of Transpower Limited.

RWE Generation UK plc

Notes to the financial statements for the year ended 31 December 2018 (continued)

6 Other income		
	2018	2017
	£ m	£ m
Fair value movement in derivatives (note 17)	-	125
Foreign exchange gain	2	1
Profit on disposal of property, plant and equipment	2	98
	<u>4</u>	<u>224</u>
7 Other costs		
	2018	2017
	£ m	£ m
Fair value movement in derivatives (note 17)	<u>(18)</u>	<u>-</u>
8 Operating (loss)/profit		
Operating loss of £173m (2017: profit of £168m) arrived at after (charging)/crediting:		
	2018	2017
	£ m	£ m
Wages and salaries	(60)	(60)
Social security costs	(7)	(7)
Other pension costs (note 22)	(11)	(9)
Staff costs	<u>(78)</u>	<u>(76)</u>
Impairment of property, plant and equipment (note 5)	(99)	-
Depreciation of property, plant and equipment (note 13)	(121)	(128)
Operating lease charges (note 26)	(4)	(2)
Foreign exchange gains	2	1
	£ 000	£ 000
Services provided by the Company's auditors:		
Fees payable to the Company auditor	(405)	(404)
Audit-related assurance services	(81)	(45)
Other non-audit services	(25)	(30)
Total	<u>(511)</u>	<u>(479)</u>
9 Finance income		
	2018	2017
	£ m	£ m
Other finance income	1	2
Interest receivable from group undertakings	10	5
	<u>11</u>	<u>7</u>
10 Finance costs		
	2018	2017
	£ m	£ m
Other finance costs	(3)	(5)
Interest payable to group undertakings	(3)	(1)
	<u>(6)</u>	<u>(6)</u>

RWE Generation UK plc

Notes to the financial statements for the year ended 31 December 2018 (continued)

11 Income tax

Tax (credited)/charged in the income statement:

	2018 £ m	2017 £ m
Current taxation		
Group relief receivable	(3)	(27)
Adjustment in respect of prior periods	24	(2)
Total current income tax	<u>21</u>	<u>(29)</u>
Deferred taxation		
Origination and reversal of timing differences	(25)	36
Adjustments in respect of prior periods	(21)	-
Total deferred taxation	<u>(46)</u>	<u>36</u>
Tax (credit)/expense in the income statement	<u>(25)</u>	<u>7</u>

The tax assessed on the loss for the year is lower (2017: lower) than the standard rate of corporation tax in the UK of 19% (2017: 19.25%).

The differences are reconciled below:

	2018 £ m	2017 £ m
(Loss)/profit before income tax	<u>(120)</u>	<u>169</u>
(Loss)/profit before income tax multiplied by the standard rate of corporation tax in the UK of 19% (2017: 19.25%)	(23)	33
Adjustment in respect of prior periods	3	(2)
Increase from effect of expenses not deductible in determining taxable (loss)/profit	24	1
Impact of difference between current and deferred tax rates	2	(6)
Non-taxable income	<u>(31)</u>	<u>(19)</u>
Total tax (credit)/expense	<u>(25)</u>	<u>7</u>

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

RWE Generation UK plc

Notes to the financial statements for the year ended 31 December 2018 (continued)

11 Income tax (continued)

The income tax charged/(credited) directly to other comprehensive income during the year is as follows:

			2018 £m	2017 £m
Current tax				
Pension			(1)	-
Deferred tax				
Pension			3	11
Other			(6)	(2)
Analysis of deferred tax				
	Accelerated capital allowances	Pension	Other	Total
	£m	£m	£m	£m
At 1 January 2017	73	21	15	109
(Charged)/credited to the income statement	(22)	2	(16)	(36)
(Charged)/credited to other comprehensive income	-	(11)	2	(9)
At 31 December 2017	<u>51</u>	<u>12</u>	<u>1</u>	<u>64</u>
	Accelerated capital allowances	Pension	Other	Total
	£m	£m	£m	£m
At 1 January 2018	51	12	1	64
Recognition of deferred tax asset arising on hive up	4	-	-	4
Charged/(credited) to the income statement	42	2	2	46
Charged/(credited) to other comprehensive income	-	(3)	6	3
At 31 December 2018	<u>97</u>	<u>11</u>	<u>9</u>	<u>117</u>

RWE Generation UK plc

Notes to the financial statements for the year ended 31 December 2018 (continued)

12 Employees and directors

Employees

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

	2018 No.	2017 No.
Generation	1,124	1,074
Analysis of employees by category:		
Central functions	153	97
Distributed assets	178	178
Fleet support	350	338
Stations	403	430
Other	40	31
Company	1,124	1,074

Directors

Two of the directors provide their services primarily to this Company and therefore their remuneration is shown below. The other director provides the majority of their services to other companies and therefore the below details include no remuneration in respect of this director, as no recharge is made.

During the year aggregate emoluments of £0.5m were paid to the directors (2017: £0.4m) for services as directors of RWE Generation UK plc. The highest paid director was paid £342,271 (2017: £268,426) for their services to the Company.

Two (2017: two) of the directors had accrued pension entitlements under defined benefit schemes at 31 December 2018. The accrued pension entitlement at 31 December 2018 of these directors was £86,800 (2017: £82,600). The accrued pension entitlement at 31 December 2018 of the highest paid director was £52,300 (2017: £50,800) from the Company. No directors had accrued pension entitlements under defined contribution schemes (2017: none).

One (2017: one) of the directors, who is also the highest paid director, had accrued a pension lump sum benefit of £156,800 (2017: £152,400).

The directors, including the highest paid director, were not entitled to receive aggregate cash payments during the year (2017: not entitled) under long-term incentive schemes from the Company. None (2017: none) of the directors received or became entitled to receive shares in RWE AG under long-term incentive schemes in the financial year. None (2017: none) of the directors, exercised share options for shares in RWE AG in the financial year.

RWE Generation UK plc

Notes to the financial statements for the year ended 31 December 2018 (continued)

13 Property, plant and equipment

	Land and buildings £ m	Assets under construction £ m	Plant, machinery and equipment £ m	Total £ m
Cost				
At 1 January 2018	201	54	2,968	3,223
Additions	16	21	55	92
Disposals	-	-	(44)	(44)
Transfers	-	(36)	36	-
At 31 December 2018	<u>217</u>	<u>39</u>	<u>3,015</u>	<u>3,271</u>
Accumulated depreciation				
At 1 January 2018	122	-	1,925	2,047
Charge for the year	5	-	116	121
Eliminated on disposal	-	-	(44)	(44)
Impairment	7	-	92	99
At 31 December 2018	<u>134</u>	<u>-</u>	<u>2,089</u>	<u>2,223</u>
Carrying amount				
At 31 December 2018	<u>83</u>	<u>39</u>	<u>926</u>	<u>1,048</u>
At 31 December 2017	<u>79</u>	<u>54</u>	<u>1,043</u>	<u>1,176</u>

Included within additions of land and buildings is £15m relating to leasehold improvements to administrative buildings.

Impairment

During the year the Company reviewed the carrying value of its fleet with each plant considered to be an income generating unit. The review of the plants indicated that at 31 December 2018 the fair value of certain income generating units was lower than the carrying value and an impairment adjustment of £99m was required (note 5). No impairment was recognised in 2017.

RWE Generation UK plc

Notes to the financial statements for the year ended 31 December 2018 (continued)

14 Investments

	Subsidiary undertakings £ m
Cost	
At 31 December 2017	263
Additions	10
Disposals	(136)
At 31 December 2018	<u>137</u>
Provisions for impairment	
At 31 December 2017	136
Release of provision on disposal	(136)
Provision for impairment in year	115
At 31 December 2018	<u>115</u>
Carrying amount	
At 31 December 2017	<u>127</u>
At 31 December 2018	<u>22</u>

Details of the subsidiaries as at 31 December 2018 are as follows:

Name of subsidiary	Principal activity	Country of incorporation and principal place of business	Proportion of ownership interest and voting rights held	
			2018	2017
Electra Insurance Ltd	Insurance	Bermuda	100%	100%
RWE Markinch Limited	Power generation	United Kingdom	100%	100%
RWE Ingen!us Limited	Holding Company	United Kingdom	100%	100%
RWE Cogen UK Limited	Dormant	United Kingdom	100%	100%
RWE Cogen UK (Hythe) Limited	Dormant	United Kingdom	100%	100%
Transpower Ltd	Dormant	Ireland	100%	100%
RWE Cogen UK Trading Ltd	Liquidated	United Kingdom	0%	100%
Great Yarmouth Power Ltd	Liquidated	United Kingdom	0%	100%
Regenesys Holdings Ltd	Liquidated	United Kingdom	0%	100%
Regenesys Technologies	Liquidated	United Kingdom	0%	100%

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

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

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

RWE Generation UK plc

Notes to the financial statements for the year ended 31 December 2018 (continued)

14 Investments (continued)

Electra Insurance Limited ceased writing insurance business in 2001. Its profits are subject to United Kingdom corporation tax as a controlled foreign company.

On 8 November 2017, RWE Generation UK plc acquired the remaining 66.67% of the shares of Rusheen - RWE Commercialisation Partners Limited and changed its name to RWE Ingenlus Limited. RWE Ingenlus Limited owns 22% of the share capital of Windesco, Inc., a company incorporated in the United States of America.

On 16 January 2018, the Company invested £1m into RWE Ingenlus Limited, which was used as onward investment into Windesco, Inc.

On 1 April 2018, Transpower Limited sold its combined heat and power plant to Irving Oil Whitegate Refinery Limited. Transpower Limited is now dormant and will be liquidated during 2019.

On 1 July 2018, the year the trade and assets of the Company's subsidiary companies RWE Cogen UK Limited and RWE Cogen UK (Hythe) Limited were transferred to RWE Generation UK plc. The subsidiary companies are now dormant and will be liquidated at the earliest opportunity.

On 13 July 2018, the following subsidiaries were liquidated: RWE Cogen UK Trading Limited, Great Yarmouth Power Limited, Regenesys Holdings Limited and Regenesys Technologies.

15 Inventories

	2018	2017
	£ m	£ m
Raw materials and consumables	<u>37</u>	<u>49</u>

With regard to raw materials and consumables the replacement cost is not materially different to the value shown in the statement of financial position above. During the year no further provision has been made for slow moving, obsolete or defective stock (2017: £nil).

Cost of inventory recognised within cost of sales was £21m (2017: £86m).

16 Trade and other receivables

	2018	2017
	£ m	£ m
Trade receivables	15	21
Amounts owed by group undertakings	97	76
Loans owed by group undertakings	1,291	1,288
Prepayments	6	11
Income tax asset	-	28
Other receivables	<u>30</u>	<u>16</u>
Total current trade and other receivables	<u>1,439</u>	<u>1,440</u>

RWE Generation UK plc

Notes to the financial statements for the year ended 31 December 2018 (continued)

16 Trade and other receivables (continued)

On 31st July 2017 the Company entered into a new loan arrangement with RWE Markinch Limited. The loan is unsecured and interest is charged at the commercial rate of the interpolated 16 year GBP SWAP rate (1.5279%), set on 31st July 2017, plus an interpolated 16 year RWE credit margin (1.2240%), the all in rate being 2.752%. The loan is repayable any time with the consent of both parties and terminates on 31st July 2033. At 31st December 2018, the balance outstanding on the loan was £172m (2017: £172m).

As at 31 December 2018, the Company had an outstanding deposit with its ultimate parent company of £1,118m (2017: £1,115m) under a Centralised Cash Management Facility dated 30th September 2016. Interest is charged monthly and is based on the monthly EONIA average of the respective month minus 10 basis points.

Amounts owed by group undertakings are unsecured and repayable on demand.

Other receivables comprises carbon certificates of £18m (2017: £6m); VAT debtor of £10m (2017: £8m) and other receivables of £2m (2017: £2m).

17 Derivative instruments

At 31 December 2018, derivative instruments outstanding related to gas swaps, physical gas, power, coal and FX trades. The derivative instruments expire over the period 2019 to 2025.

	2018 £m	2017 £m
Financial derivatives	94	24
Cash flow hedges	-	15
Derivative financial assets	<u>94</u>	<u>39</u>
Commodity derivatives	(115)	(27)
Cash flow hedges	-	(2)
Derivative financial liabilities	<u>(115)</u>	<u>(29)</u>

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

The movement in the derivatives recognised in the income statement (note 7) is £18m, being the net year on year movement on financial derivatives and commodity derivatives.

The movement in the cash flow hedges is recognised through other comprehensive income net of deferred tax. The amounts shown above exclude the effects of deferred tax.

18 Financial assets at FVOCI

	2018 £ m	2017 £ m
Listed gilts	<u>15</u>	<u>15</u>

A fixed and floating charge was created by the Company on 28 August 2003 in favour of The Law Debenture Pension Trust Corporation plc over the Treasury index linked gilts. The market value of these Treasury index linked gilts at 31 December 2018 was £15m (2017: £15m).

RWE Generation UK plc

Notes to the financial statements for the year ended 31 December 2018 (continued)

19 Trade and other payables

	2018	2017
	£ m	£ m
Trade payables	(9)	(20)
Accrued expenses	(64)	(40)
Amounts due to group undertakings	(32)	(15)
Other creditors including taxation and social security	(18)	(8)
Loans owed to group undertakings	<u>(685)</u>	<u>(835)</u>
	<u>(808)</u>	<u>(918)</u>

On 31st January 2017, the loans with three group undertakings were transferred to facility agreements dated 1 November 2016 between the Company and each group undertaking.

The agreements permit the group undertaking to deposit funds with the Company or borrow from the Company within individually agreed maximum deposit and loan amounts. Interest is charged or earned on the facility on the overnight average, calculated monthly, of the respective month plus 50 basis points for loans and minus 10 basis points for deposits. The facility agreements are unsecured, expire on 30th December 2021 and are repayable at any time with the consent of both parties. As at 31 December 2018, the balance on these facilities was £685m (2017: £832m).

On 28th December 2017, the Company entered into a facility agreement with its subsidiary Transpower Limited under which a deposit may be placed with the Company and an amount borrowed, both to a maximum of €10m. Interest was charged or earned on the facility on the basis of the ECB rate of interest less +/- 50 basis point. The balance was repaid on 29 June 2018 and the facility expired on 27th December 2018. The balance at 31 December 2017 was £3.4m.

Other creditors comprises deferred income of £2m (2017: £3m); income tax liability of £9m (2017: £nil); social security of £3m (2017: £3m); and other of £4m (2017: £2m).

20 Creditors: amounts falling due after more than one year

	2018	2017
	£ m	£ m
Non-current trade and other payables	<u>(14)</u>	<u>(2)</u>

The long-term balance relates to deferred income which will be released to the income statement from 2020. The prior year balance of £2m relates to deferred maintenance payments, which were settled in January 2018.

RWE Generation UK plc

Notes to the financial statements for the year ended 31 December 2018 (continued)

21 Provisions for liabilities

	Decommissioning and plant closure £ m	Carbon emission allowances £ m	Restructuring and other £ m	Supplementary pension plan £ m
At 1 January 2018	(83)	(137)	(35)	(6)
Additional provisions	(7)	(313)	(4)	-
Provisions used	5	299	3	1
Unused provision reversed	3	-	6	-
Increase due to passage of time or unwinding of discount	(2)	-	-	-
At 31 December 2018	<u>(84)</u>	<u>(151)</u>	<u>(30)</u>	<u>(5)</u>
			Defined Benefit Scheme £ m	Total £ m
At 1 January 2018			(76)	(337)
Additional provisions			(23)	(347)
Provisions used			48	356
Unused provision reversed			-	9
Increase due to passage of time or unwinding of discount			(20)	(22)
At 31 December 2018			<u>(71)</u>	<u>(341)</u>

Explanation of provisions

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

Decommissioning and plant closure:

Provisions for decommissioning and plant closure are in relation to the expected site costs of closed plants consisting of decommissioning and demolition costs. The provisions will be utilised over the period of closure, estimated to be within 1 to 12 years. The provisions used in the year relate to the closure of Didcot A, Tilbury and Littlebrook. Additional provisions were made in the year relating to Aberthaw, Didcot A, Didcot B, Littlebrook, Little Barford, Cowes, Great Yarmouth, Staythorpe and Pembroke, Grimsby, Seal Sands and Hythe.

Carbon emission allowances:

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

Restructuring and other:

Provisions for the share based payment schemes, including the long-term incentive plan 'BEAT' (note 23), are included within restructuring and other in addition to ongoing restructuring costs such as employee termination costs, particularly in respect of closed plants.

RWE Generation UK plc

Notes to the financial statements for the year ended 31 December 2018 (continued)

21 Provisions for liabilities (continued)

Defined Benefit Scheme:

Further details of the defined benefit scheme can be found in note 22.

Supplementary pension plan:

Further details of the supplementary pension plan can be found in note 22.

22 Post-employment benefits

Throughout the whole of 2018, the majority of pensions were funded through the defined benefit scheme within the RWE (formerly 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 Group of the Electricity Supply Pension Scheme; the Defined Contribution Section of the RWE 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 Group of the ESPS throughout 2018.

Defined contribution pension scheme

Contributions totalling £1m (2017: £1m) were paid into the defined contribution section of the scheme by the Company.

Defined benefit pension schemes

Description of scheme

From 1 January 2017, the Company, along with other employers in the Group, participated in the defined benefit pension scheme within the RWE (formerly the RWE Npower (No 2)) Group of the ESPS.

The scheme is accounted for as a defined benefit multi-group scheme under IAS 19R (Employee benefits) by RWE Generation UK plc and as a defined contribution scheme by all other participating employers in the scheme.

Regulatory framework

Both the RWE Npower Group of the ESPS and the RWE (formerly the RWE Npower (No 2)) Group of the ESPS, both referred to below as the "Group", are governed by UK pensions legislation. This requires funded defined occupational pension schemes to comply with statutory funding objective to have sufficient and appropriate assets to cover its technical provisions. Valuation of technical provisions must be on prudent assumptions taking into account the demographic characteristics of the scheme membership and market yields on assets held by the scheme and/or government bonds. The Group's rules do not restrict the Company's use of potential future surpluses, i.e. there is no ceiling.

The Group is administered by a body of 9 trustees. Under UK pensions law, the Group Trustees are responsible for the overall management of the pension scheme, including investment of assets, payment of benefit to members and agreement of a funding plan with the Company.

RWE Generation UK plc

Notes to the financial statements for the year ended 31 December 2018 (continued)

22 Post-employment benefits (continued)

Funding plan

As part of the 31 March 2016 scheme valuation, the Trustees agreed the scheme deficit payments to be made in respect of the RWE (formerly the RWE Npower (No 2)) Group of the ESPS. The 31 March 2016 actuarial valuation resulted in a deficit of £184m as a result of which £143m is payable by RWE Generation UK plc. Annual payments were due to commence in 2017 (£45m), of which £34m was payable by RWE Generation UK plc and reduced in 2018 and are scheduled to remain constant thereafter to 2021 (£36m), of which £27m is payable by RWE Generation UK plc. The scheduled 2017 payment was brought forward and paid in October 2016. In addition the scheduled associated contribution towards the administration expenses £2.1m was also brought forward and £2.1m was paid in October 2016. The scheduled 2018 payment of £36m was paid in March 2018, of which £27m payable by RWE Generation UK plc.

A payment of £36.4m will be made in March 2022 for the new deficit arising since 1 April 2016. The additional deficit will be treated as "new deficit" which is still to be formally assessed in the statutory valuation as at 31 March 2019. For the purposes of the new recovery plan agreed following that valuation, any such later contributions will only be payable if agreed by the employers in that valuation.

Details of most recent valuations

The scheme was most recently valued on 31 March 2016. At that date the deficit of the RWE section was £184m giving a funding level of 89%. Independent actuaries have assessed the IAS 19R position as at 31 December 2018 for the RWE section by updating the last formal calculations using methods appropriate for IAS 19R. As at 31 December 2018 there was a deficit of £71m (2017: £76m).

Risks

There are a number of risks associated with operating a defined pension scheme, including exposure to investment and longevity risk. As the vast majority of benefits provided are linked to inflation, this is also a risk. The Trustees of the Scheme have implemented measures to reduce the risks associated with making investments as part of its investment strategy, by making use of liability matching investment techniques. This means investing in instruments such as liability matching bonds, interest rate and inflation swaps and other liability instruments. It is estimated the Group currently hedges around 64% of its interest rate exposure and around 65% of its inflation exposure. In addition, the Trustees conduct regular reviews of concentration in particular investments.

The amounts recognised in the statement of financial position are determined as follows:

	2018	2017
	£m	£m
Present value of funded obligations	(1,555)	(1,665)
Fair value of plan assets	1,484	1,589
Total	(71)	(76)

RWE Generation UK plc

Notes to the financial statements for the year ended 31 December 2018 (continued)

22 Post-employment benefits (continued)

Reconciliation of opening and closing scheme assets and liabilities

The movement in the defined benefit liability over the year is as follows:

	Fair value of plan assets £m	Present value of obligation £m	Total £m
As at 1 January 2018	1,589	(1,665)	(76)
Current service cost	-	(18)	(18)
Interest income/(expense)	35	(36)	(1)
Contribution by scheme participants	3	(3)	-
Benefits paid	(133)	133	-
Return on scheme assets excluding interest income	(55)	-	(55)
Experience (gains)/losses on scheme liabilities	-	(5)	(5)
Change in financial assumptions	-	30	30
Change in demographic assumptions	-	13	13
Actuarial gains/(losses) due to change in location	(5)	-	(5)
Reclassification of severance payments	-	(4)	(4)
Administration expenses	(3)	-	(3)
Contribution by employer	53	-	53
At 31 December 2018	1,484	(1,555)	(71)

Analysis of assets

The major categories of scheme assets are as follows:

	2018 £m	2017 £m
Equity instruments	104	115
Government bonds	702	841
Corporate bonds	545	460
Hedge funds	78	150
Other	55	23
Total scheme assets	1,484	1,589

	2018 £m	2017 £m
Actual return on scheme assets		
Interest income	35	37
Actuarial losses	(5)	-
Remeasurement	(55)	29
Total	(25)	66

Contributions towards deficit repair from other group companies of £9m is recognised in other comprehensive income (2017: £nil).

RWE Generation UK plc

Notes to the financial statements for the year ended 31 December 2018 (continued)

22 Post-employment benefits (continued)

Principal actuarial assumptions

The significant actuarial assumptions used to determine the present value of the defined benefit obligation at the statement of financial position date are as follows:

	2018 %	2017 %
Discount rate	2.60	2.20
Rate of inflation	3.20	3.10
CPI inflation assumption	2.10	2.00
Rate of salary increases	3.20	3.10
Rate of increase of pension in payment - Main, 60th and Executive sections	3.00	2.90
Rate of increase of pension in payment - 2005 section	2.10	2.00
Rate of increase of pension in deferment - Main	3.20	3.10
Rate of increase of pension in deferment - 60th, Executive sections and 2005 section	2.10	2.00

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in the UK. These assumptions translate into an average life expectancy in years for a pensioner retiring at age 65:

	2018 Years	2017 Years
Longevity at age 65 for current pensioners		
- Males less than £17,500 p.a. (2018) and less than £17,500 p.a. (2017) / staff	22	22
- Males less than £17,500 p.a. (2018) and less than £17,500 p.a. (2017) / industrial	20	20
- Males £17,500 p.a. (2018) £17,500 p.a. (2017) or more	23	23
- Females	24	24
Longevity at age 65 for members currently aged 40		
- Males less than £17,500 p.a. (2018) and less than £17,500 p.a. (2017) / staff	24	24
- Males less than £17,500 p.a. (2018) and less than £17,500 p.a. (2017) / industrial	23	23
- Males £17,500 p.a. (2018) £17,500 p.a. (2017) or more	25	25
- Females	26	26

Amounts recognised in the income statement

	2018 £m	2017 £m
Current service costs	(18)	(19)
Net interest costs	(1)	(3)
Scheme admin fees	(3)	(2)
Severance payments	(4)	(5)
Contributions from other group companies	5	2
Total recognised in the income statement	<u>(21)</u>	<u>(27)</u>

RWE Generation UK plc

Notes to the financial statements for the year ended 31 December 2018 (continued)

22 Post-employment benefits (continued)

Supplementary pension plan

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

- The Npower Supplementary Plan (NSP) which comprises of no active members (2017: 0) and 1 (2017: 1) pensioner. This plan is different to the remainder of the SPP's in that its membership will continue to receive payment if the Company is insolvent, as a result of the gilts held to match this liability. The NSP is also in addition to the individual's ESPS defined benefit scheme entitlement.
- 2 (2017: 2) former directors employed by RWE Generation UK plc have similar unfunded arrangements to the individuals in the NSP, but do not have the protection of the gilts that the members of the NSP scheme have.
- The third element provides enhanced benefits to 138 (2017: 153) non-directors who were employees at the time of the Company's privatisation in 1990.

A provision of £5m (2017: £6m) is in place to cover the ongoing costs of the scheme. Monthly payments are being made by the Company. As these monthly payments are made they will be utilised against the provision. £4m of the past service cost charge was recharged upon creation in 2015 to the subsidiaries of the Npower Group Limited to cover their element of the provision charged.

Risks

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

Scheme liabilities

Changes in the present value of scheme liabilities are as follows:

	2018 £m	2017 £m
Benefits paid		
Present value at start of year	(6)	(7)
Benefits paid	1	1
Present value at end of year	<u>(5)</u>	<u>(6)</u>

Principal actuarial assumptions

The significant actuarial assumptions used to determine the present value of the defined benefit obligation at the statement of financial position date are set out above.

Sensitivity analysis

A sensitivity analysis for the principal assumptions used to measure scheme liabilities is set out below:

	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	1.0%	Decrease by £0.4m	Increase by £0.4m
Pension growth rate	1.0%	Increase by £0.4m	Decrease by £0.3m
Life expectancy	Increase by 1 year	Increase by £0.2m	n/a

RWE Generation UK plc

Notes to the financial statements for the year ended 31 December 2018 (continued)

23. Share-based payments

The share based payment schemes for executives and employees of RWE Generation UK plc consisted of an equity settled scheme - a SAYE sharesave scheme - where the employee received options in the share capital of RWE AG. There is also a cash settled scheme, the long-term incentive plan 'BEAT', which had tranches commencing up to and including 2015. In 2016 BEAT was replaced by the SPP (Strategic Performance Plan) scheme. As a condition of accepting a grant in the 2016 tranche of SPP, all current employees with an entitlement to conditionally granted performance shares in all current tranches of BEAT agreed to waive that entitlement. The administrative process for this took place in January / February 2017. As a result of this only 'good leavers' retain an entitlement to conditionally granted performance shares in the current tranches of BEAT.

BEAT

Scheme description

Because the performance shares for the 2014 tranche were granted on 1 January 2014, the total number of conditionally granted performance shares shown below includes those granted to employees that were legally employed by the Company, but worked exclusively for the Retail Group on that date and subsequently had their contracts of employment transferred to Npower Limited on 1 October 2014. Only shares granted to the Company's employees on 1 January 2015 are shown as the number of conditionally granted performance shares for the 2015 tranche.

	2014 tranche	2015 tranche
BEAT		
Grant date	01/01/14	01/01/15
Number of conditionally granted performance shares	158,591	44,586
Term	4 years	4 years

Pay-out conditions

An automatic pay-out occurs if, following a waiting period of four years, (for 2014 and 2015 tranches), an out-performance of at least 25% compared to the DowJones STOXX Utilities Index peer group has been achieved, measured in terms of their index weighting as at 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. During the financial year the pay-out conditions were not achieved. Therefore, no employee became entitled to receive cash payments under long-term incentive schemes.

Determination of payment

The index weighting of peer group companies, which exhibit lower TSR than RWE AG at the end of the term, is calculated.

The performance factor is calculated by squaring this percentage rate and multiplying it by 1.25.

The 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 AG 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 2014 and 2015 tranches).

RWE Generation UK plc

Notes to the financial statements for the year ended 31 December 2018 (continued)

23 Share-based payments (continued)

Changes 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 AG 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 a 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 pro-rated 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 €5.05 per share as of the grant date for the 2015 tranche and €7.44 per share for the 2014 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.

SPP

Scheme description

	2016 tranche	2017 tranche	2018 tranche
Grant date	07/10/2016	01/01/2017	01/01/2018
Number of conditionally granted performance shares	21,530	81,154	46,986
Term	4 years	4 years	4 years

Grant of performance shares

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

Key performance criterion

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

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

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

RWE Generation UK plc

Notes to the financial statements for the year ended 31 December 2018 (continued)

23 Share-based payments (continued)

Key performance criterion (continued)

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

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

Pay-out of performance shares

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

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

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

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

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

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

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

RWE Generation UK plc

Notes to the financial statements for the year ended 31 December 2018 (continued)

23 Share-based payments (continued)

Changes in control

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

- a) a shareholder has taken control pursuant to § 29 of the German Wertpapiererwerbs-und Übernahmegesetz (WpÜG, German Securities Acquisition and Takeover Act) by holding at least 30% of the voting rights - including the attributed voting rights of third parties pursuant to § 30 of the WpÜG or
- b) a controlling agreement (Beherrschungsvertrag) with RWE AG is entered into and has taken effect with RWE AG as dependent company pursuant to § 291 of the German Aktiengesetz (AktG, German Stock Corporation Act) or
- c) RWE AG is merged with a legal entity which is not part of RWE AG group pursuant to § 2 of the German Umwandlungsgesetz (UmwG; German Transformation Act), unless the value of the external legal entity amounts to less than 50% of the Company value according to the agreed upon conversion ratio. Under these circumstances, lit. a) is not applicable.

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

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

Form of settlement

Cash settlement

The fair value of the performance shares conditionally granted in the SPP programme amounted to €18.80 per share as of the grant date for the 2018 tranche, €11.62 per share as of the grant date for the 2017 tranche and €13.78 per share as of the grant date of the 2016 tranche.

The fair value of the provision in respect of BEAT and SPP included within the financial statements at 31 December 2018 is £1.5m (2017: £nil).

RWE Generation UK plc

Notes to the financial statements for the year ended 31 December 2018 (continued)

23 Share-based payments (continued)

Sharesave scheme

Scheme description

	2014 tranche	2015 tranche
Grant date	18/07/2014	09/07/2015
Max numbers of options granted	95,205	162,584
Term	3 years	3 years
Vesting conditions	3 years	3 years
Exercise price (£ per share)	22.65	13.24
Form of settlement	Existing shares	Existing shares

In the year under review, the number of outstanding options from the Sharesave Scheme at RWE Generation UK plc developed as follows:

	2014 tranche	2015 tranche
Balance at start of the fiscal year	53,492	114,589
Exercised during the year	-	94,708
Expired during the year	53,492	3,626
Balance at the end of the fiscal year	-	16,255
Exercisable at the end of the fiscal year	-	16,255

No average weighted share price as of the exercise date was calculated as no options from the Sharesave Scheme were exercised in the previous fiscal year. The exercise prices of the options from the sharesave scheme outstanding as of the statement of financial position date ranged from €14.80 to €25.32. The weighted average remaining contractual term amounted to 0.17 years.

The fair value of the liability arising from the employee services received in respect of the 2015 tranche (2017: 2014 tranche) of sharesave scheme included within the financial statements at 31 December 2018 is £nil (2017: £nil).

In the year under review, the total expense for share based payment schemes amounted to £nil (2017: £nil) of which £nil (2017: £nil) was then recharged to other group companies. In respect of these recharges £nil (2017: £nil) was cash settled by other group companies.

Share Incentive Plan

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

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

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

The amount recognised in the income statement in 2018 is £103k. There is no liability recognised in the statement of financial position at the year-end.

RWE Generation UK plc

Notes to the financial statements for the year ended 31 December 2018 (continued)

24 Share capital

Allotted, called up and fully paid shares

	2018		2017	
	No.	£	No.	£
Ordinary shares of £1 each	<u>5,960,848</u>	<u>5,960,848</u>	<u>5,960,848</u>	<u>5,960,848</u>

25 Contingent liabilities

HM Revenue and Customs hold a £2m (2017: £2m) guarantee from the Company in relation to excise duty.

UK trading arrangements for the Generation business are supported by indemnities and letters of credit totalling £14m (2017: £15m).

Bank issued guarantees of £17m (2017: £16m) have been issued.

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

26 Capital and other commitments

Capital commitments

The total amount contracted for but not provided in the financial statements was £78m (2017: £137m).

Other financial commitments

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

	31 December 2018 £m	31 December 2017 £m
Not later than one year	(3)	(3)
Later than one year and not later than five years	(9)	(10)
Later than five years	(13)	(19)
Total	<u>(25)</u>	<u>(32)</u>

The amount of non-cancellable operating lease payments recognised as an expense during the year was £4m (2017: £2m).

RWE Generation UK plc

Notes to the financial statements for the year ended 31 December 2018 (continued)

27 Financial instruments

Financial assets and liabilities can be broken down into the measurement categories with the following carrying amounts according to IFRS 9 in the year under review (2017: IAS 39).

Financial instruments by category

2018	Debt	Assets	Derivatives	Debt	Total
	instruments measured at amortised cost	at fair value through profit and loss		instruments measured at FVOCI	
Assets as per statement of financial position	£m	£m	used for hedging	£m	£m
Financial assets at FVOCI	-	-	-	15	15
Derivative financial instruments	-	94	-	-	94
Trade and other receivables excluding prepayments	1,433	-	-	-	1,433
Cash and cash equivalents	20	-	-	-	20
Total	1,453	94	-	15	1,562

2018	Liabilities at fair value through profit and loss	Derivatives used for hedging	Other financial liabilities at amortised cost	Total
	£m	£m	£m	
Derivative financial instruments	115	-	-	115
Trade and other payables excluding non-financial liabilities	-	-	744	744
Total	115	-	744	859

2017	Loans & receivables	Assets at fair value through profit and loss	Derivatives used for hedging	Available for sale	Total
	£m	£m	£m	£m	
Available for sale financial assets	-	-	-	15	15
Derivative financial instruments	-	24	-	-	24
Cash flow hedges	-	-	15	-	15
Trade and other receivables excluding prepayments	1,429	-	-	-	1,429
Cash & cash equivalents	2	-	-	-	2
Total	1,431	24	15	15	1,485

RWE Generation UK plc

Notes to the financial statements for the year ended 31 December 2018 (continued)

27 Financial instruments (continued)

2017	Liabilities at fair value through profit and loss £m	Derivatives used for hedging £m	Other financial liabilities at amortised cost £m	Total £m
Liabilities as per statement of financial position				
Derivative financial instruments	27	-	-	27
Cash flow hedges	-	2	-	2
Trade and other payables excluding non-financial liabilities	-	-	878	878
Total	27	2	878	907

Valuation methods and assumptions

Derivative instruments:

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

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

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

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

	Level 1 2018 £m	Level 2 2018 £m	Level 3 2018 £m	Total 2018 £m
Commodity derivatives	-	(115)	-	(115)
Financial derivatives	-	94	-	94
Cash flow hedges - net	-	-	-	-
Derivative financial assets	-	(21)	-	(21)
	Level 1 2017 £m	Level 2 2017 £m	Level 3 2017 £m	Total 2017 £m
Commodity derivatives	-	(27)	-	(27)
Financial derivatives	-	24	-	24
Cash flow hedges - net	-	13	-	13
Derivative financial liabilities	-	10	-	10

The maturity profile of the financial assets/(liabilities) is as follows:

	Assets at fair value through other comprehensive income 2018 £m	Liabilities at fair value through profit and loss 2018 £m
Due within one year	-	(2)
Due in more than one year and less than two years	-	(19)
Due in more than two years and less than five years	-	-
Total	-	(21)

RWE Generation UK plc

Notes to the financial statements for the year ended 31 December 2018 (continued)

27 Financial instruments (continued)

	Assets at fair value through other comprehensive income 2017 £m	Liabilities at fair value through profit and loss 2017 £m
Due within one year	14	1
Due in more than one year and less than two years	(1)	(4)
Due in more than two years and less than five years	-	-
Total	<u>13</u>	<u>(3)</u>

Financial risk management

a) Market risk

i) Foreign currency risk

The majority of contracts entered into are in sterling; however, there are some contracts with a third party in euros. Positions relating to coal and carbon commodity assets are entered into in currencies other than sterling, however as the remaining unrealised forward purchase positions are £nil in 2018 (2017: £nil), the risk in respect of exchange rate movement is not considered material to the financial statements.

ii) Price risk

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

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 Generation UK plc, the exposure to credit risk is considered immaterial.

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

Provision for impairment on trade receivables has been recognised of £180k (2017: £29k).

c) Liquidity risk

A maturity analysis of financial liabilities relating to the commodity and financial derivatives is included on pages 48 and 49. 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

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

RWE Generation UK plc

Notes to the financial statements for the year ended 31 December 2018 (continued)

27 Financial instruments (continued)

Gross value of assets and liabilities (continued)

	Gross amounts of recognised financial assets £m	Gross amounts of financial liabilities set off in the statement of financial position £m	Net amounts of financial assets presented in the statement of financial position £m
As at 31 December 2018			
Commodity	3,124	(3,124)	-
Financial derivative	407	(313)	94
Total	3,531	(3,437)	94
(a) Financial assets (continued)			
	Gross amounts of recognised financial assets £m	Gross amounts of financial liabilities set off in the statement of financial position £m	Net amounts of financial assets presented in the statement of financial position £m
As at 31 December 2017			
Commodity	1,162	(1,162)	-
Financial derivative	38	(14)	24
Cash flow hedges	15	(2)	13
Total	1,215	(1,178)	37
	Gross amounts of recognised financial liabilities £m	Gross amounts of financial assets set off in the statement of financial position £m	Net amounts of financial liabilities presented in the statement of financial position £m
As at 31 December 2018			
Commodity	3,239	(3,124)	115
Financial derivative	313	(313)	-
Total	3,552	(3,437)	115
	Gross amounts of recognised financial liabilities £m	Gross amounts of financial assets set off in the statement of financial position £m	Net amounts of financial liabilities presented in the statement of financial position £m
As at 31 December 2017			
Commodity	1,189	(1,162)	27
Financial derivative	14	(14)	-
Cash flow hedges	-	-	-
Total	1,203	(1,176)	27

RWE Generation UK plc

Notes to the financial statements for the year ended 31 December 2018 (continued)

28 Legal proceedings against the Company

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

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

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

29 Contingent assets

The Company discloses a contingent asset relating to the Capacity Market suspension. If the Capacity Market is reinstated, back-payments totalling £45m could be recovered by the Company relating to the October to December period of the 2018/19 capacity year. This is dependent on a positive and timely outcome of the European Commission's review into the Capacity Market mechanism.

There were no contingent assets in 2017.

30 Controlling parties

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

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

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

These financial statements are available upon request from RWE AG, Altenessener Straße 35, 45141 Essen, Germany. They can also be accessed at www.rwe.com.

The ultimate controlling party is RWE AG.