

Company Registration No. 06574689 (England and Wales)

**RWE MARKINCH LIMITED**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

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# RWE MARKINCH LIMITED

## COMPANY INFORMATION

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**Directors**

Mrs H Mallett  
Mr M Suleman (Appointed 29 April 2020)  
Ms K Schmelter (Appointed 1 April 2021)

**Company secretary**

Mr J Keene

**Company number**

06574689

**Registered office**

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

**Independent auditors**

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

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# **RWE MARKINCH LIMITED**

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# RWE MARKINCH LIMITED

## STRATEGIC REPORT

### FOR THE YEAR ENDED 31 DECEMBER 2020

The directors present the strategic report and financial statements for the year ended 31 December 2020.

#### Review of the business and future developments

The Company reports a loss before tax for the financial year of £4.3m compared to a profit before tax of £68.1m in 2019. Net assets decreased to £79.3m (2019: £100.0m). During the year, the Company paid an interim dividend of £17.9m (2019: £nil).

The £72.4m reduction in the year-on-year loss/profit before tax is explained below:

- £40.0m impairment write back in 2019. This caused an increase in depreciation of £2.8m compared to 2019.
- £14.0m reduction in other income which relates to the movement in the unrealised valuation of financial derivatives.
- £13.8m reduction in turnover net of fuel costs. Lower generation volumes including a period of reduced output to manage fuel stocks and a fall in Renewable Obligation Certificate (ROC) prices caused by the pandemic has resulted in significantly reduced turnover. Also an increase in fuel costs as more virgin wood used and recovered waste wood being sourced from continental Europe.
- £0.9m increase in overhaul and maintenance costs.
- £0.5m increase in depreciation following the opening of the Energy Centre in 2019.
- £0.4m reduction in exceptional costs relating to the write-off of investment in Glenrothes Paper Limited.

	2020	2019
	£	£
(Loss)/profit before tax	(4,288,755)	68,141,146
Net assets	79,286,043	99,963,277
Total assets less current liabilities	259,978,637	279,357,254

The plant's main fuel is recovered waste wood. Supplies in 2020 were significantly adversely impacted by the national measures taken to limit the spread of Covid-19. During the first lockdown period, demolition and construction sites saw reduced activity and civic refuse amenities were closed. This resulted in supplies in the first half of the year being around 50% of expected volume.

Stocks held at our fuel storage sites provided some protection. However, to maintain continuous plant output during the Covid-19 lockdown, a number of measures were taken:

- An increase in the volume of virgin wood chip in the fuel diet.
- Recovered waste wood was sourced and imported from continental Europe.
- A period of 15% reduced output was necessary to manage fuel stocks.

A key source of income is gained from the issuance of generator Renewable Obligation Certificates (ROCs). Unfortunately, the impact of Covid-19 on national electricity demand has led to a significant fall in the recycle element of ROC prices leading to a reduction of around 6% of the overall ROC price received. This is a result of licensed electricity suppliers needing to source fewer ROCs to meet their obligation.

A further consequence of the Covid-19 pandemic was the restrictions to travel, leading to the annual outage scheduled for April being delayed until August and increased in length to facilitate Covid-19 safe working. Despite the four-month delay to the scheduled outage, the plant remained on load albeit operating at a reduced output. Despite these challenges, a continuous heat supply was maintained to the Glenrothes Energy Network.

To address the expected general tightening in the recovered waste wood market, the Company has continued to diversify with trials of alternative biomass products. The plant demonstrated its ability to burn a wide range of biomass with all trials being successful. We now have six biomass fuel types approved for use.

To further address pressures in the recovered wood market we have increased storage capacity through entering into a long-term lease for an additional local site. This will allow the stocking up of fuel available in the summer for use during winter months when fuel supplies can suffer reduced availability.

# **RWE MARKINCH LIMITED**

## **STRATEGIC REPORT (CONTINUED)**

### **FOR THE YEAR ENDED 31 DECEMBER 2020**

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#### **Business environment**

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

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

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

Management are confident that despite the uncertainties caused by the pandemic, the Company has sufficient resources and liquidity to continue to provide security of supply. No adjustments have been made to these financial statements for Covid-19 effects.

#### **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 monitor and manage the overall risk of the Group and its operational subsidiaries.

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

The management of the business and the execution of the Company's strategy are subject to a number of risks. Detailed discussions of these risks and opportunities, in the context of the RWE AG Group as a whole, are provided on pages 69 through 78 of the RWE AG 2020 Annual Report.

# RWE MARKINCH LIMITED

## STRATEGIC REPORT (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2020

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#### **Section 172 statement**

The Directors take their duties and responsibilities seriously when managing the Company.

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

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

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

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

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

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

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

The Directors recognise that employees are fundamental and core to the business and delivery of strategic ambitions. The success of the business depends on attracting, retaining and motivating employees. From ensuring that the Company remains a responsible employer, to pay and benefits and to the health, safety and workplace environment, the Directors factor the implications of decisions on employees and the wider workforce, where relevant and feasible. The Directors also recognise that the Company's pensioners, though no longer employees, also remain important stakeholders.

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

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

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

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

# RWE MARKINCH LIMITED

## STRATEGIC REPORT (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2020

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

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

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

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

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

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

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

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

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

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

**Key decisions taken in 2020**

**Engagement with stakeholders**

**Strategic, planning, risk and performance**

Dividend  
Business plan 2021-2023

Shareholder and ultimate parent  
Government and regulators  
Our people

**Operational, investment, divestment**

Station repairs

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

**People, culture, stakeholders**

Health & Safety  
Covid-19 pandemic  
Diversity and inclusion review and planning  
Employee survey and action plans  
Charitable donations  
Gender pay gap report

Shareholder and ultimate parent  
Communities  
Suppliers  
Our people

# RWE MARKINCH LIMITED

## STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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### Political and regulatory environment

Brexit  
Modern slavery statement  
NIS regulation improvement plan  
Communications, lobbying and engagement strategy

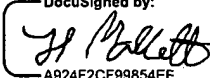
Shareholder and ultimate parent  
Communities and NGOs  
Government and regulators  
Our people

### Governance

Governance and steering project  
Formal Board committees

Shareholder and ultimate parent  
Our people

On behalf of the board

DocuSigned by:  
  
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Mrs H Mallett  
Director 18/06/2021  
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# **RWE MARKINCH LIMITED**

## **DIRECTORS' REPORT**

### **FOR THE YEAR ENDED 31 DECEMBER 2020**

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

#### **Principal activities**

The principal activity of the Company continued to be that of the operation of a biomass combined heat and power generation plant at Markinch, Fife in Scotland.

#### **Results and dividends**

The results for the year are set out on page 16.

The directors proposed and paid interim dividends to its immediate United Kingdom parent company of £17.9m in 2020. The directors do not propose a final dividend for the year ending 31 December 2020.

#### **Directors**

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

Mr W Jeffery	(Resigned 29 April 2020)
Mrs H Mallett	
Mr P O'Connor	(Resigned 29 April 2020)
Mr S Glover	(Appointed 29 April 2020 and resigned 31 March 2021)
Mr M Suleman	(Appointed 29 April 2020)
Ms K Schmelter	(Appointed 1 April 2021)

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

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

#### **Financial instruments**

##### **Capital management**

The Company's objectives, policies and processes for managing capital are consistent with those of the RWE AG Group. Detailed discussions of these, in the context of the RWE AG Group as a whole, are provided on page 120 of the RWE AG 2020 Annual Report.

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

Market risk is the risk that changes in commodity 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.

##### **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.

## **RWE MARKINCH LIMITED**

### **DIRECTORS' REPORT (CONTINUED)**

#### **FOR THE YEAR ENDED 31 DECEMBER 2020**

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

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

##### **Equal opportunities and diversity**

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

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

Our commitment means that we continually seek to improve our policies, procedures and codes of practice to ensure that our employees, potential employees and other workers are treated equally, fairly and on merit. Employment decisions affecting both job applicants and employees with disabilities will be made following any reasonable adjustments that may be necessary to ensure fair treatment. In addition, appropriate arrangements are made for training, career development and promotion of disabled persons employed by the Company. If members of staff become disabled the Company continues employment, either in the same or an alternative position, with appropriate training being given if necessary.

##### **Employees**

The success of our business depends on the ability, commitment and dedication of our employees and we thank them for their continued efforts this year in the challenging business environment that we find ourselves in. The Company is committed to the development of all staff in order to leverage our intellectual capital. Among many development and training initiatives, all staff are encouraged to maintain personal development plans.

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

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

##### **Business relationships**

The Company's objectives, policies and processes for managing its relationships with suppliers, customers and others with a business relationship with the Company are consistent with those of the RWE AG group. Detailed discussions of these, in the context of the RWE AG group as a whole, are provided in the 2020 RWE AG Corporate Responsibility Report available at [www.rwe.com](http://www.rwe.com).

##### **Auditors**

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

# RWE MARKINCH LIMITED

## DIRECTORS' REPORT (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2020

#### Energy and carbon report

##### **Introduction**

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

##### **UK energy use**

The energy used as a result of RWE Markinch Limited's business activities during 2020 is summarised and compared with that for 2019 in Table 1, below. The energy figures for both years include all energy used in the operation of the Markinch Combined Heat and Power (CHP) biomass plant, site vehicles and the associated business travel.

The commercial impacts of the Covid-19 pandemic, and especially the impacts on the construction and demolition industry, resulted in a shortage of waste wood fuel. As a result, the commercial decision was taken to reduce plant load in April/May 2020 in order to conserve fuel stocks. Additionally, the planned plant outage was extended due to the need for social distancing and reduced numbers of people on site. However, the reduced plant operation during 2020 led to an increased reliance on imported works power. As a result of these combined factors, electricity generation from the plant reduced by 10.7% during 2020 compared to 2019 (383,192 MWh compared to 429,019 MWh). Accordingly, the energy consumption for the plant's primary (biomass) fuels was reduced.

**Table 1, Energy consumption**

Total Energy Consumption (MWh)	2020	2019	2020 Change from 2019 (%)
Energy Consumption in Fuels used for Power & Heat Generation	1,131,712	1,345,152	-15.9%
Imported Works Power	2,451	1,654	48.2%
Energy Consumption - business travel	31	95	-67.4%
<b>Total Energy Consumption</b>	<b>1,134,194</b>	<b>1,346,901</b>	<b>-15.8%</b>

# RWE MARKINCH LIMITED

## DIRECTORS' REPORT (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2020

#### Greenhouse Gas Emissions

Greenhouse gas emissions are grouped into three scopes:

Scope 1 – Direct emissions from controlled or owned sources

Scope 2 – Indirect energy emissions from generation of purchased energy

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

Due to the reduced energy consumption for the plant's primary fuels, the Scope 1 GHG emissions for the business reduced correspondingly. However, the reduced plant operation during 2020 led to an increased reliance on imported works power with a corresponding increase in Scope 2 GHG emissions. Again, as a result of the effects of the Covid-19 pandemic, business travel greatly reduced during 2020, leading to a fall in Scope 3 GHG emissions. The greenhouse gas emissions associated with the above energy consumption are summarised in Table 2, below.

**Table 2, Greenhouse gas emissions**

GHG Emissions (t CO2e)	2020	2019	2020 Change from 2019 (%)
EU Emissions Trading System Emissions (fossil fuel)	9,591	10,427	-8.0%
Total Scope 1 Emissions	23,272	29,321	-20.6%
Total Scope 2 Emissions	571	423	35.0%
Total Scope 3 Emissions	8	23	-65.2%
Biomass Emissions (CO2)	400,688	476,865	-16.0%
Biomass N2O and CH4 Emissions (t CO2e)	12,903	15,745	-18.1%
N2O and CH4 Emissions from other fuels (t CO2e)	778	3,149	-75.3%
<b>Total Scope 1,2 &amp; 3 Emissions (including N2O and CH4 Emissions from Biomass)</b>	<b>23,851</b>	<b>29,767</b>	<b>-19.9%</b>

#### Quantification and reporting methodology

All fuel consumption and CO2 emissions data for Markinch CHP biomass plant are externally verified as required for compliance with the EU ETS. Also, the majority of the environmental parameters are legally required to be submitted to the Scottish Environment Protection Agency (SEPA).

Other information such as GHG emissions and energy consumption from business travel has been calculated using the UK Government GHG Conversion Factors for Company Reporting for the relevant year.

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

#### Intensity measurement

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

For Markinch CHP biomass plant, during 2020 the carbon intensity from the combustion of EU ETS fossil fuels was 0.025 t CO2e/MWh. While remaining very low, this was a marginal increase from the 2019 figure of 0.024 t CO2e/MWh. This slight increase in carbon intensity was the result of a marginal reduction in the proportion of fuel energy from biomass, where this reduced from 97.6% in 2019 to 97.3% in 2020. This was the result of an increased proportion of natural gas being required to meet the more intermittent operating regime resulting from the previously mentioned reduction in plant load.

#### Measures taken to improve energy efficiency

As energy efficiency is central to the operation of the power plant, the Markinch CHP biomass plant team, supported by the wider RWE Group companies, are continually striving to improve the performance of the plant. However, as the plant is still relatively new, the scope for improvement is limited as the process was optimised at the station's design stage to include variable speed drives on key motors and sensor-controlled lighting etc. Building on the successful completion of the Energy Centre on the site during 2019, the plant has delivered increased quantities of low carbon heat to local buildings during 2020, with output increasing from 2,400 MWh during 2019 to 3,340 MWh during 2020.

# RWE MARKINCH LIMITED

## DIRECTORS' REPORT (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2020

#### **Estimated data and assumptions**

As can be seen from Table 3, below, in terms of volume, the vast majority of the business's energy consumption and GHG emissions data are externally verified from the Markinch CHP biomass plant's EU ETS compliance. Almost all other operating plant data and the associated emissions are either measured or calculated from known values. The principal area where energy consumption and the associated GHG emissions have needed to be estimated is the business travel data, and in particular, the activity of site vehicles. However, as can clearly be recognised from the figures below, the quantity of estimated data is immaterial.

**Table 3, Data quality**

<b>Data Quality</b>	<b>2020</b>	<b>2019</b>
<b>Energy consumption</b>		
Externally verified data (%)	99.78%	99.87%
Total estimated data (%)	0.002%	0.005%
<b>Fossil Fuel Emissions (tCO<sub>2</sub>e)</b>		
Externally verified data (%)	96.64%	96.18%
Total estimated data (%)	0.002%	0.005%

#### **Statement of directors' responsibilities in respect of the financial statements**

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

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

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

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

# RWE MARKINCH LIMITED

## DIRECTORS' REPORT (CONTINUED)

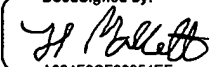
**FOR THE YEAR ENDED 31 DECEMBER 2020**

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### Statement of disclosure to auditors

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

On behalf of the board

DocuSigned by:  
  
.....A924E2CF99854EE.....

Mrs H Mallett  
Director

18/06/2021  
Date: .....

## **RWE MARKINCH LIMITED**

### **INDEPENDENT AUDITORS' REPORT**

#### **TO THE MEMBERS OF RWE MARKINCH LIMITED**

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

#### **Opinion**

In our opinion, RWE Markinch Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its 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, which comprise: the statement of financial position as at 31 December 2020; the statement of comprehensive income, and 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**

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

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

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

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

## **RWE MARKINCH LIMITED**

### **INDEPENDENT AUDITORS' REPORT (CONTINUED)**

#### **TO THE MEMBERS OF RWE MARKINCH LIMITED**

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##### **Reporting on other information**

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

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

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

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

##### *Strategic report and the Directors' Report*

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and the Directors' Report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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



## **RWE MARKINCH LIMITED**

### **INDEPENDENT AUDITORS' REPORT (CONTINUED) TO THE MEMBERS OF RWE MARKINCH LIMITED**

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#### *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.

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

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

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

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

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

#### *Use of this report*

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

## **RWE MARKINCH LIMITED**

### **INDEPENDENT AUDITORS' REPORT (CONTINUED)**

#### **TO THE MEMBERS OF RWE MARKINCH LIMITED**

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#### **Other required reporting**

##### **Companies Act 2006 exception reporting**

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

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

We have no exceptions to report arising from this responsibility.



**Katharine Finn (Senior Statutory Auditor)**  
**for and on behalf of PricewaterhouseCoopers LLP**  
**Chartered Accountants and Statutory Auditors**  
**Reading** 18 June 2021

**RWE MARKINCH LIMITED****STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2020**

	Notes	2020 £	2019 £
<b>Turnover</b>	<b>3</b>	47,646,041	60,635,897
Cost of sales: excluding exceptional items		(46,067,915)	(40,446,653)
Cost of sales: exceptional items	<b>4</b>	-	40,000,000
<b>Gross profit</b>		<u>1,578,126</u>	<u>60,189,244</u>
Administrative expenses		(2,357,877)	(2,150,400)
Other income	<b>5</b>	1,359,762	15,314,767
<b>Operating profit</b>	<b>6</b>	<u>580,011</u>	<u>73,353,611</u>
Finance income	<b>7</b>	45,741	100,142
Interest payable and similar expenses	<b>8</b>	(4,828,701)	(4,828,043)
Exceptional items	<b>9</b>	(85,806)	(484,564)
Finance costs - net		<u>(4,868,766)</u>	<u>(5,212,465)</u>
<b>(Loss)/profit before taxation</b>		<u>(4,288,755)</u>	<u>68,141,146</u>
Tax on (loss)/profit	<b>10</b>	1,511,521	(10,214,703)
<b>(Loss)/profit and total comprehensive (expense)/income for the financial year</b>		<u><u>(2,777,234)</u></u>	<u><u>57,926,443</u></u>

The income statement has been prepared on the basis that all operations are continuing operations.

**RWE MARKINCH LIMITED****STATEMENT OF FINANCIAL POSITION****AS AT 31 DECEMBER 2020**

	Notes	2020 £	2019 £
<b>Fixed assets</b>			
Intangible assets	12	-	-
Tangible fixed assets	13	184,533,873	196,741,476
		<u>184,533,873</u>	<u>196,741,476</u>
<b>Current assets</b>			
Stocks	14	3,417,041	2,967,144
Derivative financial instruments	15	1,913,095	2,906,891
Trade and other receivables	16	73,241,036	78,012,529
Deferred tax asset: realisable after more than one year	17	7,416,601	11,150,940
Cash at bank and in hand		85,132	73,432
		<u>86,072,905</u>	<u>95,110,936</u>
<b>Creditors: amounts falling due within one year</b>			
Trade and other payables	18	10,536,130	11,479,108
Taxation and social security		23,851	975,835
Lease liabilities	19	68,160	40,215
		<u>10,628,141</u>	<u>12,495,158</u>
<b>Net current assets</b>		<u>75,444,764</u>	<u>82,615,778</u>
<b>Total assets less current liabilities</b>		<u>259,978,637</u>	<u>279,357,254</u>
<b>Creditors: amounts falling due after more than one year</b>			
Loans and overdrafts	20	171,556,326	171,556,326
Lease liabilities	19	973,912	594,658
		<u>172,530,238</u>	<u>172,150,984</u>
<b>Provisions for liabilities</b>			
Other provisions	21	8,162,356	7,242,993
<b>Net assets</b>		<u>79,286,043</u>	<u>99,963,277</u>
<b>Capital and reserves</b>			
Called up share capital	22	2	2
Profit and loss reserves		79,286,041	99,963,275
<b>Total equity</b>		<u>79,286,043</u>	<u>99,963,277</u>

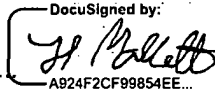
## **RWE MARKINCH LIMITED**

### **STATEMENT OF FINANCIAL POSITION (CONTINUED)**

**AS AT 31 DECEMBER 2020**

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The financial statements on pages 16 to 44 were approved by the board of directors and authorised for issue on 18/06/2021... and are signed on its behalf by:

DocuSigned by:  
  
A924F2CF99854EE...

Mrs H Mallett  
Director

**Company Registration No. 06574689**

**RWE MARKINCH LIMITED****STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2020**

	Notes	Share capital £	Profit and loss reserves £	Total £
<b>Balance at 1 January 2019</b>		2	42,036,832	42,036,834
<b>Year ended 31 December 2019:</b>				
Profit and total comprehensive income for the year		-	57,926,443	57,926,443
<b>Balance at 31 December 2019</b>		2	99,963,275	99,963,277
<b>Year ended 31 December 2020:</b>				
Loss and total comprehensive expense for the year		-	(2,777,234)	(2,777,234)
Dividends	23	-	(17,900,000)	(17,900,000)
<b>Balance at 31 December 2020</b>		2	79,286,041	79,286,043

# RWE MARKINCH LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2020

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#### 1 Accounting policies

##### Company information

RWE Markinch Limited is a private company limited by shares incorporated in England and Wales. The registered office is Windmill Hill Business Park, Whitehill Way, Swindon, Wiltshire, United Kingdom, SN5 6PB. The company's principal activities and nature of its operations are disclosed in the directors' report.

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

#### 1.1 Accounting convention

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

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

The financial statements have been prepared under the historical cost convention, except for the revaluation of financial assets and financial liabilities held at fair value, in accordance with the Companies Act 2006. The principal accounting policies adopted are set out below.

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

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

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

#### 1.2 Going concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, which the directors consider to be at least 1 year. Thus, they continue to adopt the going concern basis of accounting in preparing the financial statements.

The Company relies on the continued support of RWE Generation UK plc and funds its working capital requirements through a loan owed to parent undertakings of £171,556,326 (2019: £171,556,326). The loan is unsecured and bears interest at a rate of 2.752%. The loan is repayable at any time with the consent of both parties and terminates on 31 July 2033.

# RWE MARKINCH LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2020

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#### 1 Accounting policies

(Continued)

#### 1.3 Turnover

Turnover comprises the fair value of the consideration received or receivable in respect of the invoiced and accrued value of generated electricity and Renewables Obligation Certificates. Turnover is shown net of value added tax, returns, rebates and discounts. Generated electricity is sold through RWEST onwards to the market, adjusted for physically-settled derivatives.

The Company recognises turnover when it can be reliably measured and it is probable that future economic benefits will flow to the entity.

#### Costs to obtain a contract

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

#### Unsatisfied Performance Obligations

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

The Company recognises turnover from the following major sources:

- Power generation
- Renewables Obligation Certificates

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

#### Power generation

The majority of electricity is sold via the Grid Trade Master Agreement. Power generation 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.

#### Renewables Obligation Certificates

Renewables Obligation Certificates granted to the Company are recognised within turnover as eligible electricity is generated. They are recognised as current assets, grouped within accrued income. They are held at the best estimate of the prevailing market value at the year-end. As the Company does not have any Renewables Obligation, there are contracts for the sale of these assets to other companies at the end of the compliance period.

#### 1.4 Intangible assets other than goodwill

Intangible assets are stated at original cost less accumulated amortisation and any accumulated impairment losses.



# RWE MARKINCH LIMITED

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

### 1 Accounting policies

(Continued)

#### 1.5 Tangible fixed assets

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

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

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

Depreciation is charged so as to write off the cost of assets, other than freehold land and assets under construction which are not depreciated, over their estimated useful lives, as follows:

Freehold land and buildings	20 years
Leasehold land and buildings	Period of lease term
Plant and equipment	3-20 years

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

#### 1.6 Impairment of tangible and intangible assets

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

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

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

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

# RWE MARKINCH LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2020

---

#### 1 Accounting policies

(Continued)

##### 1.7 Stocks

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

The cost of raw materials and consumables comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the stock to their present location and condition. At each reporting date, stock is assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell; the impairment loss is recognised immediately in the income statement.

##### 1.8 Cash at bank and in hand

Cash at bank and in hand, include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in creditors: amounts falling due within one year.

##### 1.9 Financial assets

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

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

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

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

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

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

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

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

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

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

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

# RWE MARKINCH LIMITED

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

---

### 1 Accounting policies

(Continued)

#### 1.10 Financial liabilities

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

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

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

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

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

##### ***Other financial liabilities***

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

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

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

#### 1.11 Equity instruments

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

# RWE MARKINCH LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2020

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#### 1 Accounting policies

(Continued)

##### 1.12 Derivatives

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

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

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

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

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to fair value at each reporting end date. The resulting gain or loss is recognised in the income statement immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the income statement depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset, whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are classified as current.

##### 1.13 Taxation

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

###### **Current tax**

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

# RWE MARKINCH LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2020

---

#### 1 Accounting policies

(Continued)

##### *Deferred tax*

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

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

#### 1.14 Provisions

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

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

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

#### 1.15 Employee benefits

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

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

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

# RWE MARKINCH LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2020

---

#### 1 Accounting policies

(Continued)

##### 1.16 Retirement benefits

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

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.

Certain employees participate in a multi-employer defined benefit pension scheme, the Electricity Supply Pension Scheme, an industry-wide scheme. In the judgement of the directors, the Company does not have sufficient information on the plan assets and liabilities to be able to reliably account for its share of the defined benefit obligation and plan assets. Therefore the scheme is accounted for as a defined contribution scheme, see note 25 for further details.

##### 1.17 Leases

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

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

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

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

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

# RWE MARKINCH LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2020

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#### 1 Accounting policies

(Continued)

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

#### 1.18 Foreign exchange

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

#### 2 Critical accounting estimates and judgements

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

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

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

##### Critical judgements

##### Impairment of assets

The Company's management makes an estimate annually of the recoverable amounts of its assets based on the present value of future cash flows expected to be derived from use of the asset. If the recoverable amount is estimated to be less than its carrying amount, an impairment loss is recognised immediately in the income statement.

Further information on how the recoverable amount is calculated is described in the accounting policy on page 22.

##### Decommissioning costs

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

- Costs are comprised of demolition contractors costs, decommissioning costs and project management costs. These costs are reviewed annually with demolition quotes being updated every 5 years. Costs are inflated to the estimated closure date using the forecast Consumer Price Index (CPI) which is calculated by RWE group. The CPI rate used as at 31 December was 2.0% per annum (2019: 2.25% per annum reducing to 2.00% per annum from 2022).
- Inflated costs are discounted over the life of the station which is currently 13 years. The discount rate is re-assessed on a quarterly basis by RWE group and as at 31 December the greater than 4 year rate was 0.25% (2019: 1.00%). The 1-4 year rate was 0.00% (2019: 0.50%).

**RWE MARKINCH LIMITED****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 31 DECEMBER 2020****3 Turnover**

	2020	2019
	£	£
<b>Turnover analysed by class of business</b>		
Power Generation	14,084,258	18,405,883
Renewables Obligation Certificates	33,561,783	42,230,014
	<u>47,646,041</u>	<u>60,635,897</u>

**4 Impairments**

Reversals of previous impairment losses have been recognised in profit or loss as follows:

	2020	2019
	£	£
In respect of:		
Tangible assets	-	40,000,000
	<u>-</u>	<u>40,000,000</u>
Recognised in:		
Cost of sales	-	(40,000,000)
	<u>-</u>	<u>(40,000,000)</u>

During 2019 following the opening of the Energy Centre, ensuring the 2 ROC status of the Company, a £40m impairment write back was processed.

**5 Other income**

The analysis of the Company's other income for the year is as follows:

	2020	2019
	£	£
Movement in unrealised valuation of financial derivatives	1,360,948	15,320,648
Foreign exchange losses	(1,186)	(5,881)
	<u>1,359,762</u>	<u>15,314,767</u>

**6 Operating profit**

	2020	2019
	£	£
Operating profit for the year is stated after charging:		
Depreciation of tangible assets	13,910,971	10,615,652
Cost of stocks recognised as an expense	16,117,709	16,563,407
	<u>29,928,680</u>	<u>27,179,059</u>

The audit fee in 2020 and 2019 was borne by RWE Generation UK plc, the immediate parent undertaking and no recharge was made.



**RWE MARKINCH LIMITED****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 31 DECEMBER 2020**

<b>7 Finance income</b>	<b>2020</b>	<b>2019</b>
	<b>£</b>	<b>£</b>
<b>Interest income</b>		
Interest receivable from group companies	45,741	96,234
Other interest income	-	3,908
	<u>45,741</u>	<u>100,142</u>
<b>Total finance income</b>	<u>45,741</u>	<u>100,142</u>
<b>8 Interest payable and similar expenses</b>	<b>2020</b>	<b>2019</b>
	<b>£</b>	<b>£</b>
<b>Interest on financial liabilities measured at amortised cost:</b>		
Interest payable to group undertakings	4,734,275	4,721,230
<b>Interest on other financial liabilities:</b>		
Interest on lease liabilities	23,659	22,419
	<u>4,757,934</u>	<u>4,743,649</u>
<b>Total interest expense</b>	<u>4,757,934</u>	<u>4,743,649</u>
<b>Other finance costs:</b>		
Unwinding of discount on provisions	70,767	84,394
	<u>70,767</u>	<u>84,394</u>
<b>Total finance costs</b>	<u>70,767</u>	<u>84,394</u>
<b>9 Exceptional items</b>	<b>2020</b>	<b>2019</b>
	<b>£</b>	<b>£</b>
Impairment of £1 B shares in Glenrothes Paper Limited	(99,372)	(484,564)
Glenrothes Paper Limited following sale of machinery	201,175	-
Glenrothes Paper Limited redundancy	(201,175)	-
Tullis Russell Papermarkers Limited dividend	13,566	-
	<u>(85,806)</u>	<u>(484,564)</u>

During the year, RWE Markinch Limited subscribed for 99,372 (2019: 484,564) £1 B shares in Glenrothes Paper Limited. The B shares have very limited rights and therefore the cost was recognised in the income statement rather than capitalised as an investment. Also £201,175 was received from Glenrothes Paper Limited following the sale of machinery and £201,175 was paid to Glenrothes Paper Limited for redundancy costs.

A final dividend of £13,566 from Tullis Russell Papermarkers Limited was received following liquidation of the company.

**RWE MARKINCH LIMITED****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 31 DECEMBER 2020****10 Taxation**

	2020	2019
	£	£
<b>Current tax</b>		
UK corporation tax on (loss)/profit for the current period	(5,252,281)	(4,650,370)
Adjustments in respect of prior periods	6,422	(94,298)
<b>Total UK current tax</b>	<u>(5,245,859)</u>	<u>(4,744,668)</u>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	5,051,805	14,979,994
Changes in tax rates	(1,312,464)	-
Adjustment in respect of prior periods	(5,003)	(20,623)
	<u>3,734,338</u>	<u>14,959,371</u>
<b>Total tax (credit)/charge</b>	<u>(1,511,521)</u>	<u>10,214,703</u>

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

	2020	2019
	£	£
(Loss)/profit before taxation	<u>(4,288,755)</u>	<u>68,141,146</u>
Expected tax (credit)/charge based on a corporation tax rate of 19.00% (2019: 19.00%)	(814,863)	12,946,818
Effect of expenses not deductible in determining taxable profit	614,388	486,612
Difference between current and deferred tax rates	(531,769)	(1,762,352)
Adjustments in respect of previous periods	1,418	(114,921)
Non-taxable write-back of impairment of fixed assets	-	(1,341,454)
Re-measurement of deferred tax - change in the UK tax rate	(780,695)	-
<b>Taxation (credit)/charge for the year</b>	<u>(1,511,521)</u>	<u>10,214,703</u>

On 11 March 2020, the UK Government announced that the previously enacted corporate tax rate reduction from 19% to 17% on 1 April 2020 would not go ahead. This change was substantively enacted on 17 March 2020. On 3 March 2021, the UK Government announced that the main rate of corporation tax would increase from 19% to 25% with effect from 1 April 2023. As this change was not substantively enacted at the statement of financial position date, any relevant deferred tax balances have been calculated at the previously enacted rate of 19% accordingly. The effect of this change would be to increase the deferred tax asset at 31 December 2020 by £2,342,085.

**RWE MARKINCH LIMITED****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2020****11 Employees**

The average monthly number of persons employed and recharged from RWE Generation UK plc during the year, was as follows:

	2020 Number	2019 Number
Generation	44	44

Their aggregate remuneration comprised:

	2020 £	2019 £
Wages and salaries	2,131,462	1,889,636
Social security costs	231,572	260,393
Pension costs	200,858	167,096
	<u>2,563,892</u>	<u>2,317,125</u>

All employees are employed by RWE Generation UK plc, the immediate parent. Employee costs of £2,563,892 (2019: £2,317,125) have been recharged to RWE Markinch Limited in respect of the provision of services to the Company by employees of the immediate parent company.

The directors are remunerated by the immediate parent company RWE Generation UK plc, the costs for which are not recharged to RWE Markinch Limited as their services to the Company are incidental to their services to the wider RWE group.

**12 Intangible fixed assets**

	Patents & licences £
<b>Cost</b>	
At 31 December 2019	4,590,786
At 31 December 2020	4,590,786
<b>Amortisation and impairment</b>	
At 31 December 2019	4,590,786
At 31 December 2020	4,590,786
<b>Carrying amount</b>	
At 31 December 2020	-
At 31 December 2019	-

**RWE MARKINCH LIMITED****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 31 DECEMBER 2020****12 Intangible fixed assets****(Continued)**

Intangible fixed assets include technical and environmental surveys in relation to the development of the biomass plant. Included is £4,495,269 (2019: £4,495,269) of intangibles purchased from another group company as part of the rights to develop the biomass plant at cost.

**13 Tangible fixed assets**

	Freehold land and buildings	Leasehold land and buildings	Assets under construction	Plant and equipment	Total
	£	£	£	£	£
<b>Cost</b>					
At 31 December 2019	819,465	665,845	459,761	332,115,803	334,060,874
Additions	-	463,546	317,778	134,161	915,485
Transfers	-	-	(373,493)	373,493	-
Change in estimate	-	-	-	787,883	787,883
At 31 December 2020	819,465	1,129,391	404,046	333,411,340	335,764,242
<b>Accumulated depreciation and impairment</b>					
At 31 December 2019	30,493	44,530	-	137,244,375	137,319,398
Charge for the year	30,493	53,955	-	13,826,523	13,910,971
At 31 December 2020	60,986	98,485	-	151,070,898	151,230,369
<b>Carrying amount</b>					
At 31 December 2020	758,479	1,030,906	404,046	182,340,442	184,533,873
At 31 December 2019	788,972	621,315	459,761	194,871,428	196,741,476

**RWE MARKINCH LIMITED****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2020****13 Tangible fixed assets (Continued)**

Tangible fixed assets includes right-of-use assets, as follows:

<b>Right-of-use assets</b>	<b>2020</b>	<b>2019</b>
	<b>£</b>	<b>£</b>
<b>Net values</b>		
Leasehold land and buildings	1,030,906	621,315
Plant and equipment	810	3,536
	<u>1,031,716</u>	<u>624,851</u>
<b>Additions</b>	<u>463,546</u>	<u>672,107</u>
<b>Depreciation charge for the year</b>		
Leasehold land and buildings	53,955	44,530
Plant and equipment	2,726	2,726
	<u>56,681</u>	<u>47,256</u>

**14 Stocks**

	<b>2020</b>	<b>2019</b>
	<b>£</b>	<b>£</b>
Raw materials	<u>3,417,041</u>	<u>2,967,144</u>

Stocks principally comprise supplies of fuel.

With regard to raw materials the replacement cost is not materially different to the value shown in the statement of financial position. No provision (2019: £nil) has been made for slow moving, obsolete or defective stock.

**15 Derivative financial instruments**

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

	<b>2020</b>	<b>2019</b>
	<b>£</b>	<b>£</b>
Commodity derivatives	<u>1,913,095</u>	<u>2,906,891</u>

RWE Markinch Limited mitigates its exposure to commodity price through hedging, in line with group policy of RWE AG.

**RWE MARKINCH LIMITED****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 31 DECEMBER 2020****16 Trade and other receivables**

	2020 £	2019 £
Trade debtors	-	2,362,413
Provision for bad and doubtful debts	-	(5,326)
	<u>-</u>	<u>2,357,087</u>
Accrued income	24,491,308	31,360,680
Amounts owed by fellow group undertakings	12,249,999	40,080,118
Loans owed by group undertakings	36,495,206	4,214,644
Prepayments	4,523	-
	<u>73,241,036</u>	<u>78,012,529</u>

Trade debtors disclosed above are classified as loans and receivables and are therefore measured at amortised cost.

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

Included in amounts owed by fellow group undertakings is £9,896,229 (2019: £1,672,048) of group relief receivable.

The loan owed by group undertakings is unsecured, bears interest at overnight LIBOR monthly average less 0.1% (2019: 0.1%) and is repayable within one year.

Accrued income comprises £23,946,035 (2019: £31,194,374) Renewables Obligation Certificates generated but not sold or redeemed, £216,410 (2019: £166,306) carbon certificates, £328,843 VAT recoverable (2019: £nil) and £20 (2019: £nil) other receivables.

**RWE MARKINCH LIMITED****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 31 DECEMBER 2020****17 Deferred taxation**

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

	Accelerated tax depreciation	Fair value movements on financial instruments	Total
	£	£	£
Deferred tax asset at 1 January 2019	23,821,180	2,289,131	26,110,311
<b>Deferred tax movements in prior year</b>			
Debit to profit or loss	(12,196,692)	(2,783,302)	(14,979,994)
Prior period adjustments	20,623	-	20,623
Deferred tax asset at 1 January 2020	11,645,111	(494,171)	11,150,940
<b>Deferred tax movements in current year</b>			
(Debit)/credit to profit or loss	(5,240,627)	188,821	(5,051,806)
Effect of change in tax rate - profit or loss	1,370,602	(58,138)	1,312,464
Prior period adjustments	5,003	-	5,003
Deferred tax asset at 31 December 2020	<u>7,780,089</u>	<u>(363,488)</u>	<u>7,416,601</u>

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

All items of deferred tax are expected to be recovered or settled more than 12 months after 31 December 2020. The deferred tax assets are expected to be recovered against future taxable income of the Company and the wider RWE UK tax group of which the Company is part of.

**18 Trade and other payables**

	2020	2019
	£	£
Trade creditors	275,915	1,717,037
Amounts owed to fellow group undertakings	8,201,822	8,334,753
Accruals and deferred income	2,058,393	1,427,318
	<u>10,536,130</u>	<u>11,479,108</u>

Amounts owed to fellow group undertakings includes amounts owed to the parent undertaking. They are unsecured, interest free and have no fixed date of repayment.

**RWE MARKINCH LIMITED****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 31 DECEMBER 2020****19 Lease liabilities**

	2020	2019
	£	£
<b>Maturity analysis</b>		
Within one year	96,709	59,651
In two to five years	383,547	228,369
In over five years	764,624	509,295
<b>Total undiscounted liabilities</b>	<u>1,244,880</u>	<u>797,315</u>
Future finance charges and other adjustments	(202,808)	(162,442)
<b>Lease liabilities in the financial statements</b>	<u><u>1,042,072</u></u>	<u><u>634,873</u></u>

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

	2020	2019
	£	£
Current liabilities	68,160	40,215
Non-current liabilities	973,912	594,658
	<u>1,042,072</u>	<u>634,873</u>

Amounts recognised in profit or loss include the following:

	2020	2019
	£	£
Interest on lease liabilities	<u>23,659</u>	<u>22,419</u>

Other leasing information is included in note 26.

**20 Loans and overdrafts**

	Due after one year	
	2020	2019
	£	£
<b>Loans held at amortised cost:</b>		
Loans from parent undertaking	<u>171,556,326</u>	<u>171,556,326</u>

The loan owed to parent undertakings is unsecured, bears interest at a rate of 2.752%. The loan is repayable at any time with the consent of both parties and terminates on 31st July 2033.



# RWE MARKINCH LIMITED

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

### 21 Other provisions

	2020 £	2019 £
Decommissioning and plant closure	7,935,338	7,076,687
Carbon emission allowances	227,018	166,306
	<u>8,162,356</u>	<u>7,242,993</u>

Movements on provisions:	Decommissioning and plant closure £	Carbon emission allowances £	Total £
At 1 January 2020	7,076,687	166,306	7,242,993
Additional provisions in the year	-	227,018	227,018
Utilisation of provision	-	(166,306)	(166,306)
Unwinding of discount	70,768	-	70,768
Adjustment for change in estimate	787,883	-	787,883
	<u>7,935,338</u>	<u>227,018</u>	<u>8,162,356</u>

#### Decommissioning and plant closure

Provisions for decommissioning and plant closure are in relation to the expected site costs consisting of decommissioning and demolition costs. The provision will be utilised at the end of the plant's useful life which is estimated to be 13 years.

#### 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.

### 22 Share capital

	2020 Number	2019 Number	2020 £	2019 £
<b>Ordinary share capital Authorised</b>				
Ordinary shares of £1 each	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>
<b>Issued and fully paid</b>				
Ordinary shares of £1 each	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>

### 23 Dividends

	2020 per share £	2019 per share £	2020 Total £	2019 Total £
Amounts recognised as distributions:				
<b>Ordinary shares</b>				
Interim dividend paid	<u>8,950,000</u>	<u>-</u>	<u>17,900,000</u>	<u>-</u>

**RWE MARKINCH LIMITED****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 31 DECEMBER 2020****24 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.

**Financial instruments by category**

<b>Assets</b>	<b>Debt Assets at fair instruments value through measured at profit or loss amortised cost</b>		<b>Total</b>
	<b>£</b>	<b>£</b>	<b>£</b>
<b>At 31 December 2020</b>			
Derivative financial instruments	-	1,913,095	1,913,095
Trade and other receivables excluding prepayments	73,236,513	-	73,236,513
Cash at bank and in hand	85,132	-	85,132
<b>Total</b>	<b>73,321,645</b>	<b>1,913,095</b>	<b>75,234,740</b>

<b>Liabilities</b>	<b>Liabilities at amortised cost</b>		<b>Total</b>
	<b>£</b>		<b>£</b>
<b>At 31 December 2020</b>			
Trade and other payables excluding non-financial liabilities	(180,034,063)	(180,034,063)	(180,034,063)
<b>Total</b>	<b>(180,034,063)</b>	<b>(180,034,063)</b>	<b>(180,034,063)</b>

<b>Assets</b>	<b>Debt Assets at fair instruments value through measured at profit or loss amortised cost</b>		<b>Total</b>
	<b>£</b>	<b>£</b>	<b>£</b>
<b>At 31 December 2019</b>			
Derivative financial instruments	-	2,906,891	2,906,891
Trade and other receivables excluding prepayments	78,012,529	-	78,012,529
Cash at bank and in hand	73,432	-	73,432
<b>Total</b>	<b>78,085,961</b>	<b>2,906,891</b>	<b>80,992,852</b>

**RWE MARKINCH LIMITED****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 31 DECEMBER 2020****24 Financial instruments****(Continued)**

<b>Liabilities</b>	<b>Liabilities at amortised cost</b>	<b>Total</b>
	<b>£</b>	<b>£</b>
<b>At 31 December 2019</b>		
Trade and other payables excluding non-financial liabilities	(181,608,116)	(181,608,116)
<b>Total</b>	<b>(181,608,116)</b>	<b>(181,608,116)</b>

**Valuation methods and assumptions**

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

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

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

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

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>At 31 December 2020</b>				
Commodity derivatives	-	1,913,095	-	1,913,095
Derivative financial assets	-	1,913,095	-	1,913,095
<b>At 31 December 2019</b>				
Commodity derivatives	-	2,906,891	-	2,906,891
Derivative financial assets	-	2,906,891	-	2,906,891

**Maturity profile of financial assets/(liabilities)**

	<b>Assets at FVPL</b>
	<b>£</b>
<b>At 31 December 2020</b>	
Due within one year	502,179
Due in more than one year and less than two years	1,251,069
Due in more than two years and less than five years	159,847
<b>Total</b>	<b>1,913,095</b>

**RWE MARKINCH LIMITED****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 31 DECEMBER 2020****24 Financial instruments****(Continued)**

	<b>Assets at FVPL £</b>
<b>At 31 December 2019</b>	
Due within one year	721,710
Due in more than one year and less than two years	172,192
Due in more than two years and less than five years	2,012,989
<b>Total</b>	<b>2,906,891</b>

**Financial risk management****Price risk**

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

**Credit risk**

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

None of the financial assets are past due or impaired as at 31 December 2020 (2019: £nil)

**Liquidity risk**

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

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

**RWE MARKINCH LIMITED****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 31 DECEMBER 2020****24 Financial instruments****(Continued)****Gross value of assets and liabilities**

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

	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off	Net amounts of financial assets
	£	£	£
At 31 December 2020			
Commodity derivatives	14,923,631	(13,010,536)	1,913,095
Total	<u>14,923,631</u>	<u>(13,010,536)</u>	<u>1,913,095</u>

	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off	Net amounts of financial assets
	£	£	£
At 31 December 2019			
Commodity derivatives	3,472,834	(565,943)	2,906,891
Total	<u>3,472,834</u>	<u>(565,943)</u>	<u>2,906,891</u>

	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off	Net amounts of financial liabilities
	£	£	£
At 31 December 2020			
Commodity derivatives	(13,010,536)	13,010,536	-
Total	<u>(13,010,536)</u>	<u>13,010,536</u>	<u>-</u>

	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off	Net amounts of financial liabilities
	£	£	£
At 31 December 2019			
Commodity derivatives	(565,943)	565,943	-
Total	<u>(565,943)</u>	<u>565,943</u>	<u>-</u>

## RWE MARKINCH LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### FOR THE YEAR ENDED 31 DECEMBER 2020

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#### 25 Retirement benefit schemes

##### Defined contribution schemes

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

The total costs charged to income in respect of defined contribution plans is £141,070 (2019: £123,636).

##### Defined benefit scheme

Throughout the whole of 2020, the majority of pensions were funded through the defined benefit scheme within the RWE Group of the industry-wide scheme, the Electricity Supply Pension Scheme (ESPS). It is a defined benefit scheme with assets invested in separate trustee administered funds. The ESPS is divided into sections. During 2009, the decision was taken to close the defined benefit scheme, described above, to new entrants. New employees are now only able to participate in a defined contribution scheme. RWE Generation UK plc was the sponsoring entity for the RWE Group of the ESPS throughout 2020.

##### Valuation

The scheme was most recently valued on 31 March 2019, which revealed a funding shortfall, technical provisions minus value of assets, of £44.3m. Independent actuaries have assessed the IAS 19R position as at 31 December 2020 for the RWE section by updating the last formal calculations using method appropriate for IAS 19R. As at 31 December 2020, there was a surplus of £1m (2019: a surplus of £4m).

##### Risks

There are a number of risks associated with operating a defined pension scheme, including exposure to investment and longevity risk. As the vast majority of benefits provided are linked to inflation, this is also a risk. The Trustees of the Scheme have implemented measures to reduce the risks associated with making investments as part of its investment strategy, by making use of liability matching investment techniques. This means investing in instruments such as liability matching bonds, interest rate and inflation swaps and other liability instruments. It is estimated the Group currently hedges around 87% of its interest rate exposure and around 85% of its inflation exposure. In addition, the Trustees conduct regular reviews of concentration in particular investments.

##### Funding policy

As part of the 31 March 2019 scheme valuation and in accordance with the Recovery Plan dated 11 September 2019, to eliminate the shortfall, a payment of £48.3m was made on 6 March 2020, of which £36.0m was payable by RWE Markinch Limited's immediate parent company, RWE Generation UK plc.

##### Other information

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

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

##### Cost of contributions

The RWE Markinch Limited cost of contributions during the financial year was £59,788 (2019: £43,460).

## RWE MARKINCH LIMITED

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

#### 26 Other leasing information

##### Lessee

Amounts recognised in the income statement as an expense during the period in respect of lease arrangements are as follows:

	2020 £	2019 £
Expense relating to short-term leases	34,678	22,793

Information relating to lease liabilities is included in note 19.

#### 27 Capital commitments

	2020 £	2019 £
At 31 December 2020 the Company had capital commitments as follows:		
Contracted for but not provided in the financial statements:		
Acquisition of tangible fixed assets	240,000	-

#### 28 Controlling party

The Company's immediate parent is RWE Generation UK plc.

The ultimate parent is RWE AG, a company incorporated in Germany. RWE AG is the smallest and largest group to consolidate these financial statements. Their financial statements are available upon request from RWE AG, RWE Platz 1, 45141 Essen, Germany. They can be accessed at [www.rwe.com](http://www.rwe.com).

The ultimate controlling party is RWE AG.