Company Registration No. 06574689 (England and Wales)

RWE MARKINCH LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

RWE MARKINCH LIMITED

COMPANY INFORMATION

Directors	Mrs H Mallett	(Appointed 26 July 2019)
	Mr S Glover	(Appointed 29 April 2020)
	Mr M Suleman	(Appointed 29 April 2020)
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	

RWE MARKINCH LIMITED

CONTENTS

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

The directors present the strategic report and financial statements for the year ended 31 December 2019.

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.

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 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 2019, Board and Executive Committee, discussions and decisions included the following:

Key decisions taken in 2019	Engagement with stakeholders
Strategic, planning, risk and performance	
Internal controls audit Business plan 2020-2022	Shareholder and ultimate parent Government and regulators Our people
Operational, investment, divestment	
Station repairs Energy Centre development	Shareholder and ultimate parent Communities and NGOs Government and regulators Suppliers Our people
People, culture, stakeholders	
Diversity and inclusion review and planning Employee survey and action plans Charitable donations Gender pay gap report Drugs and alcohol policy Volunteering policy Managers' tool kit	Shareholder and ultimate parent Communities Suppliers Our people

Political and regulatory environment	
Brexit project 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	
Executive committee terms of reference Dividend policy Formation of the Health, Safety & Wellbeing Review Committee Annual compliance review and report	Shareholder and ultimate parent Our people

Review of the business and future developments

The Company reports a profit for the financial year of £57.9m compared to a loss of £4,7m in 2018. The Company's net asset position at 31 December 2019 is £100.0m (2018: £42.0m).

There has been a £39.2m increase in gross profit from 2018. The plant continues to be running well and delivering its planned output and availability. 2019 includes an impairment write back of £40m.

There has been an increase of £32.0m in other income/(costs) from 2018 of which £32.2m relates to the movement in the unrealised valuation of financial derivatives.

Included in exceptional items is costs of £0.5m (2018: £1.7m), which relates to the write-off of investment (2018: write-off of investment and loan) in Glenrothes Paper Limited.

The expected tightening in the market for the recovered wood, which constitutes the majority of the fuel for the plant was managed through having a portfolio of supply contracts and storage sites across the UK. No output was lost due to fuel shortages or supply problems. The plant successfully demonstrated its ability to burn a wider range of waste biomass during the year, including brash and compost oversize which further diversifies and de-risks the fuel sourcing for the company.

To secure the long-term status of the combined heat and power "CHP" plant, the Company has entered into a long-term steam off-take agreement with Fife Council to supply steam from its newly completed Energy Centre, which entered commercial operation in 2019, to Fife Council's estate, which includes council offices and buildings and local authority owned residential buildings. Under the terms of the agreement, Fife Council will take 2GWh of heat annually from the Energy Centre. On the basis of the heat off-take agreement with Fife, the Company has assumed that the plant will operate in full CHP mode for the entirety of the project's life and receive 2 ROCs.

The biomass plant was originally constructed on the basis that the plant would operate as a CHP plant, selling its heat to a single customer on the adjacent paper mill site and qualifying for 2 ROCs as a result. An impairment was accounted for in 2016 due to a lower demand for heat from the single customer and there was uncertainty in respect of the plant's 2 ROC status. A £40m impairment write-back has been accounted for this year following the opening of the Energy Centre.

The UK formally left the European Union on 31 January 2020. In practice, nothing has changed for the Company, however the RWE Brexit Working Group will continue to monitor the trade negotiations closely through 2020. The key areas of work in this group include data protection, HR/labour mobility, procurement, supply chain, EU ETS, Internal Energy Market, financial regulation, tax, legal and IT.

The Company and RWE Group are closely monitoring the Covid-19 outbreak and have activated a 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 have been taken such as restricting travel between RWE sites, maximising working from home, reviewing outage profiles and scope and switching to telephone and online conferences.

No adjustments have been made to these financial statements for Covid-19 effects given the pandemic occurred in Q1 2020.

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.

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 84 through 92 of the RWE AG 2019 Annual Report.

On behalf of the board

3rd June 2020

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Mrs H Mallett
Director
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The directors present their annual report and financial statements for the year ended 31 December 2019.

Principal activities
The principal activity of the Company continued to be that of the operation of a biomass generation plant at Markinch, Fife in Scotland.

Results and dividends
The results for the year are set out on page 11.

No ordinary dividends were paid. The directors do not recommend payment of a final dividend.

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

Mrs R Wall	(Resigned 26 July 2019)
Mr I Calvert	(Resigned 21 December 2019)
Mr R Little	(Resigned 1 May 2019)
Mr W Jeffery	(Appointed 1 May 2019 and resigned 29 April 2020)
Mrs H Mallett	(Appointed 26 July 2019)
Mr P O'Connor	(Appointed 21 December 2019 and resigned 29 April 2020)
Mr S Glover	(Appointed 29 April 2020)
Mr M Suleman	(Appointed 29 April 2020)

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 114 of the RWE AG 2019 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.

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 company's policy is to consult and discuss with employees, through unions, staff councils and at meetings, matters likely to affect employees' interests.

Information of matters of concern to employees is given through information bulletins and reports which seek to achieve a common awareness on the part of all employees of the financial and economic factors affecting the group's performance.

There is no employee share scheme at present, but the directors are considering the introduction of such a scheme as a means of further encouraging the involvement of employees in the company's performance.

The success of our business depends on the ability, commitment and dedication of our employees and we thank them for their continued efforts this year in the challenging business environment that we find ourselves in.

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

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

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

Details of how the Company engages with its employees can be found in the Strategic Report on page 1.

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 2019 RWE AG Corporate Responsibility Report available at www.rwe.com.

Post reporting date events

Since the reporting date the Covid-19 pandemic emerged in Q1 2020. This event is non-adjusting. See note 28 for more information.

Auditor

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

Statement of directors' responsibilities

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

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

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

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

Statement of disclosure to auditor

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 auditor is 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 auditor is aware of that information.

On behalf of the board

H. Mallett

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Mrs H Mallett

Director

Date: ..3rd June 2020.........

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF RWE MARKINCH LIMITED

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 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2019; the income statement, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

Independence

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

Conclusions relating to going concern
We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

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

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

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 7, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Richard French

Richard French (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
3 June 2020

RWE MARKINCH LIMITED

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 £	2018 as restated* £
Revenue	**4**	60,635,897	55,389,173
Cost of sales; excluding exceptional items		(40,446,653)	(34,416,172)
Cost of sales: exceptional items	**5**	40,000,000	-
Gross profit		60,189,244	20,973,001
Administrative expenses		(2,150,400)	(1,990,098)
Other income/(costs)	**6**	15,314,767	(16,697,192)
Operating profit	**7**	73,353,611	2,285,711
Finance income	**9**	100,142	119,831
Finance costs	**10**	(4,828,043)	(4,807,021)
Exceptional items	**11**	(484,564)	(1,721,064)
Finance income - net		(4,727,901)	(4,687,190)
Profit/(loss) before taxation		68,141,146	(4,122,543)
Tax on profit/(loss)	**12**	(10,214,703)	(608,589)
Profit/(loss) and total comprehensive income for the financial year		57,926,443	(4,731,132)

*Refer to notes 2, 4 and 6 for details of restatement.

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 2019

	Notes	2019 £	2018 £
Non-current assets			
Intangible assets	**13**	-	-
Property, plant and equipment	**14**	196,741,476	164,708,655
Current assets			
Inventories	**15**	2,967,144	2,289,285
Derivative financial instruments	**16**	2,906,891	-
Trade and other receivables	**17**	78,012,529	62,385,062
Deferred tax asset: realisable after more than one year	**18**	11,150,940	26,110,311
Cash and cash equivalents		73,432	59,582
		95,110,936	90,844,240
Current liabilities			
Trade and other payables	**20**	11,479,108	21,525,295
Taxation and social security		975,835	22,038
Derivative financial instruments	**16**	-	13,465,473
Lease liabilities	**21**	40,215	-
		12,495,158	35,012,806
Net current assets		82,615,778	55,831,434
Total assets less current liabilities		279,357,254	220,540,089
Non-current liabilities			
Borrowings	**22**	171,556,326	171,556,326
Lease liabilities	**21**	594,658	-
		172,150,984	171,556,326
Provisions for liabilities			
Other provisions	**23**	7,242,993	6,946,929
Net assets		99,963,277	42,036,834
Equity			
Called up share capital	**25**	2	2
Retained earnings		99,963,275	42,036,832
Total equity		99,963,277	42,036,834

The financial statements were approved by the board of directors and authorised for issue on 3rd June 2020 and are signed on its behalf by:

H. Mallett

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Mrs H Mallett

Director

Company Registration No. 06574689

RWE MARKINCH LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital	Retained earnings	Total
	£	£	£
Balance at 1 January 2018	2	46,767,964	46,767,966
Year ended 31 December 2018:			
Loss and total comprehensive expense for the year	-	(4,731,132)	(4,731,132)
Balance at 31 December 2018	2	42,036,832	42,036,834
Year ended 31 December 2019:			
Profit and total comprehensive income for the year	-	57,926,443	57,926,443
Balance at 31 December 2019	2	99,963,275	99,963,277

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.

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:

- Paragraph 38 of IAS 1 (Presentation of Financial Statements) to present comparative information in respect of:
  (i) paragraph 79(a)(iv) of IAS 1 (Presentation of Financial Statements)
  (ii) paragraph 73(e) of IAS 16 (Property, Plant and Equipment)
  (iii) paragraph 118(e) of (IAS 38 Intangible Assets
- The following paragraphs of IAS 1 (Presentation of Financial Statements):
  (i) 10(d)
  (iii) 16
  (iv) 38A
  (v) 38B-D
  (vii) 111
  (viii) 134-136
- IAS 7 (Statement of Cash Flows)
- Paragraphs 30 and 31 of IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors)
- Paragraph 17 of IAS 24 (Related Party Disclosures)
- The requirements in IAS 24 (Related Party Disclosures) to disclose related party transactions entered into or between two or more members of a group.

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. 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 (2018: £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.

1 Accounting policies **(Continued)**

1.3 Revenue

Revenue 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. Revenue 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 (see note 2).

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

The Company previously classified income from Renewables Obligation Certificates within other operating income. During the year the Company changed its accounting policy in respect of income from Renewables Obligation Certificates such that it is now classified within Revenue. The Company believes the new policy is preferable as it more closely aligns the accounting for these transactions with the treatment by its ultimate parent company and will aid comparability. This change in classification has been accounted for retrospectively and comparative information has been restated.

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 revenue making use of the practical expedient of IFRS 15 article 121.

The company recognises revenue 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 Revenue 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 group 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.

1 Accounting policies **(Continued)**

1.5 Property, plant and equipment

Property, plant and equipment is 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	5-20 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 profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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

1 Accounting policies **(Continued)**

1.7 Inventories

Inventories 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 inventories to their present location and condition. At each reporting date, inventories are assessed for impairment. If inventory is impaired, the carrying amount is reduced to its selling price less costs to complete and sell; the impairment loss is recognised immediately in the income statement.

1.8 Cash and cash equivalents

Cash and cash equivalents 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 current liabilities.

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 profit or loss. 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

When any of the above-mentioned conditions for classification of financial assets is not met, a financial asset is classified as measured at fair value through profit or loss. Financial assets measured at fair value through profit or loss are recognized initially at fair value and any transaction costs are recognised in profit or loss when incurred. A gain or loss on a financial asset measured at fair value through profit or loss is recognised in profit or loss, and is included within finance income or finance costs in the statement of income 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 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.

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 profit or loss.

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.

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 profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss 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.

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 inventories or non-current assets.

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

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

1 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 24 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 property, plant and equipment, 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 property, plant and equipment. 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 profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

1 Accounting policies **(Continued)**

The company has elected not to recognise right-of-use assets and lease liabilities for short-term leases of machinery 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 profit or loss 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 profit or loss.

2 Adoption of new and revised standards and changes in accounting policies

IFRS 16 Leases

IFRS 16 is a new accounting standard that is effective for the year ended 31 December 2019 and has had a material impact on the Company's financial statements - see note 21.

Reconciliation of 31 December 2018 lease liability to lease liabilities recognised as at 1 January 2019 under IFRS 16

	£
Operating lease commitments disclosed as at 31 December 2018	(857,342)
Simplified application for short-term leases	6,411
Useful economic life change following IFRS 16 adoption	316
Nominal value of lease liabilities as at 1 January 2019	(850,615)
Effect of discounting liabilities	184,770
Lease liabilities recognised as at 1 January 2019	(665,845)

IFRS IC Agenda Decision on Physically Settled Failed Own Use Transactions

IFRIC announced a decision in March 2019 that impacted the recognition of derivative financial instruments in the income statement relating to physically settled derivatives that fail the own-use test. Previously the mark to market movement on derivative financial instruments relating to commodity trades was recognised through other income/costs in the income statement.

Revenue for such contracts is now stated at the spot price with the difference to contracted prices recognised through other income/cost. This has resulted in the restatement of prior year revenue and other income/costs but there is no change to underlying profit before taxation.

3 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 17.

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. Provision is made based on estimates of both the future life of the site and the cost of decommissioning.

4 Revenue

	2019	2018 as restated
	£	£
Revenue analysed by class of business		
Power Generation	18,405,883	21,922,241
Renewables Obligation Certificates	42,230,014	33,466,932
	60,635,897	55,389,173

Restatement

The implementation of the failed own-use IFRS IC agenda decision increased revenue in 2018 by £9,562,726 and increased other income/(costs) by £9,562,726 but there is no change to underlying profit before taxation.

The Company previously classified income from Renewables Obligation Certificates within other operating income. During the year the Company changed its accounting policy in respect of income from Renewables Obligation Certificates such that it is now classified within Revenue. The Company believes the new policy is preferable as it more closely aligns the accounting for these transactions with the treatment by its ultimate parent company and will aid comparability. This change in classification has been accounted for retrospectively and comparative information has been restated.

5 Impairments

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

	2019	2018
	£	£
In respect of:		
Financial assets - loans and receivables	-	(1,305,000)
Recognised in:		
Exceptional items	-	(1,305,000)

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

	2019	2018
	£	£
In respect of:		
Property, plant and equipment	40,000,000	-
Recognised in:		
Cost of sales: exceptional items	(40,000,000)	-

Following the opening of the Energy Centre, ensuring the 2 ROC status of the Company, a £40m (2018: £nil) impairment write back has been processed.

During 2018 RWE Markinch Limited wrote off a loan of £1,305,000 to Glenrothes Paper Limited.

6 Other income/(costs)

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

	2019	2018 as restated
	£	£
Movement in unrealised valuation of financial derivatives	15,320,648	(16,942,406)
Foreign exchange losses	(5,881)	(1,000)
Profit on disposal of property, plant and equipment	-	246,214
	15,314,767	**(16,697,192)**

Restatement

The implementation of the failed own-use IFRS IC agenda decision increased revenue in 2018 by £9,562,726 and increased the movement in unrealised valuation of financial derivatives by £9,562,726 but there is no change to underlying profit before taxation.

7 Operating profit

	2019	2018
	£	£
Operating profit for the year is stated after charging/(crediting):		
Exchange losses	5,881	1,000
Depreciation of property, plant and equipment	10,615,652	9,996,739
Profit on disposal of property, plant and equipment	-	(246,214)
Cost of inventories recognised as an expense	16,563,407	12,610,760

The audit fee in 2019 and 2018 was borne by RWE Generation UK plc, the immediate parent undertaking and no recharge was made.

8 Employees

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

	2019	2018
	Number	Number
Generation	44	41

Their aggregate remuneration comprised:

	2019	2018
	£	£
Wages and salaries	1,889,636	1,859,830
Social security costs	260,393	253,771
Pension costs	167,096	179,802
	2,317,125	2,293,403

All employees are employed by RWE Generation UK plc, the immediate parent. Employee costs of £2,317,125 (2018: £2,293,403) 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.

9 Finance income

	2019	2018
	£	£
Interest income		
Interest receivable from group companies	96,234	119,831
Other interest income	3,908	-
Total income	100,142	119,831

10 Finance costs

	2019	2018
	£	£
Interest on financial liabilities measured at amortised cost:		
Interest payable to group undertakings	4,721,230	4,723,670
Interest on other financial liabilities:		
Interest on lease liabilities	22,419	-
Total interest expense	4,743,649	4,723,670
Other finance costs:		
Unwinding of discount on provisions	84,394	83,351
Total finance costs	4,828,043	4,807,021

11 Exceptional items

	2019	2018
	£	£
Loan write off - Glenrothes Paper Limited	-	(1,305,000)
Impairment of £1 B shares in Glenrothes Paper Limited	(484,564)	(416,064)
	(484,564)	(1,721,064)

During the year, RWE Markinch Limited subscribed for 484,564 (2018: 416,064) £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.

During 2018 RWE Markinch Limited wrote off a loan of £1,305,000 to Glenrothes Paper Limited.

12 Taxation

	2019	2018
	£	£
Current tax		
UK corporation tax on profits for the current period	(4,650,370)	3,072,620
Adjustments in respect of prior periods	(94,298)	-
Total UK current tax	(4,744,668)	3,072,620

12 Taxation (Continued)

	2019 £	2018 £
Deferred tax		
Origination and reversal of temporary differences	14,979,994	(2,464,031)
Adjustment in respect of prior periods	(20,623)	-
	14,959,371	(2,464,031)
Total tax charge	10,214,703	608,589

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

	2019 £	2018 £
Profit/(loss) before taxation	68,141,146	(4,122,543)
Expected tax charge/(credit) based on a corporation tax rate of 19.00% (2018: 19.00%)	12,946,818	(783,283)
Effect of expenses not deductible in determining taxable profit	486,612	1,101,987
Difference between current and deferred tax rates	(1,762,352)	289,885
Adjustments in respect of previous periods	(114,921)	-
Non-taxable write-back of impairment of fixed assets	(1,341,454)	-
Taxation charge for the year	10,214,703	608,589

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

In the Spring Budget 2020, the Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020. As the proposal to keep the rate at 19% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements. However, it is likely that the overall effect of the change, had it been substantively enacted by the balance sheet date, would be to reduce the tax expense for the period by £1,311,875 and increase the deferred tax asset by £1,311,875.

13 Intangible fixed assets

	Patents & licences
	£
Cost	
At 31 December 2018	4,590,786
At 31 December 2019	4,590,786
Amortisation and impairment	
At 31 December 2018	4,590,786
At 31 December 2019	4,590,786
Carrying amount	
At 31 December 2019	-
At 31 December 2018	-

Intangible fixed assets include technical and environmental surveys in relation to the development of the biomass plant. Included is £4,495,269 (2018: £4,495,269) of intangibles purchased from another group company as part of the rights to develop the biomass plant at cost.

14 Property, plant and equipment

	Freehold land and buildings	Leasehold land and buildings	Assets under construction	Plant and equipment*	Total
	£	£	£	£	£
Cost					
At 31 December 2018	331,580	-	12,631,160	318,449,661	331,412,401
Additions	2,119	665,845	131,709	1,608,062	2,407,735
Transfers	485,766	-	(12,303,108)	11,817,342	-
Change in estimate	-	-	-	240,738	240,738
At 31 December 2019	819,465	665,845	459,761	332,115,803	334,060,874
Accumulated depreciation and impairment					
At 31 December 2018	-	-	-	166,703,746	166,703,746
Charge for the year	30,493	44,530	-	10,540,629	10,615,652
Reversal of impairment loss	-	-	-	(40,000,000)	(40,000,000)
At 31 December 2019	30,493	44,530	-	137,244,375	137,319,398
Carrying amount					
At 31 December 2019	788,972	621,315	459,761	194,871,428	196,741,476
At 31 December 2018	331,580	-	12,631,160	151,745,915	164,708,655

14 Property, plant and equipment (Continued)

* In 2018 plant and equipment disclosure was split between the Biomass plant and the decommissioning asset. These have been consolidated in 2019 and are both shown within plant and equipment.

More information on impairment movements in the year is given in note 5.

Property, plant and equipment includes right-of-use assets, as follows:

Right-of-use assets	**2019**	**2018**
	£	**£**
Net values		
Leasehold land and buildings	621,315	-
Plant and equipment	3,536	-
	624,851	-
Additions	672,107	-
Depreciation charge for the year		
Leasehold land and buildings	44,530	-
Plant and equipment	2,726	-
	47,256	-

15 Inventories

	2019	**2018**
	£	**£**
Raw materials	2,967,144	2,289,285

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 (2018: £nil) has been made for slow moving, obsolete or defective stock.

16 Derivative financial instruments

At 31 December 2019, derivative instruments outstanding related to power trades. The derivative instruments expire over the period 2020 to 2023.

	2019	**2018**
	£	**£**
Commodity derivatives	2,906,891	(13,465,473)

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

17 Trade and other receivables

	2019	2018
	£	£
Trade receivables	2,362,413	2,050
Provision for bad and doubtful debts	(5,326)	-
	2,357,087	2,050
Accrued income	31,360,680	27,466,190
VAT recoverable	-	303,147
Amounts owed by fellow group undertakings	40,080,118	2,898,077
Loans owed by group undertakings	4,214,644	31,615,779
Prepayments	-	99,819
	78,012,529	62,385,062

Trade receivables 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 £1,672,048 (2018: £nil) of group relief receivable.

The loan owed by group undertakings is unsecured, bears interest at overnight LIBOR monthly average less 0.1% (2018: 0.1%) and is repayable within one year.

Accrued income comprises £31,194,374 (2018: £27,412,009) Renewables Obligation Certificates generated but not sold or redeemed, £166,306 (2018: £53,382) carbon certificates and £nil (2018: £799) other receivables.

18 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 2018	22,611,695	1,034,585	23,646,280
Deferred tax movements in prior year			
Credit to profit or loss	1,209,485	1,254,546	2,464,031
Deferred tax asset at 1 January 2019	23,821,180	2,289,131	26,110,311
Deferred tax movements in current year			
Debit to profit or loss	(12,196,692)	(2,783,302)	(14,979,994)
Other	20,623	-	20,623
Deferred tax asset at 31 December 2019	11,645,111	(494,171)	11,150,940

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 2019. 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.

19 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

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

19 Financial instruments **(Continued)**

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

Assets	**Debt instruments measured at amortised cost**	**Total**
At 31 December 2018	**£**	**£**
Trade and other receivables excluding prepayments	61,982,096	61,982,096
Cash and cash equivalents	59,582	59,582
Total	62,041,678	62,041,678

Liabilities	**Liabilities at amortised cost**	**Liabilities at fair value through profit or loss**	**Total**
At 31 December 2018	**£**	**£**	**£**
Derivative financial instruments	-	(13,465,473)	(13,465,473)
Trade and other payables excluding non-financial liabilities	(189,742,869)	-	(189,742,869)
Total	(189,742,869)	(13,465,473)	(203,208,342)

19 Financial instruments **(Continued)**

Valuation methods and assumptions

The following overview presents the main parameters for the measurement of financial instruments recognised at fair value. In accordance with IFRS 13, the individual levels are defined as follows:
Level 1: measurement using (unadjusted) prices of identical financial instruments quoted on active markets;
Level 2: measurement on the basis of input parameters which are not the quoted prices from level 1 but which can be observed directly or indirectly;
Level 3: measurement on the basis of models using input parameters which cannot be observed on the market.

	Level 1	Level 2	Level 3	Total
At 31 December 2019	**£**	**£**	**£**	**£**
Commodity derivatives	-	2,906,891	-	2,906,891
Derivative financial assets	-	2,906,891	-	2,906,891

	Level 1	Level 2	Level 3	Total
At 31 December 2018	**£**	**£**	**£**	**£**
Commodity derivatives	-	(13,465,473)	-	(13,465,473)
Derivative financial liabilities	-	(13,465,473)	-	(13,465,473)

Maturity profile of financial assets/(liabilities)

	Assets at FVPL
At 31 December 2019	**£**
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
Total	2,906,891

	Liabilities at FVPL
At 31 December 2018	**£**
Due within one year	(7,494,302)
Due in more than one year and less than two years	(4,920,903)
Due in more than two years and less than five years	(1,050,268)
Total	(13,465,473)

19 Financial instruments (Continued)

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 2019 (2018: £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.

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 2019	**£**	**£**	**£**
Commodity derivatives	3,472,834	(565,943)	2,906,891
Total	3,472,834	(565,943)	2,906,891

19 Financial instruments **(Continued)**

	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off	Net amounts of financial assets
At 31 December 2018	**£**	**£**	**£**
Commodity derivatives	2,536,485	(2,536,485)	-
Total	2,536,485	(2,536,485)	-

	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	(565,943)	565,943	-

	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off	Net amounts of financial liabilities
At 31 December 2018	**£**	**£**	**£**
Commodity derivatives	(16,001,958)	2,536,485	(13,465,473)
Total	(16,001,958)	2,536,485	(13,465,473)

20 Trade and other payables

	2019	2018
	£	£
Trade payables	1,717,037	814,983
Amounts owed to fellow group undertakings	8,334,753	17,371,560
Accruals and deferred income	1,427,318	3,338,752
	11,479,108	21,525,295

In 2018 amounts owed to fellow group undertakings included £8,977,168 of group relief payable.

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.

21 Lease liabilities

	2019	2018
Maturity analysis	£	£
Within one year	59,651	-
In two to five years	228,369	-
In over five years	509,295	-
Total undiscounted liabilities	797,315	-
Future finance charges and other adjustments	(162,442)	-
Lease liabilities in the financial statements	634,873	-

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:

	2019	2018
	£	£
Current liabilities	40,215	-
Non-current liabilities	594,658	-
	634,873	-

	2019	2018
Amounts recognised in profit or loss include the following:	£	£
Interest on lease liabilities	22,419	-

The fair value of the company's lease obligations is approximately equal to their carrying amount.

Other leasing information is included in note 26.

22 Borrowings

	2019	2018
	£	£
Unsecured borrowings at amortised cost		
Loans from parent undertaking	171,556,326	171,556,326

22 Borrowings (Continued)

Analysis of borrowings

Borrowings 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:

	2019 £	2018 £
Non-current liabilities	171,556,326	171,556,326

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.

23 Other provisions

	2019 £	2018 £
Decommissioning and plant closure	7,076,687	6,751,555
Carbon emission allowances	166,306	195,374
	7,242,993	6,946,929

Movements on provisions:	Decommissioning and plant closure £	Carbon emission allowances £	Total £
At 1 January 2019	6,751,555	195,374	6,946,929
Additional provisions in the year	-	167,023	167,023
Utilisation of provision	-	(196,091)	(196,091)
Unwinding of discount	84,394	-	84,394
Adjustment for change in discount rate	240,738	-	240,738
At 31 December 2019	7,076,687	166,306	7,242,993

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 14 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.

24 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 £123,636 (2018: £113,478).

Defined benefit scheme

Throughout the whole of 2019, 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 2019.

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 2019 for the RWE section by updating the last formal calculations using method appropriate for IAS 19R. As at 31 December 2019, there was a surplus of £4m (2018: a deficit of £71m).

Risks

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

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 £50.6m was made on 6 March 2020, of which £37.7m 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 9 trustees. Under UK pensions law, the Group Trustees are responsible for the overall management of the pension scheme, including investment of assets, payment of benefit to members and agreement of a funding plan with the Company.

Cost of contributions

The RWE Markinch Limited cost of contributions during the financial year was £43,460 (2018: £66,324).

25 **Share capital**	**2019**	**2018**
	£	**£**
Ordinary share capital		
Authorised		
2 Ordinary shares of £1 each	2	2
Issued and fully paid		
2 Ordinary shares of £1 each	2	2

26 Other leasing information

Lessee

Amounts recognised in profit or loss as an expense during the period in respect of lease arrangements are as follows:

	2019	**2018**
	£	**£**
Expense relating to short-term leases	22,793	-

Set out below are the future cash outflows to which the lessee is potentially exposed that are not reflected in the measurement of lease liabilities:

	2019	**2018**
Land and buildings	**£**	**£**
Within one year	-	63,298
Between two and five years	-	227,547
In over five years	-	566,497
	-	857,342

Information relating to lease liabilities is included in note 21.

27 **Capital commitments**	**2019**	**2018**
	£	**£**
At 31 December 2019 the company had capital commitments as follows:		
Contracted for but not provided in the financial statements:		
Acquisition of property, plant and equipment	-	381,000

28 Events after the reporting date

Covid-19
The Company and RWE Group are closely monitoring the Covid-19 outbreak and have activated a 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.

29 Controlling party

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

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

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

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

The ultimate controlling party is RWE AG.